

ED COMMITTEE #1
May 16, 2012
Worksession

MEMORANDUM

May 15, 2012

TO: Education Committee

FROM: Essie McGuire, Senior Legislative Analyst *EMGuire*

SUBJECT: **Worksession – FY13 Operating Budget, Montgomery County Public Schools, continued**

Today the Education Committee will continue its review of the Montgomery County Public Schools FY13 Operating Budget. The Committee held two previous worksessions on April 16 and April 30 to review the Board of Education's requested operating budget; the packet materials for these two worksessions are attached for reference. The Committee:

- Received an overview of the budget request;
- Reviewed revenues, including the local contribution, State Aid, and Federal funding;
- Discussed elements of the Board's proposal for FY13 employee compensation;
- Reviewed the status and projected fund balances of the Employee Benefit Trust Funds; and
- Monitored ongoing developments related to State legislation.

The purpose of today's worksession is to finalize the Committee's recommendation on the major fiscal elements of the Board's requested FY13 budget for MCPS. The Committee's recommendation for the technology modernization CIP project is also reproduced below as the only CIP element remaining for Council consideration.

The Committee has reviewed the major fiscal elements of the Board's request, and consistent with previous discussions Council staff recommends that the Committee approve a tax-supported budget for MCPS for FY13 totaling \$2,028,871,395. To account for the pension shift, this amount is \$27,227,553 greater than the Board's tax-supported request of \$2,001,643,842. Council staff recommends the following elements of County funding as part of this overall appropriation:

- **Local contribution at the level of MOE, \$1.392 billion.** This is an increase of \$22.2 million over the FY12 approved level. The increase in MOE is due to increased enrollment. The FY13 MOE level is based on a per pupil amount of \$9,759, which reflects the actual, rebased per pupil appropriation amount from FY12.

- **Reappropriated fund balance totaling \$17 million.** The school system anticipates an overall fund balance between FY11-12 combined of \$32.3 million. If the Council appropriates the \$17 million as requested, approximately \$15.3 million would remain as unappropriated fund balance carried forward into next fiscal year.

Fund balance cannot be spent by MCPS until the funds are appropriated by the Council. The fund balance appropriation is not part of MOE, in that it does not affect the per pupil amount nor can it be counted toward the County's MOE contribution.

The Board for FY13 proposes to use a part of its fund balance to support its budget priorities that go above the MOE level of funding. To the extent that the Board has funding requests in the future that go above the MOE required level of County contribution, it will be important for the Board to identify resources such as fund balance to support them. **The increased constraints of MOE as a result of the legislation passed this spring and advocated for by the school system will make it difficult for the Council to support County funding above MOE in the future. As a result, Council staff recommends allowing the remaining \$15.3 million to carry forward as unappropriated fund balance at this time as a possible resource for school system needs in future years.**

- **Funds for the State shift of pension costs to the County, totaling \$27.2 million.** At this time, although the General Assembly has not completed its action in the special session, it appears that it will adopt the pension shift approach reflected in the most recent conference committee plan. This plan requires the County to appropriate \$27.2 million to MCPS above the MOE requirement for FY13. **Council staff recommends that the Committee approve this additional appropriation, and assume it will be appropriated into Category 12, Fixed Charges. Council staff notes that if the General Assembly takes a different action, the Council may need to amend this recommendation.**

Technology Modernization

On April 30, the Committee recommended the following for the MCPS Technology Modernization project:

- **Restore the full Board request by \$3.13 million in FY13. To reach this level, assume that \$1.3 million of FY13 E-rate funds will be available during the year, and at this time add \$1.829 million in current revenue in FY13.**
- **Restore half of the Executive's reduction in each year FY14-18. Assume that in FY14 MCPS will be able to add FY14 E-rate funds to the appropriation.**

The table below shows the Committee recommendation in comparison to the Board request and Executive recommendation. *It does not include projected E-rate dollars.*

	FY13	FY14	FY15	FY16	FY17	FY18	6 year total
BOE Rqst	21,847	25,456	26,805	26,358	23,997	25,277	149,740
CE Rec Red	-3,129	-6,738	-8,087	-7,640	-5,279	-6,559	-37,432
CE Rec Total	18,718	18,718	18,718	18,718	18,718	18,718	112,308
Comm Rec Addtn	1,829	3,370	4,040	3,820	2,640	3,280	18,979
Comm Rec Total	20,547	22,088	22,758	22,538	21,358	21,998	131,287

The Committee recommends the following assumptions for FY13-14 *only*:

- That in determining the amount of current revenue available for this project the Council assume that the school system will be able to add E-rate funds to the yearly project appropriation each year in FY13-14; and
- That the Council not specify in FY13-14 whether the level of funding is associated with a specific replacement cycle or technology initiative. This will allow the school system to manage its competing technology infrastructure priorities in the next two years within all available funds.

ED COMMITTEE #1
April 16, 2012
Worksession

MEMORANDUM

April 12, 2012

TO: Education Committee

FROM: Essie McGuire, Senior Legislative Analyst *EMC*

SUBJECT: **Worksession – FY13 Operating Budget, Montgomery County Public Schools**

Today the Education Committee will begin its review of the FY13 Operating Budget for the Montgomery County Public Schools (MCPS). The following individuals are expected to participate in today's worksession:

- Shirley Brandman, President, Board of Education
- Christopher Barclay, Vice President, Board of Education
- Joshua Starr, Superintendent
- Marshall Spatz, Director of Management, Budget, and Planning, MCPS

This packet is divided into 4 sections:

- I. Overview of Recommended Budget**, including Board of Education request and the County Executive's recommendation
- II. State Legislative Update**, including Maintenance of Effort (MOE) legislation, possible shift in teacher pension costs, and possible State Aid reductions
- III. Overview of Revenues**, including local contribution, State Aid projections, and Federal funding
- IV. Overview of Expenditures**, including proposed expenditures and positions by funding category

I. OVERVIEW OF RECOMMENDED BUDGET

BOARD OF EDUCATION'S REQUEST

The Board of Education requested a total of \$2,132,839,512 for the FY13 MCPS Operating Budget. This amount represents an increase of \$46,052,899 or 2.2 percent over the approved FY12 level. The FY13 tax-supported budget request is \$2,001,643,842. The tax-supported budget request is \$50,734,551 over the approved FY12 tax-supported amount, an increase of 2.6 percent.

