Understanding the Budget Process

The Baltimore County Public Schools’ (BCPS) budget book presents the funding to efficiently and effectively implement programs in the school system for FY2013. The FY2013 budget begins July 1, 2012, and ends June 30, 2013. It corresponds to the 2012-2013 school calendar year.

The primary sections of the book provide a comprehensive overview of the BCPS budget. A letter from the superintendent and a thorough discussion of the budget provided by the CFO are included in the Introductory section. The Organization section describes the organizations structure, provides an explanation of the budget process and presents the organizations vision, mission and goals. Detailed revenue, expenditure and fund balance information is provided for each major fund in the Financial section. The Information section provides historical and forecasted information (adopted budget only), as well as performance measures based on the key strategies of the Blueprint for Progress. A glossary defines acronyms and other budget terms used throughout the book.

In addition to the primary sections of the book, supplementary sections are provided to summarize the funding and personnel for all organization units in the school system. BCPS is organized in the following six major functions:

- Schools
- Board of Education
- Superintendent
- The Division of Business Services
- The Division of Curriculum and Instruction
- Special Revenue (Grants)

The following description of the supplementary sections of the book is included to help locate specific budget requests or items:

- Each division begins with a brief description of the division, budget by object categories, budget history graphs, and a budget summary. Divisions provide a higher-level summary of the budget.
- Each department included in a division has a budget that is further divided by budget category. Each category is subdivided into objects of expenditures. The objects are Salaries and Wages, Contracted Services, Supplies and Materials, Other Charges, and Equipment.
- Departments are further divided into offices. Office pages include an Office Description, Major Goals for 2012-2013, Budget Highlights, and Full Time Equivalent (FTEs) position counts by professional and support personnel. The Budget Highlights offer a brief explanation of major changes from the FY2012 adopted budget to the FY2013 proposed budget.
- The Special Revenue Fund section represents the appropriations for anticipated grants. The Special Revenue Fund aligns grants by program. Grant descriptions, revenue sources, and planned spending information are included in this section.
- Several tables that present the budget according to Maryland State Department of Education (MSDE) categories are included in the Supporting Documentation.

Accounting Structure

BCPS follows the state mandated requirements for preparing the annual budget. The structure of accounts is based upon the Maryland State Department of Education’s Financial Reporting Manual for Maryland Schools.

The school system may only spend funds that are appropriated if local, or authorized if non-local, by the county government. The Baltimore County Government approves the appropriation, or legal limit, of the level of spending by fund and category. The funds are grouped in the following manner:

- General Fund-The board’s primary operating fund that accounts for all financial resources of the board, except those required to be accounted for in another fund.
- Special Revenue Fund-Accounts for restricted grants that are obtained primarily from state and federal governments.
- Enterprise Fund-The Food Service fund operates all school cafeterias and provides breakfast and lunch to students and staff.
- Capital Fund-The Capital Projects fund accounts for the resources used for the acquisition, construction, or
improvement of major capital facilities, including those of the enterprise fund.

- Debt Service Fund-The board has no authority to issue bonded debt. Debt for school construction financing is reported in the financial statements of the issuing county government. School property and improvements are reported as financial assets of the board along with a legally proposed budget for the debt service fund.

Under Maryland Law, the General Fund and the Special Revenue Fund comprise the Current Expense Fund, which reflects all financial resources used for the basic operations of the school system, including the basic education programs. The financial resources are considered to be revenue to BCPS. Revenue is received from a variety of sources. The largest portion of revenue is received from the Baltimore County Government. The remainder is received from the federal and state governments and other sources, such as tuition and fees, as well as income from investment of cash and rental of school buildings during non-school hours.

**Basis of Accounting and Budgeting**

The board reports the following major governmental funds using the modified accrual basis of accounting: the general, special revenue, and capital project funds. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible in the current period or soon enough thereafter to pay liabilities of the current period. The board considers revenues to be available if collected within one year of the end of the current fiscal year. Principal revenues subject to accrual include federal and state grants and local county government appropriations. Other revenues are considered to be measurable and available only when cash is received by the board.

