

Final Report: Financial Review of the Brockton Public Schools

February 2024

Project Overview

The scope of work for this project included conducting a financial review of the financial health and fiscal operations of the Brockton Public Schools (BPS), developing a report of the review and recommendations, along with providing technical assistance to BPS.

Key Findings

For BPS:

- The district closed FY2023 with a \$18.3M deficit.
- As of February 2024, BPS is confronting a \$19 to \$25M General Fund deficit for the current FY2024. Despite identifying \$15M in one-time funding sources to mitigate this shortfall, achieving a balanced General Fund budget for FY2024 remains unlikely.
- For FY2025, even after accounting for a projected \$19M (8%) increase in funding based on the Governor's budget, BPS faces a \$7 to \$19M deficit in the upcoming fiscal year.

For the City of Brockton (City):

- To finalize FY2023 and set the tax rate, the City was required to allocate \$19M to address BPS's deficit, utilizing its entire \$7.9M Chapter 324 Stabilization Fund, \$2M from free cash, and an additional \$9.1M increase in local receipts.
- For FY2024, the City will likely need to identify further funds if BPS closes the current fiscal year with a deficit.
- For FY2025, the City must find at least \$12.2M in additional local funds for transportation and at least \$8M to replenish the Chapter 324 Stabilization Fund, totaling over \$20M.

Our analysis highlights numerous fiscal challenges faced by BPS, ranging from budget mismanagement and inadequate fiscal controls to complex contract and benefits administration, which contribute to the ongoing budget deficits and fiscal pressures.

FY2023 Budget Deficit

As part of this project, Open Architects supported BPS and the City to close FY2023 and validate the final deficit. After closing FY2023, BPS reported a \$18,253,853 deficit against its \$219,618,150 General Fund budget. To resolve this deficit and set the tax rate in December 2023, the City of Brockton convened an emergency City Council meeting to raise revenue and allocate funds as follows:

Chapter 324 Stabilization	\$7,947,925
Free Cash	\$2,000,000
Increase Local Receipts	\$9,067,495
Total	\$19,015,420

The Chapter 324 Stabilization Fund, established over three decades ago by Chapter 324 Acts of 1990, requires replenishment along with an interest charge for its use.

FY2024 Budget Projection

As of February 2024, BPS is projected to exceed its \$231,113,157 General Fund budget by \$19 to \$25M (8 – 11%) due to various factors, including:

- Transportation costs are expected to reach \$22.5M, which is twice the amount of the original \$11.2M appropriation. As of January 31, BPS had spent 95% of its original appropriated FY2024 transportation budget. The primary issue is that the district insourced transportation services several years ago, yet never created a proper budget to account for the full cost of services. Cost overruns were identified in out-of-district transportation, bus drivers, homeless transportation, in-district special education transportation, and vehicles.
- A budget was never properly created for special education services. The largest deficits are related to out-of-district placement tuition costs (\$2.8M deficit) and the liability for unmet service needs for students with disabilities (almost \$1M in costs for 58,000+ hours of unmet needs).
- The unemployment budget did not include the cost for staff that were laid off in the spring of 2023. This cost is projected to be twice the budget, with an anticipated deficit of \$882K.
- There are numerous employee incentives and benefits across collective bargaining agreements and individual contracts that were not properly budgeted and are challenging to administer. These include:
 - A health insurance hold harmless stipend for staff who were employed when the contribution change occurred. This stipend increases every year to reduce the impact of premium increases to their Blue Cross Blue Shield or Harvard Pilgrim health insurance plans.
 - Up to four and a half unused sick days can be ‘bought back’ by employees if they used five or fewer sick days within a year. The term ‘buy back’ refers to the practice of compensating employees for unused sick days during the school year before a new allocation of sick days are allocated to staff. In addition, employees are eligible for perfect attendance incentives.
 - Unused vacation days can be ‘bought back’ by employees, ranging from five to ten days per year. The term ‘buy back’ refers to the practice of compensating employees for unused vacation days during the school year before a new allocation of vacation days are allocated for the new school year. In FY2023, this benefit cost the district \$1.5M.
 - Unused personal days can be ‘bought back’ by employees, up to three days per year. The term ‘buy back’ refers to the practice of compensating employees for unused personal days during the school year before a new allocation of personal days are allocated for the new school year.
- There are over 130 employees with individual contracts that allow for individualized benefit packages and working conditions. For example, some salaried employees are eligible to collect overtime.

