

MEMORANDUM

To: Members of the School Committee
Margaret M. Marotta, Superintendent of Schools

From: Brian A. O'Connell, Business Manager

Re: Financial Status Report – Mid-Year

Date: January 9, 2019

This Memorandum, accompanied by three related documents, provides a summary of the current status of the fiscal operations of the Haverhill Public Schools. It details a comprehensive account transfer proposal which, when approved by the School Committee, will align our budget with current staff assignments and mid-year account expenditure projections. Finally, it details a welcome allocation of \$500,000, made by the Mayor and City Council, to the HPS to address a variety of building needs.

Budget Status:

As of January 2, exactly six months into our 2019 fiscal year, we have expended \$32,829,847.87. This is 39.06% of our “net” budget (i.e., funds specifically budgeted and administered by us) of \$84,056,526. In addition, we have encumbered expenditures – payroll and non-payroll – in the amount of \$45,137,908.54. When our expenditures and encumbrances are combined, we have spent, or committed, \$77,967,756.41–92.76% of our budget. The sum of \$6,088,769.59 – 7.24% of our budget – remains unencumbered, and thus available to address expenditures for the remainder of the year which have not yet been committed. We are in a slightly more favorable situation now than we were last year at this time (January 2, 2018), when we had an unencumbered and available balance of \$5,599,173.99. Then, we were in the midst of a year-long – and ultimately successful - effort to monitor our expenditures meticulously, to make sure that we would conclude our year with a positive fiscal balance. This year, our staff has been frugal in its requests for expenditures, and, where feasible, we have applied our grant funds aggressively, retaining budget resources to address unanticipated challenges which customarily arise during the year.

If we allocate our finances carefully this year, and continue to expend them with thoughtful planning and fiscal restraint, I am very optimistic that we will conclude the year within the fiscal resources available to us, and still address emergencies and critical needs as they arise. Caution is still very vital, however. For example, since my September 12 report, the sums still unexpended and unencumbered – and thus available for “new” expenditures – have declined by \$5,893,547.87. This rate of “new expenditures” is understandable – for example, many “new” expenditures are frequently incurred during the early part of the school year (e.g., school supplies), and we should be able to keep our expenditures in check if we continue to monitor them closely. All of these trends are common during the first half of the school year, and none of them reflect spending patterns which are atypical for this period. In addition, some of our unencumbered proceeds are included in the Maintenance / Utilities budget (\$457,364.11), where they will address emergency repairs and many of the costs of winter.

Expenditures we anticipate as to many hourly-paid employees, such as tutors, are not encumbered in advance either. While these are all important, they do limit our ability to invest in additional initiatives or staff which were not incorporated into the budget as approved last spring. As you know, the School Committee added positions last spring for which no budget funds were assigned, and other positions have been added during the current academic year as well. We have been taking steps to fund these positions within the confines of the current budget, but careful budget monitoring, and precise control of expenditures, remain vital.

Several other factors advise close attention here. For example, Special Education Out-of-District Placements are always volatile at this point, and cumulatively they are a key budget driver for us. As of January 2, our cumulative Special Education budget has an available budget balance of \$1,098,503.88. Last year at this time (1-2-18), the balance was \$396,402.86. As always, additional placements early in the year will have a significant impact here. However, the special education department has been careful with its placements, and has tried to provide students the services they need in-house where feasible, and this has helped to provide grounds for cautious fiscal optimism in this area.

Transfers:

During recent weeks, our administrative team has conducted a meticulous review and analysis of staff placements, to assign them to budget accounts related to their current building / program location and to their primary duties. Also, our Business Department has made extensive projections as to the expenditure patterns within individual accounts, and has determined the sums likely to be needed in each account, as determined at the year's halfway point. Finally, to reduce expenditures which must be made by the HPS to the Massachusetts Teachers' Retirement System for individuals paid from grants – which are not required for staff paid from the regular budget – we are moving certain staff members from grants to regular budget accounts. This saves the HPS a sum approximating 9% of their salary (i.e., a saving approximating \$27,000 for the year).