Expenditures are generally recorded when a liability or encumbrance is incurred, as under full accrual accounting, and budgets are prepared where encumbrances are treated as expenditures of the current period. Modifications to the accrual basis of accounting include:

- Employees’ vested annual leave is recorded as an expenditure when used. The amount of accumulated leave unpaid at the end of a fiscal year is reported only in the government-wide statements.
- Interest on long-term obligations (capital leases) is recognized when paid.
- Amounts encumbered as purchase orders are recorded as a reservation of fund balance.

Data included in this book for the governmental funds are reported using the budgetary basis of accounting that differs from generally accepted accounting principles (GAAP). The budget includes the use of appropriated fund balance and, as previously noted, current-year encumbrances only. Neither of these are reported under GAAP. The budget does not include retirement benefits paid by the state on behalf of BCPS employees that are reported under GAAP in the financial statements. Lastly, recognition of revenue for certain multi-year maintenance projects under the state Aging Schools program are adjusted on a budgetary basis to include only current year payments.

The proprietary fund (Food Service Fund) is reported on a the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred. Operating revenue and expenses are distinguished from non-operating items. Operating revenue is charges for meals and operating expenses include costs of food sold, salaries, wages and benefits, supplies, maintenance of equipment, and depreciation of capital assets. All other items are reported as non-operating. The enterprise fund uses the accrual basis of accounting for both budgetary and accounting purposes.

Funds for capital projects are appropriated annually. Unspent capital funds do not lapse at fiscal year-end, but remain available until the project is closed.

**Budget Amendments/Supplements**

The school system is not permitted to spend in excess of the amount appropriated by fund, category, and project. It is the responsibility of the school principal or central office manager to spend within his/her allocated funding and to notify the appropriate supervisor of any potential deviation from the budget plan.

Occasional budget transfers within a MSDE category are permitted without approval by the Baltimore County Government; however, the board must submit a report detailing the transfer 15 days after the end of each month. Budget appropriation transfers (BATs) between categories must have Baltimore County council approval. The Baltimore County council must also approve BATs between projects within the Capital Projects Fund. If actual revenue is anticipated to be greater than the original amount appropriated, or if additional county funds are needed, the Baltimore County council must approve a supplemental budget appropriation before
Understanding the Budget Process

additional funds can be spent.

**Fund Balance**

Fund balances are created when the expenditures during a fiscal year are less than the revenue received during that year. Fund balances may accumulate over a period of years and may be available as a source of revenue, but only if appropriated by county fiscal authorities.

**Revenue**

Baltimore County Public Schools receive funds from several sources, the majority of which are used to cover ongoing operating expenses. Most of the school system’s general fund revenues come from state and county funding authorities. These fund sources are both formula-driven and required by state law, and as a result are fairly predictable. In order to be eligible for Baltimore County’s share of state aid, the local government must provide a minimum funding level known as Maintenance of Effort. Maintenance of Effort requires local funding support to be the same per pupil amount as the year before. This funding level will change year-to-year depending on fluctuations in student enrollment. County property and income taxes make up the majority of this local funding.

The state of Maryland provides funding for unrestricted revenues using formulas based on student enrollment, county wealth, the number of pre-1960 school buildings, and in some cases, a consumer price index adjustment. These major state aid categories are identified in the revenue section as Foundation Program, Compensatory Aid, Transportation, Special Education Formula, Out-Of-County Living, and Aging School Repair. Estimates of the projected level of state funding are provided by MSDE as the budget is being prepared.

The Other Sources of Revenue category consists of tuition paid for non-residents, summer school and evening high school; interest on investments; rental use of system facilities; insurance proceeds; the local portion of Out-Of-County Living arrangements; and some appropriation of general fund balance. These revenue sources fluctuate based on program usage and student enrollment data.

Most General Fund revenues are driven in some manner by changes in enrollment. Enrollment trends, and as a result, revenues, increased between 1987 and 2004. A gradually declining trend began in 2005 and reversed in 2010. Systemwide enrollments are projected to increase in every year thereafter through 2021. Revenues are likely to follow this trend.

Baltimore County Public Schools receive special revenues, or restricted funds, in the form of grants. These grants come from federal, state, local, and private or other sources and must be used for specific programs, such as Title I for disadvantaged children, vocational education, special education, and various pilot programs. The federal government provides funding through Public Law 94-142 Special Education Act. Other federal funds are appropriated in the Special Revenue Fund and restricted grants. MSDE administers these funds and provides information of expected funding levels as the information becomes available.

