



Superintendent's Proposed FY 2021 Operating Budget

Dr. Michael J. Martirano, Superintendent

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This evening I am presenting the Fiscal Year 2021 Proposed Operating Budget to the Board of Education and the community.

Before I continue, I want to recognize a few of the people who have worked very hard on this process:

- Board of Education members for their support and leadership;
- The leaders and staff in all divisions, who have diligently worked to prepare budget projections that align with our strategic priorities and are fiscally responsible;
- Staff in our Budget office, who have been working around the clock to prepare the budget, under the leadership of Jahantab Siddiqui, Chief Administrative Officer, and Darin Conforti, Executive Director of Budget;
- All the amazing division staff who helped to prepare and review this budget proposal;
- Our county elected representatives, for their continuous commitment to supporting students and schools; and
- The many community stakeholders who serve an important role throughout this process, providing input on priorities and feedback on the budget proposals.

The phrase "Learning and Leading with Equity" in the title of our Strategic Call to Action sums up in 5 words

all of the work we do in our school system, every day to give each of the children in our care the best possible prospects for a rewarding and satisfying life.

Learning and Leading with Equity

Our overall strategy for putting equity into action is anchored by our Operating Budget, Capital Budget, Health Fund deficit elimination and our school Boundary Adjustment process. These four arenas are developed in alignment:

- The redistricting process has moved us forward in balancing student needs among schools.
- Capital planning gives us the tools for providing an equitable learning environment.
- Eliminating the Health Deficit will open resources in our Operating budget, which we could then direct to improve instruction and student supports.

These four areas are augmented by all of our initiatives in restorative practices, lifting up student voice, supporting children and families struggling with poverty, mental illness and other needs, and our other priorities. All of these work together to fulfill the imperative of equity and targeted outcomes embedded in our Strategic Call to Action.

It is of the utmost importance to the entire community that our system continues to sustain its level of excellence. Our students overall continue to achieve at the highest levels. We celebrate our 92% graduation rate, which is the highest among Maryland's large systems. But we cannot afford to be complacent, because 8% of our students did *not* make it to graduation, and achievement among some of our student groups lags well behind their peers.

The true measure of our success – our “True North” – is bridging the gap for those who are falling behind.

We have made some progress in balancing student needs among our 77 schools through our recent redistricting progress, but further progress will require that we direct and equitably distribute sufficient resources.

The Maryland Code of Regulations states:

“The county superintendent shall (1) Take the initiative in the preparation and presentation of the annual school budget; and (2) Seek in every way to secure adequate funds from local authorities for the support and development of the public schools in the county.”

One of the major factors influencing our Budget strategy is the continuing fiscal reality that growth in education funding is not keeping pace with the costs to provide public education.

Nearly 70 percent of HCPSS funding comes from the County, based on the Maintenance of Effort (MOE) funding formula established by state law. The MOE formula accounts only for growth in K–12 student population through the prior year. It does not account for growth in the other costs such as wage and benefit increases, or the inflationary cost of goods and services. Nor does it account for projected enrollment growth or Pre-K education.

Last year, as required by the Annotated Code, my FY2020 budget proposal described the full scope of investments needed to realize our vision for equity as articulated in our Strategic Call to Action. My proposal last year was an aspirational request that would give our system the tools to equitably prepare every student for work and success in the 21st century, close opportunity gaps, and support those who struggle academically, emotionally, or economically to allow them to thrive.

I have met with our County Executive, and I appreciate his frank input on our FY2021 budget planning. These discussions give us a realistic picture of the funding that will be available to us for FY2021. My budget proposal reflects that reality, while acknowledging that a gap exists between this proposal and the anticipated level of funding.

FY 2021 Reality: Maintaining Service Levels

Totaling \$964.1 million dollars, my operating budget proposal represents the level of funding required to maintain existing service levels and meet the Board's commitments.

