



**BOARD OF EDUCATION OF HOWARD COUNTY
MEETING AGENDA ITEM**

TITLE: FY25 Year-end Categorical Transfers and Supplemental Appropriation **DATE:** April 29, 2025

PRESENTER(S): M. Brian Hull, Chief Financial Officer and Darin Conforti, Executive Director of Budget

Mission: HCPSS creates an innovative and accountable learning community where we expand opportunities and access, remove barriers, and foster an inclusive environment.

Key Commitment: Creating innovative learning and working environments.

Priority Area: Priority 4: Enhance Systemic Planning & Procedures

Goal: Ensure equitable distribution of resources to schools to better meet student needs.

OVERVIEW:

This action item presents for Board approval the necessary budget actions to manage the FY 2025 General Fund budget so that it finishes the fiscal year in compliance with state budget laws. State law requires that actual expenditures not exceed the approved budget authority by state category. The Budget Office has completed costs to complete for the fiscal year and determined five state categories that require additional budget authority. However, there are not sufficient budget savings to transfer from the other state categories to meet the full budget authority need of the five. Therefore, the year-end actions include the supplemental appropriation of current revenues and the supplemental appropriation of unassigned fund balance to maintain a balanced budget. In addition, with the sudden policy reversal by the U.S. Department of Education to cancel late liquidation of remaining COVID relief grant funds, the categorical and supplemental increases provide HCPSS with a contingency plan to manage the fiscal ramifications of this fast-moving situation. In sum, the categorical transfers and supplemental appropriation address:

- The additional funding needs in the following state categories:
 - 02 (Mid-Level Administration)
 - 03 (Instructional Salaries and Wages)
 - 05 (Other Instructional Costs)
 - 06 (Special Education) and
 - 09 (Student Transportation)
- The supplemental appropriation of current revenues for prekindergarten state aid, investment income, and summer school tuition,
- The supplemental appropriation of unassigned fund balance to fund a portion of the funding needs in state categories, and
- The supplemental appropriation of unassigned fund balance to establish a contingency plan for the budgetary impacts of the U.S. Department of Education's cancellation of late liquidation of certain federal COVID relief grants.

RECOMMENDATION/FUTURE DIRECTION:

It is recommended that the Board approve the supplemental appropriation and categorical transfer request to be submitted to the County Council for action at its June 2, 2025, legislative session.

SUBMITTED BY:

Darin Conforti
Executive Director of Budget

Sandra Austin
Budget Coordinator

APPROVAL/CONCURRENCE:

William J. Barnes
Superintendent

Karalee Turner-Little, Ph.D.
Deputy Superintendent

M. Brian Hull
Chief Financial Officer

Summary of Categorical Transfers

In accordance with Maryland Annotated Code for Education §5-105, the Howard County Public School System (HCPSS) must ensure that expenditures within each state category do not exceed the authority approved by the Board of Education and the County Council.

Each spring, the Budget Office conducts a Cost to Complete (CTC) analysis in collaboration with divisions and program managers to evaluate year-to-date actuals and project expenditures through June 30.

For FY 2025, the Budget Office has identified:

- Five state categories that are projected to exceed their approved budget authority by a total of \$8,050,000.
- Six state categories that are projected to have available budget savings totaling \$3,161,637.

Although additional projected savings exist, staff do not recommend transferring every dollar of those savings due to potential expenditure volatility in the remaining months of the fiscal year. To preserve flexibility and ensure compliance, the Budget Office advises against exhausting all projected surpluses.

Instead, staff recommend a supplemental appropriation utilizing a combination of current revenues and unassigned fund balance to cover the net shortfall. This approach provides a buffer and mitigates the risk that any state category could exceed its budget authority by June 30.

State Categories Projected to Need Additional Budget Authority

State Category	Projected Budget Authority Needed
02- Mid Level Administration	\$ 600,000
03- Instructional Salaries and Wages	1,200,000
05- Other Instructional Costs	250,000
06- Special Education	2,600,000
09- Student Transportation	3,400,000
Subtotal Funding Needs for Operating Expenses	\$ 8,050,000

State Categories with Projected Budget Savings Available to Transfer

State Category	Projected Budget Savings
01- Administration	\$ (200,000)
04- Instructional Textbooks/Supplies	(200,000)
07- Student Personnel Services	(300,000)
08- Student Health Services	(1,300,000)
10- Operation of Plant	(300,000)
12- Fixed Charges	(861,637)
Subtotal Budget Savings	\$ (3,161,637)
Balance of Needs Over (Under) Savings	\$ 4,888,363

Impacts of Federal Decision to Cancel ARP ESSER Grant Liquidation

On Friday, March 28, 2025, shortly after 5:00 p.m., U.S. Secretary of Education Linda McMahon issued a letter to state superintendents notifying them that the U.S. Department of Education (USDE) was rescinding all previously granted extensions related to federal COVID relief funds. As a result, the new deadline to obligate and liquidate these funds was set immediately—by 5:00 p.m. ET that same day.