A summary table showing the major elements of the Board's request is attached on circle 9. Significant highlights include the following:

- The Board requested a **local contribution at the Maintenance of Effort (MOE) level** working from the FY12 Council approved appropriation. This requires an increase of \$22.2 million in County funds for FY13 over the FY12 approved level, due to enrollment increases.
- The Board's request includes **additional funds of \$14.5 million associated with increased enrollment.** A summary chart of actual and projected enrollment is attached on circle 16.
- The Board projects a **total enrollment for FY13 of 149,018.** This is an increase of 2,521 over the actual enrollment for FY12. Comparing enrollment projections (which affect the budget changes year to year), the FY13 budget projection is an increase of 2,309 over the projected (and budgeted) FY12 level (circle 16).
- Enrollment of students with Limited English Proficiency and students from families with low incomes continues to increase. For the current school year, approximately 19,039 or 13 percent of all students have Limited English Proficiency, and 47,305 or 32.3 percent are enrolled in Free and Reduced Meals (FARMS).
- The Board's request includes an **increase of 232 additional FTE** over the FY12 approved level. These increases are primarily in additional teachers and instructional aides and assistants.
- **The Board's budget identifies a total amount of \$20.6 million in additional dollars over the FY12 base compensation level for increased employee compensation. The exact elements of these compensation increases are not fully identified.**
 - The Board's budget states that an additional \$8.6 million is necessary to fund **step increases** for employees. This is an unusually low net cost that reflects an offset for lapse and turnover savings; MCPS states that lapse and particularly turnover savings are significantly higher than usual. The total cost to fund step increases is \$35 million.
 - The Board's budget states that \$12 million is a **placeholder** to "offset costs of future negotiated agreements with employee unions". As of April 11, the Board and the employee associations state that they need to delay action on contract negotiations at this time due to uncertainty about the State budget (circle 37).

- Increases in **employee benefits and insurance costs** are projected to account for an additional \$15.1 million in the Board’s request. The largest cost component is for the active employee benefit plan, which is expected to require an additional \$12.1 million in FY13. The Council has just received the new biannual report on Category 12 expenditures from the Board, and the Education Committee will further review the Board’s assumptions for both compensation and benefits in a subsequent worksession.
- **The requested budget is largely a same services budget.** The Superintendent’s memorandum to the Board in February cites the weak economy as preventing a larger request and emphasizes that “I strongly believe that we must assess how effectively we use existing resources” before requesting additional funding.
- **The Board made two primary adjustments to the Superintendent’s budget** related to allocating the additional State Aid over the amount projected by the Superintendent in December. First, the Board allocated approximately \$603,000 to **expand hours-based-staffing** for special education students to all middle schools. Second, the Board increased the Superintendent’s \$8.0 million placeholder for **employee compensation** by \$4.0 million to \$12.0 million as noted above for the outcome of ongoing negotiations. (circles 4-7)

COUNTY EXECUTIVE RECOMMENDATION

The County Executive recommended full funding of the Board’s request for the MCPS FY13 Operating Budget. This includes the County contribution at the MOE level of \$1.392 billion and assumed the same level of State Aid as the Board.

The County Executive typically recommends only aggregate totals for the MCPS operating budget, and does not identify category allocations, as the Council is required to do in its final appropriation. However, in his FY13 recommendation, the County Executive makes the following statement:

“Within the recommended funds being allocated to MCPS, the Executive is assuming that the Board of Education is providing only one time compensation increases that do not add to the base compensation budget”.

This statement is consistent with the Executive’s recommended compensation increase of one-time lump sum payments to County employees. However, it appears at this juncture to be inconsistent with at least one stated element of the Board’s recommended compensation, namely step increases. **The Education Committee will want to receive additional information from the Board as to its intent for employee compensation increases in FY13, and will return to fuller discussion of employee compensation and benefits in a subsequent worksession.**

II. STATE LEGISLATIVE UPDATE

MAINTENANCE OF EFFORT

The General Assembly passed and the Governor signed a bill that significantly alters the structure of the Maintenance of Effort (MOE) provisions of the Education Article and also affects the taxing authority of charter counties. Council staff outlines below some of the major elements of the new law.

- **Local Taxing Authority:** Allows counties to raise property taxes above any limit set under a county's charter. If a county exercises this option, all revenues collected above the charter limit must be appropriated to the local school board, and the board's appropriation from any local source cannot be reduced below the current level.
- **Mandatory Waiver Processes:** Requires counties to apply for a waiver if they will not meet MOE in a given year. Leaves the State Board of Education as the decision-making authority. Specifies the factors for the State Board to consider in reviewing waiver applications, many of which both county and school advocates have agreed to in recent years. Creates three types of waivers.
 - ***Fiscal Condition Waiver:*** This waiver is very similar to the current waiver process in which a county can apply for a waiver of a certain amount if its fiscal condition significantly impedes its ability to fund MOE in a given year.
 - ***Recurring Costs Waiver:*** This new waiver allows counties to reduce their MOE by the amount (or less) that a recurring cost is reduced going forward. To receive this waiver, however, the local board must agree to the amount of the reduction. If the recurring cost reduction affects compensation or other personnel costs, an "exclusive employee representative" must also agree to the reduction.
 - ***Rebasing Waiver:*** This new waiver allows counties to rebase their MOE going forward, capped at 97 percent of the required amount. Counties may only apply for this type of waiver if their education effort (a wealth-based spending measure used by the State) is at least equal to the five-year moving State average.
- **Funding Reset:** Unless a county receives a waiver for recurring costs or to rebase, its next year's MOE is always reset at the last time it met MOE.
- **Penalty and Tax Intercept:** Changes the penalty for not meeting MOE to the amount by which a county missed MOE. Allows the State to redirect local income tax revenues to the local board in that amount.
- **FY12 Relief:** Of critical importance to Montgomery County is the provision that waives the FY12 penalty scheduled to be imposed in FY13 and allows the County to move forward from the actual, rebased appropriation amount in FY12 for the purposes of calculating MOE in FY13 and beyond.

TEACHER PENSIONS

The General Assembly had reached a plan to shift a portion of the State's teacher retirement costs to local school boards; however, this plan did not pass before the Assembly adjourned. At this juncture it is unclear whether pension costs will shift in FY13 or if so, what form the shift would take.

The most recent conference committee plan called for a four-year phase-in of the normal costs only of teacher retirement, with the local board responsible for payment. This amount, approximately \$27 million in FY13, would then be an added requirement for counties to fund above MOE for the phase-in period. Following the phase-in, the full amount of the shift, currently estimated at \$44 million, would be rolled into MOE, increasing the per pupil base going forward.

"DOOMSDAY" BUDGET ELEMENTS

If the General Assembly does not return or is otherwise unable to pass Budget Reconciliation and Financing Act (BRFA), a set of "doomsday" budget reductions will go into effect on July 1 for FY13 in order to balance the State budget. For Montgomery County, the bulk of these reductions would affect MCPS.

If the contingent budget reductions go into effect, MCPS would receive approximately \$41 million less in State Aid than currently anticipated in the Board's request. These reductions consist of:

- Elimination of GCEI: -\$32.7 million
- Reduce per pupil funding: -\$8.3 million

There appears to be some question as to whether the reduced per pupil funding could go into effect as it requires additional statutory changes.

Both possible outcomes clearly have the potential for significant impact on the FY13 budget for the County as a whole and MCPS specifically. At this time a new date has not been set for the General Assembly to return in a special session. The Education Committee will return to fuller review of the implications of any shift in teacher pension costs or State Aid reductions once more information is available.

III. OVERVIEW OF REVENUES

Table 1 below shows the MCPS operating budgets by revenue source for the FY11 approved level, the FY12 approved level, and the FY13 Board of Education Request.

