



February 6, 2020

MEMORANDUM

To: Members of the Board of Education

From: Michael J. Martirano, Ed.D.
Superintendent

Subject: County Executive's Response to Health Fund Deficit Elimination Plan

The purpose of this memorandum is to provide the Board an analysis of County Executive Ball's response to the Health Fund Deficit Elimination Plan, which was received February 3, 2020. As you recall on January 7, 2020, I presented to the Board a Deficit Elimination Plan setting in motion a collaborative dialogue with the goal of achieving a partnership with the County to eliminate a deficit that has burdened HCPSS too long. The plan was discussed at the Joint County-BOARD Meeting on January 13, and HCPSS staff met with County staff on January 17 to review the plan in detail.

County Executive Ball's response acknowledges the significance and urgency with which we must work together. More importantly, the County Executive's response demonstrates an openness to collaboration and outlines a path forward to fulfill that collaboration. While there are proposed modifications to my proposed plan, the general tenets and arc of the plan are agreed to by the County. I welcome the County Executive's response and recommend that HCPSS and County staff act expeditiously to develop a multi-year agreement to memorialize this plan and begin to take the necessary actions to start addressing the deficit in FY2020. The modified deficit elimination plan should be crafted in a formal multi-year agreement executed by the County and the Board.

Areas of Shared Agreement

- Action to begin addressing the deficit should take place in Fiscal Year 2020.
- HCPSS and the County should collaborate and share in the cost to eliminate the deficit. The HCPSS will cover two-thirds of the cost and the County will cover one-third of the cost.
- Employees will not be asked to bear any of the cost to eliminate the deficit.
- None of the \$15.2 million in unassigned fund balance be used for recurring expenses.
- None of the funding provided by the County to eliminate the deficit will be factored into the Maintenance of Effort funding formula.

Modifications Proposed by County Executive

- Instead of eliminating the deficit by fiscal year-end 2022, the County Executive proposes to eliminate it by fiscal year-end 2024.
 - Recommendation: The Board should accept this modification with clarification that it should not limit either party's ability to apply more funding to eliminate the deficit sooner but no later than Fiscal Year 2024. For example, if HCPSS achieves any savings beyond what is stipulated in the plan, that savings would go toward paying down the deficit. Similarly,

should the County realize higher than expected one-time revenue, the county may choose to accelerate its contribution.

- In Fiscal Year 2020, apply \$7.2 million of the unassigned fund balance to pay down the deficit instead of \$15.2 million and retain \$8 million of the fund balance in the General Fund throughout the term of the agreement.
 - Recommendation: Preserving an \$8 million fund balance in the General Fund is reasonable and prudent. This modification should be accepted with clarification. The multi-year agreement should acknowledge that should unforeseen risks, catastrophic needs or emergency events occur that would impact HCPSS' ability to achieve savings within the budget year, the County and HCPSS will work together to use a portion of the \$8 million to address these needs.
- The County will contribute \$13 million in one-time funding over fiscal years 2021, 2022, 2023, and 2024, beginning with a \$6 million contribution in FY 2021. Each year's one-time funding is contingent on the HCPSS meeting its obligation to apply Operating Budget budgetary savings in the preceding years and the following amounts:
 - \$2.5 million FY 2020
 - \$5.0 million FY 2021
 - \$4.0 million FY 2022
 - \$4.0 million FY 2023
 - \$2.0 million FY 2024
 - Recommendation: This modification strengthens the collaboration to ensuring shared success, holding future HCPSS and County leaders accountable to this agreement. Clarification should be added outlining the timing of appropriation, the satisfaction of the contingency clause, and the release of the one-time funds. Staff recommends the following clarification: In the FY2021 Approved Budget, the County will appropriate \$6 million in one-time funding. By June 30, 2020, HCPSS will provide verification that it has met or exceeded its budgetary savings mark of \$2.5 million for Fiscal Year 2020. Upon verification the County will release the one-time funding for FY 2021. The same process (appropriation for budget year, verification of current year, and release) will follow in each year of the plan according to the amounts outlined by the County Executive.

The County Executive's recommendation advances accountability and sustainability through his proposed modifications. My goal has always been to eliminate the deficit as quickly as possible, however, we cannot do so without collaboration with our County partners. I recommend that the Board accept the modifications with the clarifications identified in this memo so that a multi-year agreement can be developed and voted on by the Board of Education and County Council, enabling the use of \$7.2 million from the HCPSS unassigned fund balance to immediately decrease the deficit from \$39.2 million to \$32.0 million. This will send a clear and direct message to our community and auditors that we are committed to managing taxpayer dollars effectively and in accordance with Generally Accepted Accounting Principles (GAAP).

Please direct any questions to Jahantab Siddiqui, Chief Administrative Officer, 410-313-6680 or Jahantab_Siddiqui@hcpss.org.

Copy to: Executive Staff
Board of Education Office
County Executive Calvin Ball

County Council members