**Enrollment**

Enrollment is projected using the cohort survival method in accordance with state regulations. This method is the most widely used approach in school districts throughout the country. The cohort survival method “ages” the student population ahead through the grade levels to the projected years. It is based on the assumption that past ratios for grade-to-grade movement will have predictive value for the future.

The prediction of school enrollments involves consideration of a wide range of factors, such as:

- The historical proportion of students who have “survived” from the prior grade to that particular grade (in-grade ratio)
- Birth statistics
- New housing construction
- In-migration (housing turnover)
- Feeder patterns, magnet schools
- Program changes (e.g., ELL, special education, prekindergarten)

These school and geographic factors are also influenced by larger economic and political factors. Once an overall countywide enrollment projection is developed, individual school enrollment projections are developed for each attendance area.

**Capital**

Capital budget priorities are set by the Board of Education of Baltimore County and rely on funding from the state and county governments.

Capital projects approved by the board are first
Understanding the Budget Process

Submitted to the Interagency Committee (IAC) of the State Public School Construction Program to request state funding according to approved criteria. State funding levels for Baltimore County are limited to 50% of approved expenditures. The state and local cost sharing formula varies by county throughout the state. A project often entails improvements that go beyond minimum state criteria and the cost of these improvements must be borne entirely by the local government. Baltimore County Government has also provided “forward funding” in anticipation of future state contributions for projects with preliminary planning approval. This process accelerates construction schedules and the county is later reimbursed for these expenditures with state funds. Appeals of IAC decisions are heard by the State Board of Public Works and a final decision is made in conjunction with legislative approval of the state’s operating and capital budget during the spring session of the Maryland General Assembly.

A separate funding request is submitted by the board to the county government for the majority of capital funds. The county portion of the capital program includes those projects eligible for state funding in addition to the more numerous projects which are funded entirely with local revenue. After review by the Baltimore County Office of Planning and Zoning and the County Planning Board, the county council adopts a capital budget that is incorporated with the BCPS operating budget adopted in May.

BCPS executes and manages the capital construction program using both state and local funds. The capital projects and debt service funds projections simply reflect planned spending of state and county funds as set forth in the five-year program. Legal appropriations are made only for the current fiscal year so the level of anticipated activity does not necessarily translate into future appropriations.

Net capital assets consist of land and improvements. Such assets are neither liquid nor available for future spending or liquidation of liabilities. The total cost of construction projects is encumbered when the construction contract is awarded and revenue is recognized as expenditures are incurred. These expenditures are reimbursed monthly by county government. The state portion of capital funds is paid directly by the state.

Debt Obligation

The Board of Education of Baltimore County has no taxing powers and may not issue long-term debt instruments. Consequently, the board is fiscally dependent upon federal, state, and county governments to finance the operation of Baltimore County Public Schools on a long-term basis. The board has no contingent liability for the repayment of long-term debts incurred by the state and county to finance the construction of public schools. Therefore, the board has no legal debt margin. The reporting of annual County Debt Service and related revenues pertaining to the board in the Debt Service Fund is required by state law.

Within the General Fund, the purchase of major equipment may be financed with the county’s approval. The purchase of school buses, maintenance trucks, automobiles, and computer equipment is often financed over multi-year terms. The total principal financed in any one calendar year is kept below $10,000,000 in order to ensure favorable interest rates and to comply with regulatory limits.

Long-term Financial Policies

Because the board is fiscally dependent upon county, state and federal governments to finance long-term operations, financial policies focus on managing our annual appropriation within the narrow legal restrictions set by state and county law and federal grant awards. Fund balance may only be appropriated for expenditure with approval of county fiscal authorities. No contingent funds may be budgeted.

Our multi-year budget forecast incorporates revenue projections from the county Spending Affordability Committee and the Maryland State Department of Education, our two primary funding agencies.

Enrollment data is a key component of the state funding formulae for both operating and capital revenues. Our ten-year enrollment projection is 99% accurate, well within 5% of state projections as required by law. The state’s Public School Construction Program extends through 2013 and forms the basis of our capital budget. In addition to state public school construction funds, the county provides the majority of capital project funding with both debt financing and pay-go general funds.

Performance Indicators

As a school system, our efforts are quantitatively measured by how well the students perform. This document uses student achievement and other data as the basis for measuring performance. Statistics on attendance, dropout rates, and academic honor roll are also included.