Source	FY11 Approved		FY12 Approved		FY13 BOE Request	
	\$	% of total	\$	% of total	\$	% of total
County	1,415,085,344	67.3%	1,370,101,480	65.7%	1,392,286,148	65.3%
Fund Balance	10,300,000	0.5%	17,000,000	0.8%	17,000,000	0.8%
State	488,622,834	23.2%	559,837,103	26.8%	588,331,986	27.6%
Federal	119,057,183	5.7%	70,140,226	3.4%	64,522,375	3.0%
Other Sources	15,002,004	0.7%	13,174,062	0.6%	13,174,062	0.6%
Enterprise	54,630,165	2.6%	55,108,742	2.6%	56,029,880	2.6%
Special Funds	1,490,510	0.1%	1,425,000	0.1%	1,495,061	0.1%
Tax-sptd Total	1,919,842,746		1,950,909,291		2,001,643,842	
Grand Total	2,104,188,040		2,086,786,613		2,132,839,512	

The FY11 tax-supported total in this table does not include Federal ARRA dollars. The apples-to-apples FY11 tax-supported total including ARRA dollars is \$1,951,103,960.

Local Contribution

- The Board requested a County contribution at the level of MOE, \$1.392 billion. This is an increase of \$22.2 million over the FY12 approved level.
- The increase in MOE is due to increased enrollment. The FY13 MOE level is based on a per pupil amount of \$9,759, which reflects the actual, rebased per pupil appropriation amount from FY12.
- The fund balance reflects savings achieved by the school system and funds not spent in a given fiscal year. **These funds cannot be spent by MCPS until they are appropriated by the Council.** Typically, the Council reappropriates fund balance as a resource for the following year's budget as part of the annual appropriation resolution.
- While the Board's budget assumes \$17 million to be available for the FY13 budget as shown above, the school system anticipates a larger overall fund balance between FY11 and FY12 combined of \$31.1 million. If the Council appropriates the \$17 million for FY13 as requested, approximately \$14.1 million would remain as unappropriated fund balance carried forward into next fiscal year.
- The fund balance appropriation is not part of MOE, in that it does not affect the per pupil amount nor can it be counted toward the County's MOE contribution.

State Aid

- State Aid continues to increase and to comprise a larger share of the overall budget. State Aid increased by \$4.6 million in the Board's budget over what was assumed in the Superintendent's December recommendation.
- The State Aid increase is driven by the County's continued enrollment growth overall. Montgomery County is experiencing by far the most enrollment growth in Maryland in terms of absolute numbers; even in percentage growth, with 1.6% growth from FY12-FY13, Montgomery County is second only to St. Mary's County, which has 1.8% growth and a significantly smaller system. Ten of the 24 Maryland jurisdictions saw declining enrollment from FY12-FY13.
- The component of State Aid related to students from families with low incomes increased \$8.6 million to a total of \$115.2 million in FY13, reflecting increased enrollment in this demographic area.
- The amount of State Aid related to students with Limited English Proficiency increased by \$5.3 million to \$55.1 million in FY13, reflecting increased enrollment in this demographic as well.
- As noted above, these State Aid projections are preliminary and could be affected by final action of the General Assembly.

Federal Aid

- The Board's assumption of Federal Aid in FY13 reflects a decrease of \$5.6 million. The Board's budget transmittal states that this decrease primarily reflects the termination of Federal grant revenue from the Education Jobs Fund.
- The Federal Aid assumption is preliminary. MCPS is still receiving information on the Federal allocations from the State, and it may be necessary to amend the budget before final action to reflect the correct allocations.

IV. OVERVIEW OF EXPENDITURES

State law requires each school system to classify expenditures according to certain categories, and requires the Council to appropriate funding by total amounts in each category. The Board of Education has full authority to allocate funds within each category, but cannot transfer funds between or among categories without Council approval.

The tables that follow provide detail of the Board's requested budget as well as recent approved budgets according to these State categories.

REQUESTED EXPENDITURES BY STATE CATEGORY

Table 2 on the next page shows the expenditures for each State category and their respective shares of the total budget from the approved FY09 level through the FY13 request. Highlights include:

- Instruction, defined in the State's financial reports as the sum of categories 2-6, accounts for 60.7 percent of the requested budget. This is the same percent of the total as the FY11 approved level, decreased from a 62.6 percent share of the total in FY09.
- School and Student Services, defined as categories 7-11, comprises 11.8 percent of the budget in FY13, down from 12.3 percent in FY09. The only category to increase in this group is Category 9, Student Transportation, which increased by \$3.5 million over the FY09 approved level. The other categories in this subgroup decreased.
- The category with the largest and most consistent growth is Category 12, Fixed Charges. This category increased \$69.2 million since FY09, and in FY13 takes up 3 percent more of the budget than in FY09 at 23 percent of the total. This category includes primarily employee benefit (health and pension) expenditures.
- In total, Table 2 shows that the FY13 request would bring the total MCPS budget back above the FY09 approved level. In the last three years the budget has not fallen below the FY09 level, and at its lowest in FY12 was \$34 million below the FY10 level without debt service. The school system and its advocates have often cited a larger three-year reduction of \$400 million. However, this figure appears to include anticipated costs as well as base adjustments and reallocations, and does not reflect actual year to year budget changes.

Table 2: Expenditure by State Budget Category										
Category	FY09 Approved	FY09 %of total	FY10 Approved	FY10 %of total	FY11 Approved	FY11 %of total	FY12 Approved	FY12 %of total	FY13 Requested	FY13 %of total
Instruction										
2-Mid-Level Administration	135,954,968	6.6%	135,871,420	6.2%	138,804,115	6.6%	136,245,378	6.5%	136,594,627	6.4%
3-Instructional Salaries	840,528,178	40.7%	855,776,714	38.9%	834,965,124	39.7%	820,070,900	39.3%	843,516,918	39.5%
4-Textbooks and Instr Supplies	31,636,789	1.5%	31,903,762	1.4%	24,901,955	1.2%	24,948,820	1.2%	25,084,043	1.2%
5-Other Instr Costs	17,985,510	0.9%	15,093,701	0.7%	14,373,591	0.7%	13,855,214	0.7%	13,459,980	0.6%
6-Special Education	267,556,882	12.9%	280,339,274	12.7%	279,165,638	13.3%	272,431,548	13.1%	276,520,311	13.0%
Subtotal: Instruction	1,293,662,327	62.6%	1,318,984,871	59.9%	1,292,210,423	61.4%	1,267,551,860	60.7%	1,295,175,879	60.7%
School and Student Services										
7-Student Personnel Services	11,645,960	0.6%	11,175,378	0.5%	11,201,334	0.5%	11,041,328	0.5%	10,806,410	0.5%
8-Health Services	57,502	0.0%	41,002	0.0%	44,590	0.0%	54,670	0.0%	37,402	0.0%
9-Student Transportation	91,979,938	4.5%	92,765,998	4.2%	93,946,059	4.5%	93,197,127	4.5%	95,480,010	4.5%
10-Operation of Plant and Equip	114,803,881	5.6%	118,589,104	5.4%	115,000,527	5.5%	115,657,090	5.5%	112,934,750	5.3%
11-Maintenance of Plant	34,902,737	1.7%	33,938,236	1.5%	33,015,967	1.6%	32,396,397	1.6%	33,355,895	1.6%
Subtotal: Sch and St Services	253,390,018	12.3%	256,509,718	11.7%	253,208,477	12.0%	252,346,612	12.1%	252,614,467	11.8%
Other										
12-Fixed Charges	420,660,346	20.4%	447,319,098	20.3%	463,288,825	22.0%	471,779,702	22.6%	489,835,833	23.0%
1-Administration	44,028,295	2.1%	41,874,103	1.9%	39,151,145	1.9%	38,366,202	1.8%	37,479,897	1.8%
14-Community Services	208,495	0.0%	208,495	0.0%	208,495	0.0%	208,495	0.0%	208,495	0.0%
Subtotal: Other	464,897,136	22.5%	489,401,696	22.2%	502,648,465	23.9%	510,354,399	24.5%	527,524,225	24.7%
Non-Categorized Expenditure:										
Debt Service			79,537,322							
37-Special Revenue Fund	1,582,830	0.1%	1,581,510	0.1%	1,490,510	0.1%	1,425,000	0.1%	1,495,061	0.1%
51-Real Estate Fund	2,549,103	0.1%	2,651,095	0.1%	3,071,095	0.1%	3,266,430	0.2%	3,520,603	0.2%
61-Food Service Fund	46,841,144	2.3%	47,821,972	2.2%	47,040,254	2.2%	46,897,045	2.2%	47,476,295	2.2%
71-Field Trip Fund	2,199,661	0.1%	2,314,716	0.1%	2,354,716	0.1%	2,122,819	0.1%	2,026,046	0.1%
81-Entrepreneurial Activities	1,561,075	0.1%	1,774,100	0.1%	2,164,100	0.1%	2,822,448	0.1%	3,006,936	0.1%
Subtotal: Special/Ent Funds	54,733,813	2.6%	56,143,393	2.6%	56,120,675	2.7%	56,533,742	2.7%	57,524,941	2.7%
Grand Total	2,066,683,294	100.0%	2,200,577,000	100.0%	2,104,188,040	100.0%	2,086,786,613	100.0%	2,132,839,512	100.0%

