

Board Action Summary

An Outline of the Chief Executive Officer's Recommendation to the Board of Education

New Program: Yes No

Modified Program: Yes No

Subject: Adoption of the FY 2023 Board of Education Approved Operating Budget

Abstract and Highlights: On February 24, 2022, the Board of Education adopted the *FY 2023 Board of Education Requested Operating Budget* totaling \$2,629,486,035, for both revenues and expenditures, and submitted the budget to the County Executive and County Council.

Subsequent to the Board of Education approving its Requested Budget, there have been several changes due to outside factors including:

1. Differences in the County Council's final operating budget;
2. Changes to State and Federal restricted funds (grants);
3. Modifications to State unrestricted funds;
4. Updates to reconciling items; and
5. Additional increases to employee compensation from labor-partner negotiations.

In order to close the unrestricted budget deficit following the above changes, modifications to the salary lapse and committed fund balance were necessary. The below sections outline all recommended operating budget modifications from the Requested Budget.

Differences in the County Council's Final Operating Budget

The FY 2023 County Council Approved Budget included \$847,722,300 in County Sources for schools. This was just below the Board of Education Requested Amount of \$848,089,098, creating a minor imbalance of \$366,798.

However, there was also an error in the Approved County Council budget, which misclassified the State Learning in Extended Academic Programs (LEAP) Grant as County allocation. Upon correction, this error will add \$725,000 to the deficit from County Sources. The new unrestricted operating budget deficit will be \$1,091,798.

Changes to State and Federal Restricted Funds (Grants)

New information on State and Federal grants has become available since the Board of Education passed its Requested Budget on February 24, 2022:

1. Additional reporting requirements were added making it necessary to reclassify the College and Career Ready and Career Ladder revenue sources from unrestricted to restricted. Additionally, the College and Career Ladder revenue increased from the earlier assumption used for the Requested Budget.
2. The Maryland Learning in Extended Academic Programs (LEAP) grant totaling \$725,000 was added through a supplemental state budget.
3. The Maryland Safe Schools program will continue into FY 2023 with an estimated allocation of \$1,145,000.

4. The Maryland Leads grant program was recently enacted using federal COVID-19 grant funds available to the State. Prince George’s County Public Schools will receive an allocation of \$10,768,616 for this restricted grant initiative.
5. Other smaller grant changes add to a total of \$1,462,383.

These changes are outlined in the below chart.

<i>Funding Name</i>	<i>Unrestricted Revenue Δ</i>	<i>Unrestricted Expenditure Δ</i>	<i>Unrestricted (Deficit) Δ</i>	<i>Restricted Revenue Δ</i>	<i>Restricted Expenditure Δ</i>	<i>Restricted (Deficit) Δ</i>
<i>College & Career Ready and Career Ladder Learning in Extended Academic Programs</i>	(\$3,749,586)	(\$3,749,586)	-	\$5,151,560	\$5,151,560	-
<i>Maryland Safe Schools</i>	-	-	-	\$725,000	\$725,000	-
<i>Maryland Leads</i>	-	-	-	\$1,145,000	\$1,145,000	-
<i>Other Minor Grant Changes</i>	-	-	-	\$10,768,616	\$10,768,616	-
<i>Totals</i>	(\$3,749,586)	(\$3,749,586)	-	\$19,252,559	\$19,252,559	-

In all cases, the new revenues are offset by equal expenditure obligations. The overall restricted budget will increase for both revenues and expenditures and the overall unrestricted budget will decrease for both revenues and expenditures. There is no effect on the restricted or unrestricted operating deficit.

Modifications to State Unrestricted Funds

The final state budget makes three changes to unrestricted state funding sources:

1. State prekindergarten funding is \$2,068,045 above the projection used for the Requested Budget. However, \$1,544,382 of the increase is a projected pass-through to private prekindergarten providers, which limits the positive effect on the unrestricted operating fund deficit to \$523,663.
2. State Limited English Proficiency Aid increased by \$3,410 to \$143,638,899.
3. State Education Effort Adjustment decreased by \$3,788 to \$26,521,153.