There is still a substantial range for the FY2024 deficit due to several unknown factors.

- BPS did not encumber purchase orders or contracts this year. Unknown costs to the BPS business office continue to be discovered during the fiscal year when invoices arrive without

a funding source.

- As of February 2024, there are approximately 150 open positions, which could be filled by schools and central departments. Recently, BPS has discussed closing or reducing these positions.
- Expired grants continue to have payroll and other costs applied. These charges will need to be moved to appropriate funding sources and could increase the General Fund deficit.

Open Architects has supported BPS to identify over \$15M in funding sources to reduce this deficit, including:

McKinney Vento	\$1,700,000
School Choice Revolving	\$1,200,000
Circuit Breaker	\$7,000,000
ESSER	\$5,195,000
<u>Subtotal</u>	<u>\$15,095,000</u>

FY2025 Budget Projection

Based on the Governor’s FY2025 budget, BPS’s appropriation is projected to be \$250,523,631, an increase of \$19.4M (8.4%). The increase in the local appropriation is primarily due to increasing transportation costs, which are not net school spending eligible. For FY2025, BPS projects the total transportation cost to be \$23.4M, an increase of \$12.2M (108%) from the original FY2024 budget. In addition, the City will need to identify at least \$8.0M to replenish the Chapter 324 Stabilization Fund. In total, the City will need to identify at least \$20M from other revenue sources in the next six months to meet its FY25 net school spending obligation and its Chapter 324 Stabilization Fund.

Despite an appropriation of \$250.5M, BPS still faces a \$7 to \$19M deficit in FY2025 in order to fund programs and services and account for the current number of positions and related costs of salaries and benefits.

Fiscal Operations

Throughout the efforts to reconcile the FY2023 deficit, assess the FY2024 shortfall, and forecast the FY2025 financial outlook, a comprehensive review uncovered significant challenges within BPS fiscal operations. These challenges, which are described below, pose substantial risks to the financial health of both BPS and the City of Brockton.

BPS’s financial system of record, Munis, was not properly used to record approved budgets, track school and department budgets, and oversee significant expenditures. A notable practice involved pooling 80% of the budget (\$174 million out of a \$219 million General Fund budget) in a single account called ‘Fund 199.’ When a need arose or a problem was discovered, funds were transferred from this account to the necessary department without any additional oversight or approvals.

Moreover, the financial system neither reflected appropriations voted by the Brockton School Committee and City Council nor important cost drivers. For example, the BPS Transportation Department created bus routes without knowing its budget allocation. During the FY2024 budget process, BPS requested \$15M for transportation and the City appropriated \$11.2M; nonetheless, BPS still loaded \$15M into Munis. The BPS Special Education Department had to rely on historical End of Year Reports to understand its total programmatic cost. At the beginning of a fiscal year, the Special Education Department would receive an allocation of \$2 million, and staff were instructed to

cover additional expenses using Circuit Breaker and IDEA funds before these allocations were released by DESE. Amidst this financial ambiguity, BPS would make significant programmatic decisions without understanding the financial impact, such as relocating twenty students to out-of-district placements early in the current fiscal year.

In addition, grants were not properly set up, managed, or closed in the Munis system. Grants were often set up in Munis based solely on the district's application for the grant, as opposed to when the grant was approved and awarded. Even after grants were approved and awarded, the total award amount was never reconciled in Munis. This resulted in grant managers spending inaccurate grant budgets during the life of the grant. Finally, when a grant reached its end date, the grant budget in Munis was never closed and recurring expenses would continue to be charged to grant beyond its expiration date.

The district's existing controls to monitor positions and payroll are inadequate. Although an interim position control process has been introduced, the absence of this mechanism historically was likely a contributing factor to over-hiring and abrupt position eliminations. Additionally, the management of numerous pay codes, employee incentives, and benefits has resulted in significant unplanned payments and benefit allocations.

The district maintained a practice of keeping prior year purchase orders open for current year expenses, which further clouded how much funding was available. BPS has now begun to close prior year purchase orders (some as old as eight years), and in the process has recouped millions of dollars in savings.