FY10 total w/o DS is 2,121,039,678

REQUESTED POSITIONS BY STATE CATEGORY

Table 3 on the next page shows the positions for each State category and their respective shares of all positions in the budget from the approved FY09 level through the FY13 request. Highlights include:

- The overall distribution of positions has not changed very much since FY09. The 5 categories in the Instruction subgroup contain 78 percent of all positions in the FY13 request; in FY09 they contained 77.5 percent. The School and Student Services subgroup has stayed essentially level at 17.5 percent.
- Of the eight major categories that have positions (not including enterprise funds),
 - Three categories increased positions from FY09-13: Category 2, Mid-level Administration; Category 6, Special Education; Category 10, Operation of Plant and Equipment; and
 - Five categories decreased positions: Category 1, Administration; Category 3, Instructional Salaries; Category 7, Student Personnel Services; Category 9, Student Transportation; and Category 11, Maintenance of Plant.
- Positions in Category 3, Instructional Salaries, comprise 52.0 percent of all positions in the budget. This share of the total has remained fairly constant in this time period.
- In total, the FY13 request is an increase of 232 FTE over the FY12 approved and an increase of 72.3 FTE over the FY09 approved level. The school system and its advocates have often cited a larger three-year reduction of 1300 positions. However, this figure appears to include anticipated position increases as well as base adjustments and reallocations, and does not reflect actual year to year budget changes.

Table 3: Positions by State Budget Category

Instruction	Category	FY09 Approved	FY09 %of total	FY10 Approved	FY10 %of total	FY11 Approved	FY11 %of total	FY12 Approved	FY12 %of total	FY13 Requested	FY13 %of total
	2-Mid-Level Administration	1,667.675	8.0%	1,661.375	7.9%	1,682.875	8.1%	1,669.325	8.1%	1,670.775	8.0%
	3-Instructional Salaries	10,959.740	52.8%	11,064.365	52.8%	10,804.200	52.1%	10,684.088	51.8%	10,842.413	52.0%
	4-Textbooks and Instr Supplies	0.000	0.0%	0.000	0.0%	0.000	0.0%	0.000	0.0%	0.000	0.0%
	5-Other Instr Costs	0.000	0.0%	0.000	0.0%	0.000	0.0%	0.000	0.0%	0.000	0.0%
	6-Special Education	3,470.699	16.7%	3,612.989	17.2%	3,661.255	17.6%	3,661.735	17.8%	3,733.703	17.9%
	Subtotal: Instruction	16,098.114	77.5%	16,338.729	78.0%	16,148.330	77.8%	16,015.148	77.7%	16,246.891	78.0%
	School and Student Services										
	7-Student Personnel Services	118.300	0.6%	110.900	0.5%	110.305	0.5%	108.705	0.5%	106.505	0.5%
	8-Health Services	0.000	0.0%	0.000	0.0%	0.000	0.0%	0.000	0.0%	0.000	0.0%
	9-Student Transportation	1,744.750	8.4%	1,742.250	8.3%	1,742.250	8.4%	1,733.150	8.4%	1,733.150	8.3%
	10-Operation of Plant and Equip	1,403.200	6.8%	1,398.200	6.7%	1,406.700	6.8%	1,429.700	6.9%	1,431.200	6.9%
	11-Maintenance of Plant	396.000	1.9%	388.000	1.9%	380.000	1.8%	380.000	1.8%	380.000	1.8%
	Subtotal: Sch and St Services	3,662.250	17.6%	3,639.350	17.4%	3,639.255	17.5%	3,651.555	17.7%	3,650.855	17.5%
	Other										
	12-Fixed Charges	0.000	0.0%	0.000	0.0%	0.000	0.0%	0.000	0.0%	0.000	0.0%
	1-Administration	371.962	1.8%	356.062	1.7%	338.650	1.6%	327.050	1.6%	325.050	1.6%
	14-Community Services	0.000	0.0%	0.000	0.0%	0.000	0.0%	0.000	0.0%	0.000	0.0%
	Subtotal: Other	371.962	1.8%	356.062	1.7%	338.650	1.6%	327.050	1.6%	325.050	1.6%
	37-Special Revenue Fund	14.000	0.1%	14.000	0.1%	14.000	0.1%	12.500	0.1%	12.500	0.1%
	41-Adult Education Fund	0.000	0.0%	0.000	0.0%	0.000	0.0%	0.000	0.0%	0.000	0.0%
	51-Real Estate Fund	6.500	0.0%	6.500	0.0%	6.500	0.0%	6.500	0.0%	7.000	0.0%
	61-Food Service Fund	604.660	2.9%	583.448	2.8%	583.448	2.8%	583.448	2.8%	582.948	2.8%
	71-Field Trip Fund	4.000	0.0%	4.500	0.0%	4.500	0.0%	4.500	0.0%	4.500	0.0%
	81-Entrepreneurial Activities	8.000	0.0%	10.000	0.0%	9.000	0.0%	9.000	0.0%	12.000	0.1%
	Subtotal: Special/Ent Funds	637.160	3.1%	618.448	3.0%	617.448	3.0%	615.948	3.0%	618.948	3.0%
Grand Total		20,769.486	100.0%	20,952.589	100.0%	20,743.683	100.0%	20,609.701	100.0%	20,841.744	100.0%



MONTGOMERY COUNTY BOARD OF EDUCATION

850 Hungerford Drive ♦ Rockville, Maryland 20850

February 28, 2012

The Honorable Isiah Leggett, County Executive
The Honorable Roger Berliner, President
Members of the Montgomery County Council
Montgomery County Government
Rockville, Maryland 20850

Dear Mr. Leggett, Mr. Berliner and Councilmembers,

I am pleased to submit the Montgomery County Board of Education's Fiscal Year 2013 (FY 2013) Operating Budget Request for Montgomery County Public Schools (MCPS). The Board is submitting a request that holds the line steady on education funding while accounting for our continued rapid enrollment growth. This budget represents a measured approach to allocating educational resources as we work to be responsible, prudent stewards of taxpayer funds. We appreciate the public support members of the Council have already given to the Board's request and look forward to working with you in the coming months as you develop a budget for the citizens of Montgomery County.