Overall, these modifications decrease the unrestricted budget deficit by \$523,285 to \$568,513.

Updates to Reconciling Items

In order to estimate expenditures for the CEO’s Proposed Operating Budget each year, projections are completed in October for the following fiscal year. Reconciliation of various accounts is necessary as the new fiscal year approaches to improve the accuracy of projections. Transportation and fuel costs are anticipated to increase by \$4,394,851 and all other unrestricted reconciling items total to an increase of \$962,954. These changes totaling \$5,357,805, increase the operating budget deficit to \$5,926,318.

Additional Increases to Employee Compensation from Labor-Partner Negotiations

As part of the budget development process each fiscal year, Administration develops estimates for the additional salary and benefits already negotiated for the following year as well as projections (based on historical norms) for any labor partner agreement that has not yet been negotiated. As of the date of this Board Action Summary, the negotiated agreements covering FY 2023 are already in place for the Association of Supervisory and

Administrative School Personnel Unit II, Association of Supervisory and Administrative School Personnel Unit III and the Service Employees International Union Local 400. On June 23, 2022, the Board of Education is scheduled to approve amendments to these negotiated agreements.

The negotiated agreement with the Association of Classified Employees, American Federation of State, County and Municipal Employees, Local 2250 is scheduled for ratification at the June 23, 2022, Board of Education Regular Meeting. The negotiated agreement with the Prince George’s County Educators’ Association covering FY 2023 is not yet complete. However, based on established potential projections, the total FY 2023 employee salary and benefits increases exceed the total amount originally projected based on historical trends. The Requested Budget projection of \$69,244,194 must increase to \$126,041,772.

That additional \$56,797,578 moves the unrestricted budget deficit to \$62,723,896.

Lapse Adjustment

The operating budget includes more than \$43 million in projected lapse for salaries and benefits to account for position vacancies throughout the year. For FY 2022, that projection did not fully account for the actual lapse results. There are three primary reasons for this underestimate:

1. **Average Salary Analysis:** For projection purposes, vacant positions are valued at the average salary of all positions within the position class. This methodology overestimates the position cost as many new employees have less experience than the average current employee (and therefore enter at a lower step than the average of current employees).
2. **Non-Payroll Lapse:** There is no projection of non-payroll lapse. The operating budget assumes that all non-payroll amounts will expend which, in turn, overestimates actual expenditures.
3. **Position Vacancies:** As Administration presented to the Board of Education on May 12, 2022, vacancy rates increased during the pandemic.

To rectify the lapse underestimate, \$49,000,000 will be added to the FY 2023 unrestricted operating budget. This will decrease the budget deficit to \$13,723,896.

Fund Balance Commitments

Dramatic steps are necessary to fund this budget inclusive of the considerable salary increases. Salary increases compound every year; therefore, a single-year commitment of fund balance cannot appropriately account for the revenue necessary to offset major salary increases over time.

This operating budget will instead commit use-of-fund-balance for the next seven fiscal years to stabilize the projected cost of increasing salaries for FY 2023 – FY 2025. \$175,000,000 in fund balance as of June 30, 2022, will be committed to the operating budget of each fiscal year, as outlined below:

	<i>FY 2023</i>	<i>FY 2024</i>	<i>FY 2025</i>	<i>FY 2026</i>	<i>FY 2027</i>	<i>FY 2028</i>	<i>FY 2029</i>
<i>Committed Fund Balance</i>	\$13,723,896	\$4,607,886	\$64,510,443	\$39,627,844	\$20,274,710	\$21,196,288	\$11,058,933

The \$13,723,896 committed to FY 2023 takes the total use of fund balance from \$103,304,456 to \$117,028,352 and fully closes the budget deficit.

Summary of All Actions

The below chart summarizes all actions between the *FY 2023 Board of Education Requested Operating Budget* and the *FY 2023 Board of Education Approved Operating Budget*.