The cumulative result of this analysis is a substantial list of recommended transfers, which are detailed in the multi-page “Pre-Posting Budget Journal Entry” submitted to you with this memorandum. While the changes are significant, they align our budget with appropriate staff placements, and with the expenditures we anticipate for the remainder of the year. They do not suggest any change in district priorities, or any cumulative concern with the adequacy of HPS resources for the year. However, they will align us well with our FY 20 budget preparation process, to allow the School Committee to review that budget, account by account, matching the true realistic current budget with the budget proposed for FY 20. In short, the transfers allow the Committee – and the community – to verify changes in allocation of resources recommended for next year, to determine the scope, extent and reason for changes proposed.

After-Budget Adjustment Report:

The transfer will lead to a budget which places almost all accounts into a positive balance. Thus, the third document you are receiving is a mid-year “red/green” report, setting forth much “green” and almost no “red”! It permits a side-by-side comparison of the pre-transfer budget and the post-transfer

budget. (This document is compiled today, thus indicating some minor changes in expenditures from the January 2 “mid-year” report discussed above.). Thus, the initial two columns detail, first, the “approved budget”, prior to the recommended transfers, and, second, the “adjusted budget”, which will be the budget when the transfers are approved. Column 3 provides you the “year to date transactions”, and the following two columns set forth the remaining balance in each account, followed by the encumbrances set aside but not yet expended. Finally, the two columns on the far right of the document give you the each account current balance, followed by the balance that will be in place once the recommended transfers are approved.

The result of this budget realignment is substantial. The only remaining deficit (“red”) accounts are as follows:

Page 7 - Contracted Services – Elementary (Bradford) - 1010000.4.2415.6425.43.171.00.20 – deficit of \$18,500

Page 12 - Contracted Services – Elementary (Pentucket Lake) - 1010000.4.2415.6425.47.171.00.20 – deficit of \$18,500

Page 13 - Contracted Services – Elementary (Tilton) - 1010000.4.2415.6425.43.171.00.20 – deficit of \$37,000

Page 19 - Contracted Services – Elementary (Nettle) - 1010000.4.2415.6425.53.171.00.20 – deficit of \$18,300

Page 20 - Contracted Services – Elementary (Consentino) - 1010000.4.2415.6425.54.171.00.20 – deficit of \$18,555

At present, the Merrimack Fellows are funded through these accounts. However, the costs related to them are being moved to Title I, and this will negate the deficits.

Page 23 – ROTC - 1010000.4.3520.6139.61.500.00.20 – deficit of \$43,646.10. The ROTC positions are paid in part from reimbursement provided by the Department of the Navy (US Marine Corps). These funds, when received, are placed in a revolving account, and are expended from it. The Navy funds will allow us to eliminate all, or almost all, of this deficit – the final reimbursement amount, and any salary increase mandated by the Navy, will be the subject of a notification we customarily receive from the Navy during this winter.

We will be glad to discuss these documents, and the accounts detailed in them, at any point convenient to you.

Free Cash Revenues:

We were delighted to receive notice that the Mayor and the City Council have set aside for us, in the City’s Capital Revolving Accounts, the cumulative sum of \$500,000 for the following purposes: repairs for school drains and gutters (\$20,000), school boilers (\$100,000), the High School roof (\$200,000),

Consentino (\$65,000), Tilton School lavatory work (\$20,000), and St. James School lighting (\$95,000). As I mentioned in a note I sent yesterday to the Mayor and Council:

“We are most grateful for your generous support and assistance here. As you know, our school structures are aging, and their cumulative needs for significant attention grow with each passing year. While we always budget for significant expenditures for our building infrastructure, we have historically lacked the resources to address some of our major – and costly – systems in an ongoing and thoroughly proactive fashion. Your assistance here allows us to focus on projects which truly do need attention, and which will make our buildings and their systems more safe and reliable for our students and staff. Your transfer of funds for these purposes is a true investment in the well-being of our young people. We are most grateful for your assistance here.”

I will keep you updated on developments with the budget, and I anticipate recommending any additional transfers which we consider advisable prior to another comprehensive (third quarter) budget report, in April. In the meanwhile, should you wish to discuss any aspect of this report, or of the fiscal posture of our school district, just let me know.

Brian A. O’Connell
Business Manager