In response, on Monday, March 31, Maryland State Superintendent Dr. Carey Wright and State Board President Dr. Joshua Michael issued a joint statement warning that this abrupt policy shift could jeopardize more than \$400 million in COVID relief funds already spent or obligated by Maryland public schools, but not yet reimbursed by USDE.

Dr. Wright followed up with a memo to district superintendents detailing the potential fiscal impact and stated that the Maryland State Department of Education (MSDE) is aggressively pursuing all available avenues to prevent these unreimbursed costs from being shifted to state and local education agencies.

Estimated Impact to HCPSS. For HCPSS, the estimated exposure could be as much as \$645,000—representing federal relief grant funds that are either:

- Pending reimbursement from MSDE, or
- Awaiting final liquidation due to the rescinded extensions.

The Superintendent has directed staff to support MSDE's efforts to obtain an exception from the USDE that would allow these funds to be reimbursed and liquidated as originally planned.

Contingency Planning. Should the USDE deny MSDE's request, HCPSS will take the following tiered approach to minimize the fiscal impact:

1. Cancel any pending purchases or services that have not yet been executed or are no longer essential.
2. Reallocate costs to other eligible grants or funding sources, where allowable.
3. As a last resort, cover the obligation using the FY 2025 General Fund budget.

This situation remains fluid, and staff will continue to monitor developments closely while preparing for all possible outcomes. To that end, the year-end categorical transfer request and supplemental appropriation includes consideration of this potential fiscal exposure, should use of General Fund dollars become necessary.

There are three COVID grants remaining to be liquidated that make up the \$644,816 exposure.

- ESSER III- \$263,197
- Maryland Leads- Community Schools- \$359,344
- ARP- Homelessness- \$22,275

The schedule below details the costs that could potentially shift to the General Fund. The schedule shows which state category those costs would go into, the grant from which they would come, and the item.

U.S. Dept of Education-Potential Impact of Liquidation Cancellation

State Category/ARP-ESSER Grant	Amount
04- Instructional Textbooks/Supplies	
ESSER III- Student Device Technology	68,561
ESSER III- Mathematics Interventions	8,614
ESSER III- Arts Supplies to Mitigate Transmission	2,052
MD Leads-Community Schools-Infect. Disease Mitigation	5,526
Subtotal Cat 04	84,753
05- Other Instructional Costs	
MD Leads-Community Schools- Healthy Foods	221,663
MD Leads-Community Schools-Visual/Dental Services	34,680
MD Leads-Community Schools-Behavioral Supports	5,800
MD Leads-Community Schools-Translation Software	28,000
MD Leads-Community Schools-Family Engagement	23,994
MD Leads-Community Schools-Infect. Disease Mitigation	12,570
MD Leads-Community Schools-Facilitation	27,111
Subtotal Cat 05	353,818
07- Student Personnel Services	
ARP-Homelessness- Supports for Housing	8,981
09- Student Transportation	
ARP-Homelessness- Supports for Housing	13,295
11- Facilities Administration	
ESSER III HVAC Projects	183,971
Total Cost ARP-ESSER Liquidation Cancellations	644,818

Summary of Supplemental Appropriations

As outlined in prior sections, two fiscal challenges are impacting the FY 2025 General Fund operating budget:

1. Additional authority needed in five state categories due to projected overages totaling \$8,050,000, with \$3,161,637 in available savings to partially offset this amount, resulting in a net transfer need of \$4,888,363.
2. A potential loss of federal COVID relief funding totaling \$644,816, pending reimbursement or liquidation, due to the abrupt policy change by the U.S. Department of Education on March 28, 2025.

Together, these issues represent a total funding need of \$5,533,179.

\$4,888,363	Net operating budget transfer need
<u>644,818</u>	Potential unfunded COVID relief obligations
\$5,533,181	Total supplemental funding needed

As previously stated, the General Fund does not have sufficient categorical savings to cover these added costs. Therefore, staff recommends the Board of Education approve a request to the County for a supplemental appropriation from current revenues and unassigned fund balance to ensure the General Fund finishes FY 2025 in compliance with state law and is protected from potential federal reimbursement denials.