The Board of Education is requesting a \$2.133 billion budget for FY 2013. This represents a 2 percent increase over this fiscal year, which is the smallest percentage increase the Board has sought in more than a decade. The Board is seeking \$1.39 billion in local funds from the county, a \$22.2 million increase. This increase will allow the county to maintain its per-pupil investment at \$9,759 per student and meet the state's Maintenance of Effort (MOE) provision.

As you are aware, the county has not met MOE in three years and, in that time, the county's per-pupil funding has fallen by \$1,490 per child. This has required the Board and MCPS leadership to make more than \$400 million in difficult reductions since FY 2009. Among the reductions:

- Class sizes have increased an average of approximately one student per classroom.
- Employees have agreed to forego cost-of-living increases for three consecutive years and step increases for the past two years, saving \$144 million.
- More than 1,300 positions have been eliminated districtwide, mainly teachers and staff who directly support instruction.
- Our central services budget has been reduced by more than 20 percent.

These reductions would be difficult under any circumstances, but they have occurred as the student enrollment in MCPS has been undergoing historic growth and dramatic changes.

Since 2007, MCPS has added approximately 9,000 students and the district is projected to add another 9,000 students by 2017, with much of this growth occurring in the elementary grades. These students are coming to MCPS requiring more services, such as Free and Reduced-price Meals System (FARMS) and English for Speakers of Other Languages (ESOL) services. For instance, approximately 13.1 percent of our students require ESOL services systemwide, but in the elementary schools, that rate jumps to 22.5 percent and has increased more than 6 percentage points in 5 years. At the same time, since 2007, the number of students eligible for FARMS services has increased by 11,785 children systemwide. Our budget request simply seeks to allow us to keep pace with this growth.

The Board is placing \$17 million of its budget surplus—achieved through cost efficiencies and expenditure restrictions—toward the FY 2013 Operating Budget. The Board’s budget request also includes some additional reductions: a \$6.1 million reduction for Central Services, including the elimination of nearly 18 positions, as well as \$3.2 million in reductions for school-based support and services. However, the Board’s request does not call for any reduction in the number of teachers or other school-based staff.

There also are no new initiatives or programs in our request, although we have worked with Superintendent of Schools Joshua P. Starr to realign funds in the budget to support strategic needs. Among those strategic areas are funds to support two middle schools that must develop alternative governance plans under the provisions of the No Child Left Behind Act of 2001 (\$797,644); the addition of three prekindergarten classes to serve low-income students (\$221,021); the addition of three consulting teacher positions to support new and underperforming educators (\$221,532); and the expansion of the hours-based staffing model for special education to all middle schools (\$773,000, including \$603,000 in additional state aid).

To support these strategic areas, funds will be realigned from areas across the budget. Among the realignments, a reduction of more than \$600,000 in stipends for part-time summer salaries, part-time instructional salaries and substitutes, and savings of \$230,000 realized by ceasing the administration of the TerraNova 2 exam in second grade.

The Board’s request also has put money aside to honor the hard work and excellence of the MCPS staff. As mentioned previously, our employees have given up their raises for the past three years and longevity increases for the past two years to help us through these difficult economic times. Even as we have had to ask them to do “more with less,” they have helped our students achieve outstanding results. For example:

- Half of MCPS graduates from the Class of 2011 earned a 3 or higher on at least one Advanced Placement (AP) exam, far exceeding the performance of the state and the nation. The most significant growth was seen among Black or African American and Hispanic/Latino students.
- The Class of 2011 scored an average of 1637 on the SAT, which is 145 points higher than graduates from the state of Maryland and 137 points higher than the nation’s seniors.
- Ninety-two (92) percent of MCPS kindergarten students are reading at grade level (text level 4) and more than seventy-five (75) percent are reading well above grade level (text level 6). Since 2006, the percentage of students reading at text level 6 or higher has increased 20 percentage points.

Negotiations with our employee associations are ongoing at this point, but the Board believes that we must recognize the collaboration and outstanding performance of our staff in a tangible way.

Of course, there continues to be tremendous uncertainty surrounding the budget, specifically in the area of state funding. While Governor Martin O’Malley has submitted a budget that includes a \$28.5 million increase in state education formula funding for Montgomery County, two items before the General Assembly could have a dramatic impact on our budget.

Because the County Council did not meet MOE in FY 2012, and did not seek a state waiver, the state can withhold \$26.2 million in funding as a penalty. Our state delegation is working on legislation to get that penalty waived and we appreciate and support their efforts. Our budget assumes that this waiver will be granted or the county will find a way to fund this penalty.

The greatest uncertainty surrounding our budget is related to Governor O'Malley's proposal to shift a significant portion of state pension costs to local governments. Under the governor's proposal, Montgomery County would have to pay an additional \$47.4 million in retirement costs in FY 2013 and those costs would only increase in the coming years. We join the county executive and councilmembers in urging the General Assembly to reject this proposal, as it could have an immediate, negative impact on the important services we provide our citizens. We will continue to work with you and our state delegation to make sure the state pension remains a state responsibility.

Developing the Budget

This budget request was developed collaboratively with our employees, our parents, our students, and our entire community.

The process began in the fall when we shared our budget interests with Dr. Starr. It was an opportunity for Dr. Starr, then very early in his tenure at MCPS, to have a clear understanding of the Board's priorities regarding the budget. In October, the Board held two Community Conversations, which are annual events that are an integral part of our budget and strategic planning processes. These events allowed community members to engage in discussions pertaining to what they valued about MCPS and what they felt was most important to achieve as we continue with our vision to provide a world-class education to all students, even in financially challenging times.

In December 2011, Dr. Starr released his FY 2013 Budget Recommendation, which was developed in partnership with our three employee associations—the Montgomery County Education Association, the Montgomery County Association of Administrators and Principals, and the Service Employees International Union Local 500—as well as the Montgomery County Council of Parent Teacher Associations, Inc.

The Board held public hearings on Dr. Starr's recommendation on January 11 and 18, 2012, and then held two work sessions on the budget. Board members spent hours analyzing the budget and posing questions to staff, which informed the Board's ultimate modification of Dr. Starr's proposal. The Board passed a final budget recommendation at its business meeting on February 14, 2012.

Montgomery County has always made public education a top priority, and I believe that our employees have honored that investment by creating one of the best school districts in the nation. On behalf of the 146,500 students and 22,000 employees of MCPS, the Board wants to thank you for your continued commitment to our children and our citizens.