- It provides for new staff and materials to accommodate the projected addition of 773 new students next year, while maintaining class sizes within target ratios.
- It meets the Board's commitments for negotiated salary increases to support our highly committed and skilled staff, whom we entrust with the profound responsibility for our students' education and care.
- It funds employee benefits, based on actuarial projections.
- It addresses the critical need for increased staffing and services for special education.
- It meets obligations for student transportation, including those related to the redistricting decisions.
- It sustains our focus on equity, but through our existing program and service levels.

The reality is that, although both the County and State have increased funding over the last two fiscal years, the cost for the educational quality that we value as a community, and the amount of revenue required to pay for it, have fallen out of balance. The result is that we are accruing approximately \$70 million in program and service gaps, beyond what is included in my FY21 budget proposal. A complete list of the gaps will be provided to you and posted online.

If these needs are left unaddressed, the future quality of educational services in our county cannot be assured. State leaders, recognizing that educational excellence comes at a cost, have legislated Kirwan funding to promote educational priorities. Our community must likewise recognize that additional investments will be necessary to enable our system to fully close remaining equity gaps, support our most vulnerable children, and safeguard our system's legacy of excellence through the upcoming years.

We have made every effort to apply savings and efficiencies in order to minimize our FY 2021 budget proposal, and we made significant reductions in the last two budget cycles. Many cuts have been particularly painful, such as the reduction of instructional support teachers, technology teachers, paraeducators and other supports for our most vulnerable children.

Simply put: There is a significant gap between the funding formula revenues we can realistically expect to receive from our county and state, and the amount required to maintain the status quo in our educational services, accommodate enrollment growth, address critical special education staffing needs, and fulfill the negotiated compensation adjustment for staff.

Sadly, this leaves us with no capacity to consider any other added investments for innovative programs, student services or supports, technology upgrades or other advancements; or to restore prior cuts.

Enrollment Growth

Our school system enjoys a unique confluence of assets: strong community support, a premier team of educators, and well-maintained schools and facilities. These attributes make our community one of the most sought-after destinations for education in the nation.

At the same time, it contributes to rapid enrollment growth. Howard County is one of the fastest growing school systems in Maryland. We expect to welcome 773 new students to our classrooms next year, bringing our student population to a projected 59,651, up from 58,878 today. We have every reason to expect additional growth will continue each year for the foreseeable future.

The additional enrollment adds significant costs to the budget. The FY21 proposal includes funding for 58.4 new general education positions to support enrollment growth, including classroom and related arts teachers, paraprofessional and school support staff. In addition, three new positions that were previously grant-funded will now be incorporated into the operating budget.

The costs associated with enrollment growth total \$5.0 million, including:

- Salaries at \$3.4 million
- Benefits at \$361 thousand
- Instructional supplies at \$533 thousand, and
- Transportation costs of \$680 thousand

These increases will allow us to continue to keep class sizes within current target ratios, which is an essential priority for providing quality education.

Special Education: FY 2021 Budget Priority

For Special Education, we have a 299 projected increase in students receiving services. This includes 121 new students ages Birth–5, and 178 for Kindergarten–age 21.

Special Education is a priority of my FY 2021 budget proposal. The urgent need for additional staffing and supports for special education was brought into sharp relief during a recent Board meeting, when several of our special education teachers courageously stepped forward to describe the difficulties they experience in their roles. My heart ached as they spoke of the heavy strain from trying to educate while addressing students' needs without adequate staff support. We are critically understaffed in special education, and this situation is driving many of our educators to the breaking point.

The proposal includes a total proposed investment in Special Education of \$15.1 million.

The staffing levels necessary for Special Education are determined by the intensity of specific student needs as defined in the Individualized Education Plan (IEP). Projecting the level of necessary staffing is done according to estimates and trends. For some students, the student-to-service intensity ratio will be less than 1:1 and for others greater than 1:1.

The proposed budget includes funding for 216.8 new positions for Special Education student needs.