	Unrestricted Revenue	Unrestricted Expenditure	Unrestricted (Deficit)	Restricted Revenue	Restricted Expenditure	Restricted (Deficit)	Total Budgeted Revenues/ Expenditures
FY 2023 Board of Education Requested Budget	\$2,228,860,285	\$2,228,860,285	-	\$400,625,750	\$400,625,750	-	\$2,629,486,035
<i>Differences in the County Council's final operating budget</i>	-\$1,091,798	-	-\$1,091,798	-	-	-	-\$1,091,798
<i>Changes to state and federal restricted funds (grants)</i>	-\$3,749,586	-\$3,749,586	-	\$19,252,559	\$19,252,559	-	\$15,502,973
<i>Changes to state unrestricted funds</i>	\$2,067,667	\$1,544,382	\$523,285	-	-	-	\$2,067,667
<i>Updates to costs of doing business</i>	-	\$5,357,805	-\$5,357,805	-	-	-	-
<i>Additional increases to employee compensation from labor-partner negotiations</i>	-	\$56,797,578	-\$56,797,578	-	-	-	-
<i>Lapse Changes</i>	-	-\$49,000,000	\$49,000,000	-	-	-	-
<i>Fund Balance Changes</i>	\$13,723,896	-	\$13,723,896	-	-	-	-
FY 2023 Board of Education Approved Budget	\$2,239,810,464	\$2,239,810,464	-	\$419,878,309	\$419,878,309	-	\$2,645,964,877

The attached resolution makes all of the changes outlined above to the *FY 2023 Board of Education Requested Operating Budget*. The resulting *FY 2023 Board of Education Approved Operating Budget* totals \$2,659,688,770 for both revenues and expenditures. The resolution also directs the Chief Executive Officer to distribute the final *FY 2023 Approved Operating Budget* amount to the appropriate major expenditure categories and to request that County Council approve these changes.

Budget Implications: \$2,659,688,770 (FY 2023)

Staffing Implications: 20,354.49 FTE

School(s) Affected: All Schools



Preparation Date: June 22, 2022

Person Preparing: Michael Herbstman, Chief Financial Officer

Board Agenda Introduction Date (Budget Consent): June 23, 2022

Board Action Date (Budget Consent): June 23, 2022

Endorsed: _____

Chief Financial Officer

Endorsed: _____

Chief of Staff

Approved: _____

Chief Executive Officer

PRINCE GEORGE'S COUNTY PUBLIC SCHOOLS
Upper Marlboro, Maryland 20772

RESOLUTION

WHEREAS, on February 24, 2022, the Board of Education adopted the FY 2023 Board of Education Requested Operating Budget totaling \$2,629,486,035, for both revenues and expenditures; and

WHEREAS, modifications were necessary to align with the final State Operating Budget, the final County Operating Budget, amended reconciling items and ongoing labor negotiations; and

WHEREAS, the Chief Executive Officer recommended changes to lapse and committed use-of-fund balance to offset the outside changes;

THEREFORE, BE IT RESOLVED, that the Board of Education of Prince George's County accepts the Chief Executive Officer's recommendations to reconcile the budget; and

BE IT FURTHER RESOLVED, that the Board of Education of Prince George's County accepts the resulting FY 2023 Board of Education Approved Operating Budget totaling \$2,659,688,770, for both revenues and expenditures, with major category totals outlined below; and

Revenues by Category	FY 2021	FY 2022	FY 2023	FY 2023	FY 2023	FY 2023	FY 2023	FY 2023
	Actual	Approved	Proposed	Requested	Approved	Change from FY2022 Approved Unrestricted	Change from FY2022 Approved Restricted	Change from FY2022 Approved Total
Board Sources	\$ 7,509,230	\$ 18,231,442	\$ 12,931,442	\$ 12,931,442	\$ 12,931,442	\$ (5,300,000)	\$ -	\$ (5,300,000)
County Sources	816,099,495	816,947,300	846,997,300	848,089,098	846,997,300	27,950,002	2,099,998	30,050,000
Federal Sources	136,542,526	574,278,154	303,681,071	303,681,071	315,921,071	-	(258,357,083)	(258,357,083)
State Sources	1,273,911,626	1,281,784,203	1,383,043,860	1,361,479,968	1,366,810,606	40,549,610	44,476,793	85,026,403
Use of Fund Balance	-	83,935,736	90,000,000	103,304,456	117,028,351	33,092,615	-	33,092,615
Total Revenue by Category:	\$ 2,234,062,877	\$ 2,775,176,835	\$ 2,636,653,673	\$ 2,629,486,035	\$ 2,659,688,770	\$ 96,292,227	\$ (211,780,292)	\$ (115,488,065)