Sincerely,

A handwritten signature in black ink, appearing to read "Shirley Brandman". The signature is fluid and cursive, with the first name being more prominent.

Shirley Brandman, President
Montgomery County Board of Education

**SCHEDULE OF BOARD OF EDUCATION AMENDMENTS TO THE
SUPERINTENDENT'S RECOMMENDED FY 2013 OPERATING BUDGET**

DESCRIPTION	Board Amendments	
	Pos.	Amount
CATEGORY 1 - ADMINISTRATION		
Office of Human Resources and Development - Reduce Part-time Salaries		(30,000)
Office of Shared Accountability - Staff Engagement Survey		300,000
Total Category 1		270,000
CATEGORY 2 - MID-LEVEL ADMINISTRATION		
K-12 Instruction: Reduce Part-time Salaries		(50,000)
Office of Human Resources and Development: Reduce Part-time Salaries		(24,643)
Total Category 2		(74,643)
CATEGORY 3 - INSTRUCTIONAL SALARIES		
K-12 Instruction:		
Reduce Substitutes, Stipends, Summer Employment		(267,481)
Administer Alternative Governance Plan - Forest Oak and Neelesville Middle Schools	4.800	491,630
Add Montgomery Village Middle Years IB Programme	0.800	57,646
Office of Curriculum and Instructional Programs:		
Add Three Additional Prekindergarten Classes	2.925	134,539
Reduce Part-time Salaries		(175,357)
Office of Human Resources and Development:		
Add Consulting Teachers	3.000	174,825
Cut Resources for Teacher Mentoring Previously Shifted to Title II Grant		(165,200)
Reduce Various Part-time Salaries/Other		(143,873)
Add Placeholder for Completion of Negotiations with Employee Associations		4,029,351
Total Category 3	11.525	4,136,080

**SCHEDULE OF BOARD OF EDUCATION AMENDMENTS TO THE
SUPERINTENDENT'S RECOMMENDED FY 2013 OPERATING BUDGET**

DESCRIPTION	Board Amendments	
	Pos.	Amount
CATEGORY 4 - TEXTBOOKS AND INSTRUCTIONAL SUPPLIES		
K-12 Instruction:		
Eliminate TerraNova 2 Assessment		(230,000)
Administer Alternative Governance Plan - Forest Oak and Neelesville Middle Schools		5,000
Add Montgomery Village Middle Years IB Programme		5,000
Office of Curriculum and Instructional Programs:		
Add Three Additional Prekindergarten Classes		6,396
Office of Human Resources and Development: Other		2,500
Total Category 4		(211,104)
CATEGORY 5 - OTHER INSTRUCTIONAL COSTS		
K-12 Instruction:		
Reduce Various Accounts		(21,973)
Administer Alternative Governance Plan - Forest Oak and Neelesville Middle Schools		42,194
Add Montgomery Village Middle Years IB Programme		42,194
Office of Curriculum and Instructional Programs:		
Add Three Additional Prekindergarten Classes		732
Total Category 5		63,147
CATEGORY 6 - SPECIAL EDUCATION		
Office of Special Education and Student Services:		
Reduce Rate by 1 Percent for Tuition for Students in Nonpublic Placements		(366,444)
Add Hours-based Staffing at Five Remaining Middle Schools	11.088	442,800
Total Category 6	11.088	76,356

**SCHEDULE OF BOARD OF EDUCATION AMENDMENTS TO THE
SUPERINTENDENT'S RECOMMENDED FY 2013 OPERATING BUDGET**

DESCRIPTION	Board Amendments	
	Pos.	Amount
CATEGORY 7- STUDENT PERSONNEL SERVICES		
Office of Curriculum and Instructional Programs: Add Three Additional Prekindergarten Classes	0.400	24,024
Total Category 7	0.400	24,024
CATEGORY 9 - STUDENT TRANSPORTATION		
K-12 Instruction: Administer Alternative Governance Plan - Forest Oak and Neelesville Middle Schools		20,000
Office of Curriculum and Instructional Programs: Add Three Additional Prekindergarten Classes		635
Total Category 9		20,635
CATEGORY 12 - FIXED CHARGES		
K-12 Instruction: Reduce Substitues, Stipends, Summer Employment, Part-time Salaries		(25,401)
Administer Alternative Governance Plan - Forest Oak and Neelesville Middle Schools		122,101
Add Montgomery Village Middle Years IB Programme		11,879
Office of Curriculum and Instructional Programs: Reduce Part-time Salaries		(16,000)
Add Three Additional Prekindergarten Classes		54,695
Office of Human Resources and Development: Reduce Part-time Salaries		(13,109)
Cut Resources for Teacher Mentoring Previously Shifted to Title II Grant		(13,216)
Add Consulting Teachers		46,707

**SCHEDULE OF BOARD OF EDUCATION AMENDMENTS TO THE
SUPERINTENDENT'S RECOMMENDED FY 2013 OPERATING BUDGET**

DESCRIPTION	Board Amendments	
	Pos.	Amount
Office of Special Education and Student Services: Add Hours-based Staffing at Five Remaining Middle Schools		160,403
Total Category 12		328,059
GRAND TOTAL	23.013	\$ 4,632,554

TABLE 1
SUMMARY OF RESOURCES
BY OBJECT OF EXPENDITURE

OBJECT OF EXPENDITURE	FY 2011 ACTUAL	FY 2012 BUDGET	FY 2012 CURRENT	FY 2013 BUDGET	FY 2013 CHANGE
POSITIONS					
Administrative	702,200	700,000	701,000	700,000	(1,000)
Business/Operations Admin.	94,000	92,000	92,000	92,000	
Professional	11,733,280	11,744,730	11,744,730	11,921,080	176,350
Supporting Services	8,221,203	8,072,971	8,074,496	8,128,664	54,168
TOTAL POSITIONS	20,750,683	20,609,701	20,612,226	20,841,744	229,518
01 SALARIES & WAGES					
Administrative	\$88,238,002	\$87,674,924	\$87,674,924	\$88,380,966	\$706,042
Business/Operations Admin.	8,375,018	8,577,422	8,577,422	8,615,058	37,636
Professional	899,328,085	903,017,082	903,017,082	924,765,316	21,748,234
Supporting Services	334,097,344	330,820,646	330,820,646	337,605,620	6,784,974
TOTAL POSITION DOLLARS	1,330,038,449	1,330,090,074	1,330,090,074	1,359,366,960	29,276,886
OTHER SALARIES					
Administrative	166,102	697,576	697,576	382,576	(315,000)
Professional	51,247,377	52,299,616	52,260,186	50,929,084	(1,331,102)
Supporting Services	20,777,252	20,762,259	20,801,689	20,709,678	(92,011)
TOTAL OTHER SALARIES	72,190,731	73,759,451	73,759,451	72,021,338	(1,738,113)
TOTAL SALARIES AND WAGES	1,402,229,180	1,403,849,525	1,403,849,525	1,431,388,298	27,538,773
02 CONTRACTUAL SERVICES	21,909,379	25,357,144	25,357,144	24,945,799	(411,345)
03 SUPPLIES & MATERIALS	61,970,333	63,414,356	63,414,356	66,011,937	2,597,581
04 OTHER					
Local/Other Travel	2,217,026	2,759,089	2,684,089	2,680,956	(3,133)
Insur & Employee Benefits	471,557,023	482,976,625	482,926,625	501,412,121	18,485,496
Utilities	43,062,052	44,964,178	44,964,178	41,396,374	(3,567,804)
Miscellaneous	49,547,121	49,566,827	49,616,827	51,288,247	1,671,420
TOTAL OTHER	566,383,222	580,266,719	580,191,719	596,777,698	16,585,979
05 EQUIPMENT	14,451,821	13,898,869	13,973,869	13,715,780	(258,089)
GRAND TOTAL AMOUNTS	\$2,066,943,935	\$2,086,786,613	\$2,086,786,613	\$2,132,839,512	\$46,052,899