Salaries for these new positions will be \$8.4 million. Other costs include:

- A \$880,000 increase for pension, social security and Medicare;
- \$2.5 million increase in Special Education nonpublic placement tuition based on projected enrollment, the type of program required by a student, and increasing tuition rates;
- A \$2.8 million increase in contracted labor costs, which covers temporary employees, nursing agencies, and translations; and
- \$537,000 for intervention services, contract labor, wages, supplies, and medical services.

The 216.8 new positions for Special Education student needs represent:

- 67.5 positions for the Birth–5 student population, including
 - 16.0 Teachers
 - 14.0 Paraeducators
 - 32.0 Student Assistants
 - 5.5 Related Service Providers and Program Oversight
- Also included are 149.3 new positions for the K–21 student population. This includes:
 - 35.0 Teachers
 - 37.0 Paraeducators
 - 59.0 Student Assistants

o 18.3 Related Service Providers and Program Oversight

Staff Compensation

Our largest financial commitment is associated with our investment in staff, because our organization is powered by the wonderful people that we employ. The proportion of our budget dedicated to salaries and benefits is 86.4%. Just 13.6% of the budget goes to transportation, maintenance, fixed charges and all other expenses.

In an increasingly competitive market, our compensation package must attract and retain highly qualified staff. At the same time, while our staff are exceptionally dedicated, they are strained from striving to meet students’ escalating needs.

The salary and benefit increases included in my FY 2021 budget proposal total \$24.7 million.

Equity Enhancements

Despite funding constraints, we continue to look for innovative options to accelerate our equity work. I’ve already mentioned our emphasis on improving special education services.

We are also repurposing four existing vacant positions, to create three new positions to advance our work in diversity, equity and inclusion. This will build out the community superintendent model that I established early in my tenure, to more effectively support students in each region from age birth through grade 12.

- A new Director of Equity Initiatives for School Leadership in the SMIL division will focus on developing school administrators’ capacity for enhancing equity in their schools, eliminating achievement gaps and creating inclusive school cultures.
- Two new Coordinator for Diversity, Equity and Inclusion positions will allow us to establish three Equity Focused Teams in the DEI office, each aligned to one of the three Areas under our three community superintendents. Each team will coordinate and customize programming, professional development and support to advance equity goals in their respective Area.

Other initiatives are underway to enhance equity without adding budget dollars. For example, Partner Schools is one new initiative, which involves pairing two schools to enrich the connection between communities. All schools have strengths; and this program will enable schools to share their strengths with one another and to enhance and celebrate diversity. Partner schools may collaborate around community activities, culture building, sharing instructional practices, school-wide best practices, and more. Several schools have already

embraced similar models of partnering, such as Triadelphia Ridge and Bryant Woods elementary schools, and Folly Quarter Middle and Homewood schools.

Transportation

Student transportation represents a sizable proportion of our operating budget. Cost increases included in the FY2021 budget proposal include:

- \$680 thousand for transportation associated with new enrollment,
- \$1.5 million in cost increases for bus contracts,
- \$1.95 million to increase the quantity of school busing contracts based on the redistricting plan and exemptions recently adopted by the Board, and
- An increase in fuel costs of \$360,000.

Fiscal Responsibility

In preparing this budget proposal, I have maintained several principles that are critical to ensuring fiscal integrity for our school system. I consider these to be non-negotiable:

1. One-time funds should not be used to cover recurring costs. This practice has been done in recent budget years, and is tempting to alleviate budget pressure in the short term. But over the long term it takes us down an unsustainable path.
2. Always fully fund health insurance obligations. We are fully funding FY21 health insurance costs for employees and retirees, based on actuarial projections for the 3rd year in a row, to ensure that we do not add to the Health Fund deficit. This practice is essential to establishing long term fiscal solvency.
3. Continually seek savings and efficiencies. We remain committed to building savings and seeking efficiencies in all programs, and we continually strive to improve budget accuracy and transparency.
4. Reduce the Health Fund deficit. Most importantly, fiscal responsibility means reducing and ultimately eliminating the deficit in our Health Fund. I have proposed a Health Fund deficit elimination plan to rid us of this burden by fiscal year end 2022.

