

Advisory Committee School Subcommittee
Preliminary Report on the PSB FY20 Budget
Tuesday April 2, 2019

The School Subcommittee had a public hearing on March 5 and a meeting March 14 on the School budget, and we will vote on a recommendation on April 10. In past years, we focused on explaining the budget in terms of how much money was being spent and where it was spent, and on how funds provided by operating overrides had been used.

In the last three years, PSB's budget as explained by the budget book has become increasingly comprehensible. This year, it includes both program-by-program expenses and school-by-school expenses down to the level of the salaries paid to fill each teaching position. Furthermore, all staff have been classified in a way that links the line item in which their salaries are carried to what they actually do. Personnel costs account for 85% of the budget, so reading through the details of staff costs provides an excellent window into where money is spent, as well as an understanding of the size and complexity of PSB's operations.

Given the availability of this data and the detailed explanations of each program is explained, it no longer seems necessary to "translate" the budget book to those who read it. We do recognize that many Town Meeting members do not read the budget in depth, so on the following page we provide a summary of the budget. Note that the summary of expenditures does not include two major PSB expenses that carried in the Town budget – the cost of PSB staff health care benefits and the cost of services provided by the Building Department. Benefits costs attributed to PSB are \$27,690,841 and Building Department costs are \$5,460,368.¹

Given the discussion in 2018 regarding school enrollment projections, it is worth noting that overall enrollment for the year increased by approximately 200 students. PSB projects an increase of 200 students from FY19 to FY20.

The subcommittee discussed three broad themes with PSB staff. As has been the case in the last three years, the level of detailed knowledge and willingness to explain the details was very helpful to the subcommittee.

The first theme has to do with the nuts and bolts of managerial accounting. The second, more strategic theme has to do with the efficient delivery of programs, which translates into the efficient use of available funds. The third theme concerns special education, and particularly out-of-district tuition.

(1) Managerial Accounting Nuts & Bolts

PSB ended FY18 with a deficit caused by the fact that some expenses were not visible to the central office until late in the fiscal year even though they had been incurred earlier.

¹ See Town of Brookline FY-2020 Financial Plan, Pages IV-141 and IV-61

Expenses, not including Benefits & Building Dept.

Program	Item	FY18 Actual		FY19 Budget Nov. TM		FY20 Budget		FY20 Prelim to FY19 variance	
		FTE	\$	FTE	\$	FTE	\$	FTE	\$
Gross school budget expenses	Personnel	1,240.49	\$94,622,356	1,276.72	\$98,478,447	1,313.60	\$104,014,289	36.88	\$5,535,841
	Services		9,741,022		10,542,721		11,699,864		1,157,142
	Supplies		1,922,502		2,051,297		1,833,497		(217,800)
	Other		593,018		1,288,570		1,102,213		(186,357)
	Capital		<u>1,140,010</u>		<u>1,364,723</u>		<u>1,191,685</u>		<u>(173,038)</u>
	Total		\$108,018,889		\$113,725,760		\$119,841,548		\$6,115,788

Revenue Sources

Source	FY18 Actual	FY19 Budget Nov. TM*	FY20 Budget	FY20 Prelim to FY19 variance	
				%	\$
General Fund Appropriation	\$104,758,343	\$110,583,255	\$117,354,211	6.12	\$6,770,956
BHS Bus Fees	<u>0</u>	<u>75,000</u>	Moved to revolving fund	<u>-100.00</u>	<u>(75,000)</u>
Total T-S Partnership \$	\$104,758,343	\$110,658,255	\$117,354,211	6.06	\$6,695,956
Tuition & fees	\$696,016	\$696,016	\$717,523	28.68	\$21,507
Facility Rental	225,000	Moved to revolving fund	Moved to revolving fund		
Circuit Breaker Funding	\$1,873,044	1,688,705	1,769,814	4.80	81,109
Rev. Fund expense reimb's	50,680	150,680	\$0	-100.00	(150,680)
Other Revenue	\$0	358,680	\$0	-100.00	6,289,212
Total Revenue	\$107,603,083	\$113,552,336	\$119,841,548	5.54	\$6,289,212
Surplus/(Deficit)	(\$415,806)	(\$173,424) *	\$0		

* Includes adjustments made at Nov. 2018 TM to offset the FY18 deficit

While the individual items were small, they added up. In other cases, the budgeted amounts for some line items were exceeded. For example, stipends are budgeted for teachers who coach teams or advise student activities, but the increase in stipends due to increases in contractually agreed salary levels was not built into the budget. That deficit was offset by the November 2018 Town Meeting, which shifted funds from the FY19 PSB budget to cover the FY18 deficit.