TABLE 1A
 FY 2013 OPERATING BUDGET - SUMMARY OF BUDGET CHANGES FY 2012 - FY 2013
 (\$ in millions)

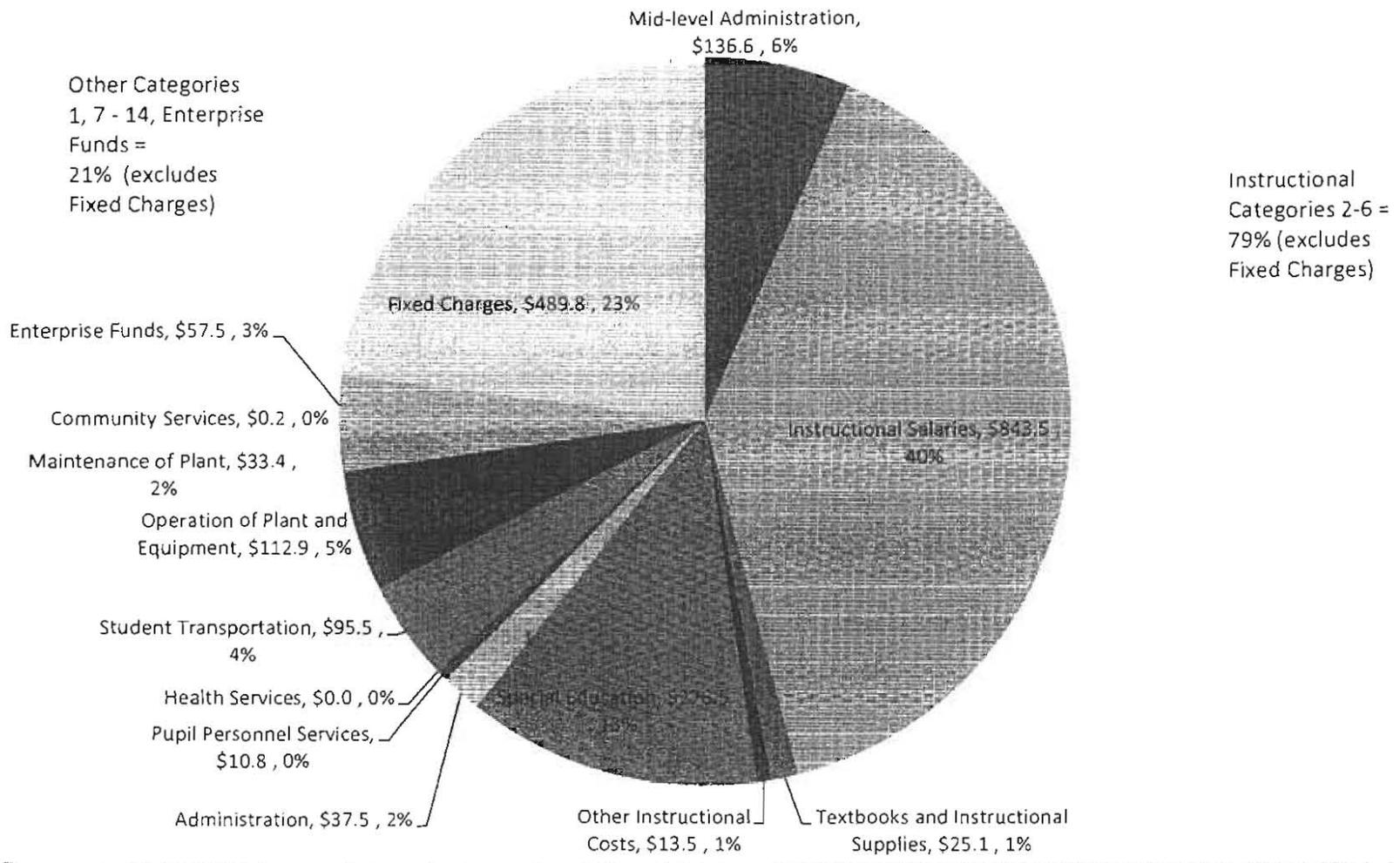
ITEM	AMOUNT
FY 2012 OPERATING BUDGET	\$2,086.8
ENROLLMENT CHANGES	
Elementary/Secondary	9.1
Special Education	3.9
ESOL/Prekindergarten	1.1
Transportation	0.4
Subtotal	\$14.5
NEW SCHOOLS/SPACE	\$1.8
EMPLOYEE SALARIES - CONTINUING SALARIES COSTS FOR CURRENT EMPLOYEES (including benefits)	\$8.6
EMPLOYEE BENEFITS AND INSURANCE	
Employee Benefits Plan (active)	12.1
Employee Benefits Plan (retired)	1.2
Retirement	2.5
FICA/Self-Insurance/Workers' Compensation	(0.7)
Subtotal	\$15.1
INFLATION AND OTHER	
School Restructuring/Programs	0.8
Textbooks, Instructional and Media Materials	0.8
Utilities	(3.7)
Special Education Including Non-public Tuition	1.4
Transportation	2.3
Maintenance	0.2
Facilities Management	0.4
Grant Revenue Reductions	(0.2)
Other, Including Amount for Negotiated Costs	13.2
Subtotal	\$15.2

ITEM	AMOUNT
EFFICIENCIES & REDUCTIONS	
Central Services:	
K-12 and Office of School Performance	(0.7)
Office of the Deputy Superintendent of Schools	(0.1)
Office of Shared Accountability	(0.2)
Office of Curriculum and Instructional Programs	(0.5)
Office of Special Education and Student Services	(0.7)
Office of the Chief Operating Officer	(1.0)
Office of the Chief Technology Officer	(1.4)
Office of Human Resources and Development	(1.6)
Office of the Superintendent of Schools	(0.1)
Subtotal	(\$6.3)
School-based/Support Operations:	
Elementary Schools	(0.9)
Middle Schools	(0.2)
High Schools	(0.2)
Office of School Performance	(0.4)
Office of Curriculum and Instructional Programs	(0.3)
Office of Special Education and Student Services	(0.1)
Office of the Chief Operating Officer	(0.8)
Subtotal	(2.9)
Total Efficiencies & Reductions	(9.2)
FY 2013 BUDGET	\$2,132.8
FY 2012/FY 2013 CHANGE	\$46.0
Less Enterprise funds	(57.5)
Less Grants	(73.7)
SPENDING AFFORDABILITY BUDGET	\$2,001.6
REVENUE INCREASE BY SOURCE	
Local	22.2
State	28.5
Federal	(5.6)
Other	0.0
Enterprise	0.9
TOTAL REVENUE INCREASE	\$46.0