A summary schedule of the recommended supplemental appropriations is provided below.

Supplemental Appropriations	
Source	Amount
State Aid- Prekindergarten	1,622,969
Investment Income	1,000,000
Summer School Tuition	\$ 465,394
Subtotal Current Revenues	\$ 3,088,363
Unassigned Fund Balance- Operating Expenses	1,800,000
Unassigned Fund Balance- USDE Fiscal Impact	644,818
Subtotal Unassigned Fund Balance	\$ 2,444,818
Total Supplemental Appropriations	\$ 5,533,181

A supplemental appropriation of current revenues reflects that HCPSS has received or is projected to receive more revenue than originally budgeted from one or more funding sources. These additional funds are being appropriated to increase the revenue side of the budget and help offset unanticipated or increased expenditures. For FY 2025, staff recommend increasing the budgeted revenue for the following three current revenue sources:

State Aid- Prekindergarten. FY 2025 marks the first year that private providers are eligible to receive public funding for delivering full-day prekindergarten programs. Under this model, both the state and local education agencies are required to contribute their respective shares of the funding directly to the providers. At the time of the FY 2025 budget adoption, the cost-sharing mechanics between the state and local entities were still under development by the Maryland State Department of Education (MSDE). To proceed cautiously and avoid overestimating revenues, HCPSS budgeted conservatively for prekindergarten state and local revenues.

Since then, MSDE has issued formal guidance clarifying that:

- The state will pay its share of the private prekindergarten funding directly to the providers.
- HCPSS is responsible for paying the local share, which totals \$1.34 million.

As a result of this clarification, \$1.62 million in state aid revenues—previously unbudgeted—are now available for supplemental appropriation:

- \$1.34 million will cover HCPSS’s local share obligation to pre-K providers.
- The remaining \$281,000 is unrestricted and may be used to support other General Fund needs.

Investment Income. The strong bond market has resulted in higher-than-expected yields on investments.

- The FY 2025 budget assumed \$6.5 million in investment income.
- \$5.5 million has already been received year-to-date.
- Year-end projections estimate total investment income at \$7.5 million, resulting in \$1.0 million in excess revenue available for appropriation.

Summer School Tuition. A total of \$205,000 was budgeted for summer school tuition. Year to date, \$670,394 in revenue has been received, making \$465,394 available for supplemental appropriation.

Projected FY 2025 Ending Fund Balance

As of June 30, 2024, the unassigned fund balance in the General Fund was approximately \$7.6 million. To support a balanced FY 2025 operating budget, staff recommend a supplemental appropriation of \$2.4 million from the unassigned fund balance. This appropriation, along with increases in current revenues, will provide the funding necessary to address state category overages and potential unreimbursed federal COVID relief obligations. Following this appropriation, the projected unassigned fund balance as of June 30, 2025 is estimated to be \$5.27 million.

In accordance with Board Policy 4070 – Fund Balance, the target for unassigned fund balance is 1 percent of annual General Fund expenditures. The projected FY 2025 year-end fund balance represents only 0.2 percent of expenditures, which is significantly below the Board’s established target reserve.

The actual fund balance at year-end will ultimately depend on final revenue collections and expenditure levels. The final audited fund balance will be published in the FY 2025 Annual Comprehensive Financial Report (ACFR), scheduled for release on September 30, 2025.

The next section of the board report provides more detailed background information on expenditures by state category.

Details by State Category

Category 01– Administration

This category includes costs for activities associated with the general regulations, direction, and control of the school system. Savings of \$200,000 have been identified for transfer to meet funding needs in Category 02- Mid-Level Administration.

Category 02– Mid-Level Administration

This category contains instructional support services including central office instructional personnel, professional development, school-based office staff, school administration, media processing, and temporary employee services. Category 02 projects a need for \$600,000 of additional funding. Additional funding is necessary to cover cost differences for the use of pooled positions that were budgeted in State Category 03 to fill Leadership Intern positions in State Category 02.

Category 03 – Instructional Salaries and Wages

This category funds instructional salaries and wages, including classroom teachers, paraprofessionals, and substitute staff. An additional \$1.2 million is projected to be needed in FY 2025 due to two contributing factors:

- **Substitute Wage Budget Shortfall**
The budget for substitute wages has been consistently inadequate to cover actual costs. Due to competing priorities and limited resources, there has been no capacity to increase the substitute wage budget in recent years. As a result, substitute wage overages have typically been absorbed by salary savings generated within the category.
- **Insufficient Salary Savings to Offset Overages**
Before salary savings can be used to cover substitute wage costs, they must first meet the budgeted turnover savings target. Turnover savings were not lowered in the FY 2025 budget despite budget reductions making the target more challenging to meet. As a result, the projected level of actual salary savings this year is insufficient to cover both the turnover requirement and substitute wage overages.