That created a potential budget gap for FY 19. PSB has spent considerable time and effort to assert control over what had previously been viewed as fringe items, and we do not expect another end-of-the-fiscal-year surprise from the same causes. Among other steps, spending against the FY19 budget without central office approval was frozen last fall as a means reducing the FY19 gap.

Two other factors increased pressure on FY19's budget vs. actual expenses.

First, the food service and athletics revolving funds have been in deficit for several years. In prior years, the deficits were covered by unexpended reserves, and those reserves are no longer being built in to the budget. Note that it is an acceptable practice for the operating budget to subsidize revolving funds, but such funds should not close out the year in deficit.

The food service deficit has been exacerbated by changes in school menus that did not resonate with the customers – the students. That resulted in drop in demand and thus a drop in revenue. The School Committee has gone out to bid for a new food services contract, has tweaked the menu, and it is considering an increase in the cost of some types of meals in order to keep the food services deficit under control. One problem is that the cost of meals provided at no cost or at a subsidized cost exceeds the federal reimbursement for those meals. That difference has to be made up either by charging the rest of the students more or by subsidizing the food service revolving fund.

Second, following several years of declines in the number of special needs students for whom PSB was paying out-of-district tuitions, a handful of special needs students who could not be educated within Brookline programs moved into the district, resulting in a 27% increase in out-of-district costs amounting to \$894,000.

(2) Efficient delivery of programs

Each year, we see forecasts for structural deficits in both the Town and School budgets. The following year, the budget for the then-current year has been balanced, but the structural deficit projection for future years remains in place. This annual recession of the deficit horizon is not a game, but rather the result of conservative current budgeting and conservative future projections by both Town and School.

In FY20, the projected deficit that had been predicted in the spring of 2018 for PSB in FY20 materialized. A decrease from FY19 projections in the amount of revenue the Town collects and the continuation of FY 19's higher level of out-of-district tuitions for special education students. And the reserves that were once sprinkled through the School budget are gone, first because of a laudable change in the budgeting philosophy of PSB and then because it was impossible to balance the budget and retain reserves that are, in fact, appropriate.

Quoting from the PSB Executive Summary of the FY 20 budget dated 2/22/2019, "In prior years, the School Department utilized a variety of reserve and contingency accounts.... [The] School Committee repeatedly expressed its concern that due to the overall tightness of the budget there is less ability to absorb unforeseen events.... The School Department is managing this tightness with greater accuracy in budgeting and reporting."

The School Subcommittee expressed its concern somewhat differently. Our question was how PSB would be able to manage *anticipated* cost increases, let alone unforeseen events. The short answer is that the Superintendent and his senior staff are focused on delivering programs more efficiently. To cite a simple example, it may be possible to schedule ELL specialists who work in more than one school in a way that reduces their travel time.

Cross-referencing the program-by-program detail in the FY20 budget with the school-by-school data will help in this analysis. The reclassification of staff to allocate their salaries to the programs they deliver is equally important, since that reclassification increases the accuracy of program costs.

Last, PSB is still using a chart that predates the 1993 Education Reform Act. Our chart of accounts is out of date. This may seem like a nuts-and-bolts accounting matter, but it has strategic implications.

At the very least, it affects the accuracy of the costs attributed to programs. For example, the China Exchange program is charged to High School general expenses and could be charged to its own program account. This specific case is a minor issue compared to the matter of analyzing how to improve the delivery of larger programs with far higher costs, but it exemplifies the overall chart of accounts problem.

PSB lacks the staff time to tackle this task, but there is growing awareness by the Treasurer and Comptroller that this is an issue.

(3) Out -of-district tuition for special education

As noted previously, out-of-district costs took an unexpected \$894,000 jump in FY19. This was the result of a handful of students who require out-of-district services moving into the district. The transportation costs alone for one such student can hit \$20,000, so it

doesn't take a significant increase in the overall number of students to throw the budget out of balance.

PSB has built a reserve into FY20's budget, and there has been discussion of setting up a \$1 million special education stabilization fund. Any drawdown of that fund would have to be made up the following year, but it would greatly reduce the likelihood that the current year's budget could be thrown out of balance by a small change in the number of students requiring out-of-district services.