Our chiefs have done a line item budget review, and realigned expenditures wherever possible to minimize requests for new funds. I commend them for this effort and their continued commitment to efficiencies.

These include plans to bring in-house the hiring process for special education temporary employees, which has been handled by an external consultant. We will begin by piloting this change, which is expected to yield long-term savings.

We will form an IT Security Team through the addition of 2 new network security positions, which will support safeguarding our systems against growing threats to cybersecurity. Two vacant IT positions will be repurposed to meet this need without adding budget dollars.

We have initiated a vehicle lease pilot program, which will increase efficiency by avoiding the escalating costs associated with repair and maintenance for our aging vehicles.

We are realigning positions related to fleet management, which were formerly held under multiple program areas, into a single budget program to increase efficiency and add savings.

We have added much-needed capacity in our budget and finance teams to strengthen management of the budget process and oversight of our finances. This was accomplished without adding budget dollars through the elimination of a Chief position and using those savings to hire additional staff.

Through greater precision and analysis of historical trends of actuals, we are increasing estimated turnover savings by \$991 thousand.

A \$1.1 million reduction in technology expense reflects a modification in budgeting for depreciation expense.

Health Fund Deficit Elimination Plan

The Health Fund deficit is a dark cloud hanging over all of our budget planning. The deficit is the result of decisions made prior to my tenure, to underfund staff health care costs so that funds could instead be used to pay for the service and support enhancements that our community values.

The most recent school system audit delivered an adverse opinion, based on a lack of progress in addressing the health fund deficit. The adverse audit opinion is rare, and is a blemish on our school system and our County government. Avoiding a second adverse opinion next year requires a firm and collaborative commitment to substantially reduce the deficit in the near term, and to completely eliminate it over the next few years.

We have established a plan for eliminating the remainder of the deficit by fiscal year-end 2022. The plan proposes to collaborate with the County, with HCPSS paying down two-thirds of the deficit and the County contributing one-third. This would be achieved through a combination of one-time funding from the County and year-end transfer of budgetary savings in the General Fund.

I want to emphasize: The deficit was caused by prior leadership decisions, and *not* by employees' actions. Therefore my plan does *not* ask employees to pay more to eliminate the deficit.

Through this plan, during the current budget year (FY2020), HCPSS will apply \$2.5 million in end of year budget savings to reduce the deficit, and – pending County Council approval – we will apply \$15.2 million in unused fund balance. This use of unused fund balance is a prudent strategy for taking a sizable bite out of the Health deficit in a way that does not compound future budget problems.

For FY 2021, we plan to apply \$5 million in end of year savings, and the budget proposal includes a request for one-time County funding of \$9.0 million to further reduce the deficit.

Finally, in FY2022, our plan is to eliminate the deficit by applying \$4 million in end-of-year savings, and a one-time request of \$4 million from the County.

By continuing to fully fund the Health Fund each year, we will avoid incurring a deficit in the future.

The fact that the deficit was set in motion years ago does not absolve us of our responsibility to balance our budget. The deficit hamstrings our system's ability to advance our priorities for equity and program enhancement.

I am determined that a hallmark of my legacy as superintendent will be the elimination of this deficit. I cannot overstate the urgency of this responsibility, because it has grave and long term implications. We must commit to making the difficult choices that are the only way to set our system on a sustainable fiscal path.

FY 2021 Revenue Sources

The budget proposal totals \$964.1 million dollars and represents an expenditure increase of \$62.7 million, or 7 percent. The primary source of revenue for our school system is the appropriation from the Howard County Government. The request to the county of \$670.4 million is an increase of \$63.2 million, which is 10.4 percent, over FY 2020. This includes:

- a \$10.4 million increase *required* by the Maintenance of Effort funding formula,
- \$43.8 million requested *above* Maintenance of Effort, plus
- a one-time request of \$9.0 million to reduce the Health Fund deficit.