Expenditures by Category	FY 2021	FY 2022	FY 2023	FY 2023	FY 2023	FY 2023	FY 2023	FY 2023
	Actual	Approved	Proposed	Requested	Approved	Change from FY2022 Approved Unrestricted	Change from FY2022 Approved Restricted	Change from FY2022 Approved Total
Administration	\$ 64,321,534	\$ 81,780,532	\$ 84,820,838	\$ 82,869,866	\$ 86,582,782	\$ 6,077,742	\$ (1,275,492)	\$ 4,802,250
Mid-Level Administration	137,739,465	155,172,224	157,016,533	156,490,330	159,747,641	5,815,602	(1,240,185)	4,575,417
Instructional Salaries	730,383,458	908,416,096	876,749,713	868,535,207	867,678,434	21,566,886	(62,304,548)	(40,737,662)
Textbooks & Instructional Materials	42,944,190	145,021,406	55,480,572	53,524,569	62,934,167	1,786,411	(83,873,650)	(82,087,239)
Other Instructional Costs	119,257,614	174,317,900	164,552,762	173,393,225	169,167,706	10,264,420	(15,414,614)	(5,150,194)
Special Education	304,769,109	350,987,225	341,588,599	339,212,858	331,953,458	(2,158,368)	(16,875,399)	(19,033,767)
Student Personnel Services	27,422,348	63,073,534	42,236,487	58,948,197	64,972,924	2,850,707	(951,317)	1,899,390
Student Health Services	20,515,563	24,482,580	25,013,151	24,867,403	25,280,240	695,165	102,495	797,660
Student Transportation Services	89,913,098	112,382,053	125,661,741	124,457,469	115,513,933	10,709,910	(7,578,030)	3,131,880
Operation of Plant	135,275,262	160,733,464	164,234,686	163,856,110	164,394,263	5,720,096	(2,059,297)	3,660,799
Maintenance of Plant	48,179,536	56,674,527	58,565,112	58,565,112	59,591,999	1,772,472	1,145,000	2,917,472
Fixed Charges	458,595,127	512,884,031	512,439,964	496,766,451	512,545,808	18,572,098	(18,910,321)	(338,223)
Food Services	21,854,779	8,553,304	7,332,655	7,074,842	6,568,360	410,275	(2,395,219)	(1,984,944)
Community Services	1,145,634	5,447,959	5,785,860	5,749,396	5,582,055	283,811	(149,715)	134,096
Capital Outlay	-	15,250,000	15,175,000	15,175,000	27,175,000	11,925,000	-	11,925,000
Total Expenditures by Category:	\$ 2,202,316,716	\$ 2,775,176,835	\$ 2,636,653,673	\$ 2,629,486,035	\$ 2,659,688,770	\$ 96,292,227	\$ (211,780,292)	\$ (115,488,065)

BE IT FINALLY RESOLVED, that the Board of Education directs the Chief Executive Officer to submit the FY 2023 Board of Education Approved Operating Budget to the County Council.

Submitted by:	<u>Dr. Monica Goldson, CEO</u>
Prepared by:	<u>Michael Herbstman, Chief Financial Officer</u>
Agenda Date:	<u>June 23, 2022</u>
Discussion:	_____
First Reader:	_____
Budget Consent:	<u>June 23, 2022</u>
Emergency:	_____
Amended:	_____
Deferred:	_____
Tabled:	_____
Approved by the Board:	_____