Category 04 – Textbooks and Instructional Supplies

This category is comprised of expenditures and commitments for textbooks and instructional supplies for all schools. The category projects to have \$200,000 of savings identified to transfer to state category 06. Note, this category is potentially impacted by the USDE late liquidation cancellation and a supplemental appropriation of \$84,753 is planned.

Category 05 – Other Instructional Costs

This category is comprised of commitments for contracted services, professional development, and equipment used to support the instructional program. The costs to pay the local share of private provider prekindergarten tuition falls into this category. The supplemental appropriation of state revenues will fund the local share cost. Note, this category is potentially impacted by the USDE late liquidation cancellation and a supplemental appropriation of \$353,818 is planned.

Category 06 – Special Education

The Special Education category includes costs associated with the instructional needs of students receiving special education services. This category projects a need for \$2.60 million of additional funding. The increased funding need is mostly attributable to two programs:

- Program 3328, Special Education Compliance and Nonpublic Services. The Transfers–Non-Public Placement budget projections were originally based on an estimated enrollment of 343 students; however, actual enrollment has reached 390 students. This increase has resulted in costs exceeding the approved budget and necessitates additional budget authority. The approved FY25 budget for this category is \$19,838,977, while the projected year-end total is \$22,200,452—resulting in a budget overage. Due to savings in other line items, the net projected budget overage in program 3328 is \$1.8 million.
- Program 3325, Speech, Language, and Hearing Services. The Speech, Language, and Hearing Services program Contracted-Labor budget is projected to exceed budget by \$1.7 million. This overage is primarily due to the use of temporary contracted labor to address ongoing vacancies for Speech Language Pathologist positions.

Savings in other State Category 06 programs offsets some of the overages in these two programs, leaving a net budget need of \$2.60 million.

Category 07 – Student Personnel Services

The Student Personnel Services category includes programs to improve student attendance and to solve student problems involving the home, school, and community. Savings of \$300,000 have been identified for transfer to meet needs in Mid-Level Administration, Category 02. Note, this category is potentially impacted by the USDE late liquidation cancellation and a supplemental appropriation of \$8,981 is planned.

Category 08 – Health Services

The Health Services category provides staffing for school health rooms, maintains student health records, identifies health problems, enforces immunization laws, and provides other services. Savings of \$1.30 million have been identified for transfer to meet needs in Mid-Level Administration, Category 02, and Instructional Salaries and Wages. Category 03.

Category 09 – Student Transportation

The Student Transportation category funds transportation services for all eligible students, including those in general education, special education, specialized programs, and transportation such as student athletics. For FY 2025, an additional \$3.4 million is required to meet contractual obligations due to increased and evolving service demands. Key factors contributing to the need for additional funding:

- Growth in Specialized Transportation Needs:
The number of students requiring specialized transportation has continued to rise, including those

receiving Special Education services, attending non-public placements, enrolled in Regional Early Childhood Center (RECC) programs, and identified as Students in Temporary Housing (SITH). Based on current enrollment and projected growth through year-end, specialized transportation costs are expected to exceed the budget by approximately \$3.2 million. Since the adoption of the FY 2025 budget, HCPSS has experienced a continued rise in transportation demand, particularly for students with higher needs. As previously shared with the Board, emergency contracts and contract rate increases were implemented mid-year to meet service obligations in compliance with student support requirements.

- **Additional Transportation Needs:**
The supplemental appropriation will also support projected increases in summer school transportation, athletics transportation, and academic intervention programs.

Note, this category is potentially impacted by the USDE late liquidation cancellation and a supplemental appropriation of \$13,295 is planned.

Category 10 – Operation of Plant

This category includes custodial salaries and the cost of utilities. Savings of \$300,000 have been identified for transfer to meet contractual needs in Student Transportation, Category 09.

Category 11 – Maintenance of Plant

This category includes the cost of building, grounds, and environmental maintenance. Note, this category is potentially impacted by the USDE late liquidation cancellation and a supplemental appropriation of \$183,971 is planned.