The balance of changes in revenues includes:

- A \$12.1 million increase in State funding support,
- A \$0.9 million decrease in Kirwan funds, officially titled "Blueprint for Maryland's Future," due to a shift in grant funds,
- A \$0.3 million increase in federal and other funding support, and
- A \$12.0 million decrease in use of one-time funds from the HCPSS fund balance.

We recognize that there is a gap between this proposal and the available funding anticipated for FY 2021. Our preliminary conversations with county staff indicate that the county revenues are expected to increase about 2–3 percent above FY 2020 levels. We are hopeful that the county may be able to use PAYGO or other one-time sources to support the one-time funding request. When we discuss revenues during the first work session next week, it will be important for the Board to discuss how to close the gap between expected revenue growth and our obligations and commitments.

At this point we estimate a \$277.8 million state appropriation based on Maryland aid formulas, which would be an increase of \$12.1 million. Maryland State Aid formulas include unrestricted funds and are distributed based on enrollment, relative wealth of each county, level of local expenditures for education, and other factors.

The Kirwan funding figures are also preliminary. The FY21 budget proposal assumes a similar level of state Kirwan funding as we received last year, which was \$8.7 million. The \$0.9 million decrease appears because in FY 2020, the Kirwan funds were budgeted in the General Fund. After the FY2020 budget was approved, the state determined that the Kirwan funds for Struggling Learners and the Mental Health Coordinator would be paid out of the Grants Fund. So the FY 2021 budget reflects shifting those amounts from the General Fund to the Grants Fund.

Approximately \$4.4 million of Kirwan funds are designated for qualifying increases for teacher salaries. Important points to consider are:

- Kirwan funds may only be used to supplement salaries for teachers, not for paraprofessionals or any other staff.
- Benefit costs associated with Kirwan salary increases must be covered at the local level.
- The State has indicated that counties will be required to incorporate Kirwan supplemental funding into local funding amounts within 1-2 years.

As I've already noted, no use of fund balance is included in the FY 2021 proposal. Fund balance represents one-time monies. Budgeting one-time funds for use in covering recurring costs is

inconsistent with sound budgeting principles, and its over-use during prior years is the root of our deficit.

This year's Proposed Budget Book reflects continuous improvement changes to communicate the budget more effectively and transparently, and enhance the connection between the budget and the Strategic Call to Action, with detail on how each division and budget program supports equity in action.

Other improvements include an easier to read schedule that summarizes the changes in the Proposed Budget, and a "Budget Summary Analysis" on each program page that details the changes for each expenditure category compared to the FY 2020 Budget.

The budget section on the HCPSS website has been enhanced to provide a more user-friendly source of the most complete and updated information on the budget process. It provides the budget proposal and all related documents, and overviews of the process and the Health Fund deficit; identifies respective roles for the Superintendent, Board and County; includes a timeline and opportunities for public input; provides answers to frequently asked questions, and more. The budget site will be updated throughout the budget process. It can be easily located on the HCPSS home page.

The first phase of the FY21 Operating Budget planning cycle concludes tonight, as I present my proposal to the Board.

The next phase of the process will be the Board's deliberation. The Board will hold two Public Hearings and four public work sessions in January and two additional work sessions in February. The Board is scheduled to adopt its budget request on February 13 and submit it to the County.

After the County approves its budget, the Board will adopt the final FY 2021 operating and capital budget, and the FY22-26 Capital Improvement Program on May 28.

I know that our Board of Education, county and state leaders share with me a sincere dedication and sense of obligation on behalf of the well-being of Howard County children, families and staff. I look forward to working with the Board as we articulate our request to the County and State, and then working with elected officials on both levels to ensure we receive the funding we need for our students. Thank you for allowing me the opportunity to present this budget proposal this evening.