Category 12 – Fixed Charges

This category includes the cost of employee benefits and other fixed charges and costs such as vehicle insurance, retirement contributions, life insurance, workers’ compensation contributions from the General Fund, and unemployment insurance. Savings of \$861,637 from this category have been identified for transfer to Special Education, Category 06. Any additional savings available are reserved to meet additional funding needs in the Health or Workers’ Compensation Funds, should it be necessary.

Category 14 – Community Services

This category provides for the usage of our facilities by the community, grounds maintenance of school sites for community use, and other school system community services. No transfers are recommended for this category.

Category 15 – Capital Outlay

The Capital Outlay category includes costs for planning, administration, and oversight of the Capital Budget. No transfers are recommended for this category.

The following tables provide the specific Categorical Transfer and Supplemental request that will be submitted to the County Council.

Table 1- Summary Schedule

The first column is the current approved budget. The second column shows where budget authority is being transferred out (negative amount) of state category to another state category. The third column shows the amount the expenditure authority being increased with the supplemental appropriation. The last column is the revised approved budget with the supplemental appropriations.

Major Category	General Fund Budget	Year-End Categorical Transfer	Supplemental Appropriation	Revised Appropriation
State Cat 01 - Administration	\$ 15,228,243	\$ (200,000)		\$ 15,028,243
State Cat 02 - Mid-Level Administration	70,121,095	600,000		70,721,095
State Cat 03 - Instructional Salaries and Wages	422,706,169	1,200,000		423,906,169
State Cat 04 - Instructional Textbooks/Supplies	8,253,290	(200,000)	84,753	8,138,043
State Cat 05 - Other Instructional Costs	18,941,311		603,818	19,545,129
State Cat 06 - Special Education	180,637,339	1,061,637	1,538,363	183,237,339
State Cat 07 - Student Personnel Services	10,909,402	(300,000)	8,981	10,618,383
State Cat 08 - Student Health Services	13,514,147	(1,300,000)		12,214,147
State Cat 09 - Student Transportation	67,824,058	300,000	3,113,295	71,237,353
State Cat 10 - Operation of Plant	55,860,193	(300,000)		55,560,193
State Cat 11 - Maintenance of Plant	26,404,846		183,971	26,588,817
State Cat 12 - Fixed Charges	249,341,889	(861,637)		248,480,252
State Cat 14 - Community Services	4,254,383			4,254,383
State Cat 15 - Capital Outlay	1,170,213			1,170,213
Total	\$ 1,145,166,578	\$ -	\$ 5,533,181	\$ 1,150,699,759

Table 2- Detailed Transfer Schedules

The first schedule shows the specific movement of existing budget authority between state categories. The second schedule shows the appropriation of additional revenue by source and the state categories where the budget authority will be increased with the supplemental funding.

Categorical Transfer Details			
	From State Category	Expense	To State Category Expense
1	State Cat 01 - Administration	\$ (200,000)	State Cat 02 - Mid-Level Administration \$ 200,000
2	State Cat 07 - Student Personnel Services	(300,000)	State Cat 02 - Mid-Level Administration 300,000
3	State Cat 08 - Student Health Services	(100,000)	State Cat 02 - Mid-Level Administration 100,000
4	State Cat 08 - Student Health Services	(1,200,000)	State Cat 03 - Instructional Salaries and Wages 1,200,000
5	State Cat 04 - Instructional Textbooks/Supplies	(200,000)	State Cat 06 - Special Education 200,000
6	State Cat 12 - Fixed Charges	(861,637)	State Cat 06 - Special Education 861,637
7	State Cat 10 - Operation of Plant	(300,000)	State Cat 09 - Student Transportation 300,000
Supplemental Appropriation Details			
	Revenue Source	Revenue	To State Category Expense
1	State Aid Prekindergarten (Revenue)	1,622,969	State Cat 05 - Other Instructional Costs 250,000
2	State Aid Prekindergarten (Revenue)		State Cat 06 - Special Education 1,372,969
3	Investment Income (Revenue)	1,000,000	State Cat 06 - Special Education 165,394
4	Investment Income (Revenue)		State Cat 09 - Student Transportation 834,606
5	Summer School (Revenue)	465,394	State Cat 09 - Student Transportation 465,394
6	Fund Balance (Revenue)	2,444,818	State Cat 04 - Instructional Textbooks/Supplies 84,753
7	Fund Balance (Revenue)		State Cat 05 - Other Instructional Costs 353,818
8	Fund Balance (Revenue)		State Cat 07 - Student Personnel Services 8,981
9	Fund Balance (Revenue)		State Cat 09 - Student Transportation 1,813,295
10	Fund Balance (Revenue)		State Cat 11 - Maintenance of Plant 183,971