1-2

2

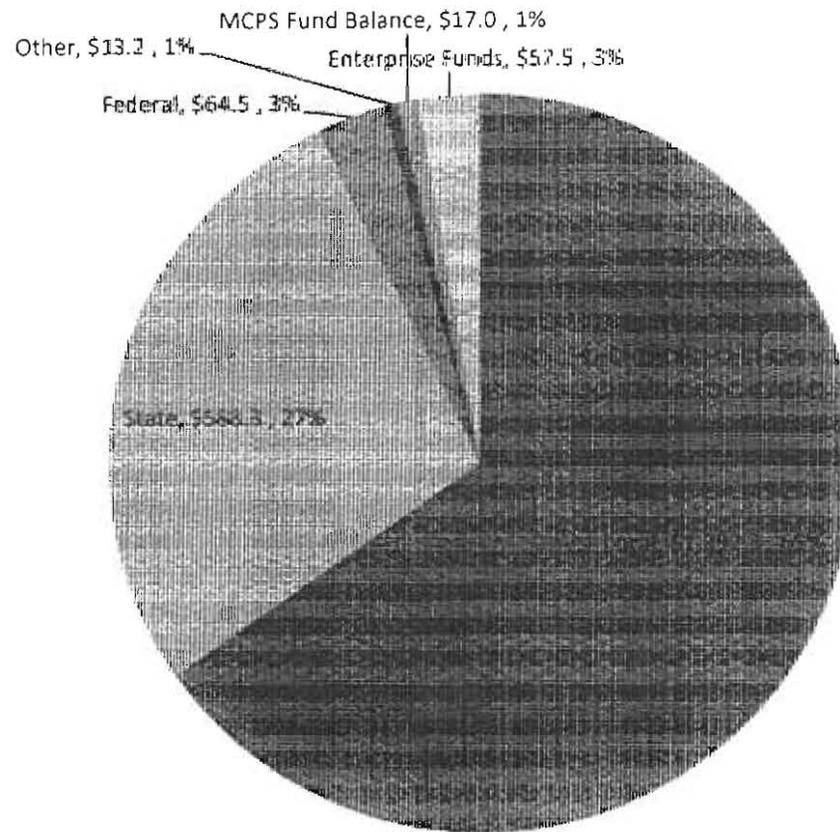
**FY 2013 OPERATING BUDGET
 WHERE THE MONEY GOES BY STATE CATEGORY
 (Dollars in Millions)
 Total Expenditures = \$2,132,839,512)**



1-3

**FY 2013 OPERATING BUDGET
WHERE THE MONEY COMES FROM
(Dollars in Millions)**

Total Revenue = \$2,132,839,512



**TABLE 2
BUDGET REVENUE BY SOURCE**

SOURCE	FY 2011 ACTUAL	FY 2012 BUDGET	FY 2012 CURRENT	FY 2013 ESTIMATED
CURRENT FUND				
From the County:	\$ 1,415,085,344	\$1,370,101,480	\$1,370,101,480	\$1,392,286,148
From the State:				
Bridge to Excellence				
Foundation Grant	247,142,612	290,374,171	290,374,171	302,207,487
Geographic Cost of Education Index	9,406,192	31,954,820	31,954,820	32,796,296
Limited English Proficient	43,826,987	49,786,885	49,786,885	55,107,686
Compensatory Education	94,275,493	106,595,114	106,595,114	115,208,321
Students with Disabilities - Formula	33,485,077	34,323,294	34,323,294	34,967,952
Students with Disabilities - Reimbursement	10,474,795	10,842,176	10,842,176	11,543,388
Transportation	31,619,007	35,210,643	35,210,643	36,100,856
Miscellaneous	716,526	750,000	750,000	400,000
Programs financed through State Grants	2,095,585			
Total from the State	473,042,274	559,837,103	559,837,103	588,331,986
From the Federal Government:				
Impact Aid	390,089	245,000	245,000	300,000
Emergency Reimbursements	1,116,294			
Programs financed through Federal Grants	137,114,090	69,895,226	69,895,226	64,222,375
Total from the Federal Government	138,620,473	70,140,226	70,140,226	64,522,375
From Other Sources:				
Tuition and Fees				
D.C. Welfare	256,335	270,000	270,000	270,000
Nonresident Pupils	739,544	750,000	750,000	750,000
Summer School	1,532,898	1,281,148	1,281,148	1,281,148
Outdoor Education	438,378	574,560	574,560	574,560
Student Activities Fee	715,944	690,000	690,000	690,000
Miscellaneous	521,236	160,000	160,000	160,000
Programs financed through Private Grants	1,345,672	9,448,354	9,448,354	9,448,354
Total from Other Sources	5,550,007	13,174,062	13,174,062	13,174,062
Fund Balance	10,300,000	17,000,000	17,000,000	17,000,000
Total Current Fund	2,042,598,098	2,030,252,871	2,030,252,871	2,075,314,571
ENTERPRISE & SPECIAL FUNDS				
School Food Service Fund:				
State	971,937	1,024,608	1,024,608	1,018,607
National School Lunch, Special Milk and Free Lunch Programs	25,450,177	21,424,368	21,424,368	23,683,878
Child Care Food Program	225,290	900,000	900,000	1,000,000
Sale of Meals and other	19,563,999	23,548,069	23,548,069	21,773,810
Total School Food Service Fund	46,211,403	46,897,045	46,897,045	47,476,295
Real Estate Management Fund:				
Rental fees	2,812,240	3,266,430	3,266,430	3,520,603
Total Real Estate Management Fund	2,812,240	3,266,430	3,266,430	3,520,603
Field Trip Fund:				
Fees	1,671,121	2,122,819	2,122,819	2,026,046
Total Field Trip Fund	1,671,121	2,122,819	2,122,819	2,026,046

**TABLE 2
BUDGET REVENUE BY SOURCE**

SOURCE	FY 2011 ACTUAL	FY 2012 BUDGET	FY 2012 CURRENT	FY 2013 ESTIMATED
Entrepreneurial Activities Fund:				
Fees	3,633,389	2,822,448	2,822,448	3,006,936
Total Entrepreneurial Activities Fund	3,633,389	2,822,448	2,822,448	3,006,936
Total Enterprise Funds	54,328,153	55,108,742	55,108,742	56,029,880
Instructional Television Special Revenue Fund:				
Cable Television Plan	1,490,510	1,425,000	1,425,000	1,495,061
Total Instructional Special Revenue Fund	1,490,510	1,425,000	1,425,000	1,495,061
GRAND TOTAL	\$2,098,416,761	\$2,086,786,613	\$2,086,786,613	\$2,132,839,512

Tax - Supported Budget	FY 2011 ACTUAL	FY 2012 ESTIMATED	FY 2012 ESTIMATED	FY 2012 ESTIMATED
Grand Total	\$2,098,416,761	\$2,086,786,613	\$2,086,786,613	\$2,132,839,512
Less:				
Grants	(140,555,347)	(79,343,580)	(79,343,580)	(73,670,729)
Enterprise Funds	(54,328,153)	(55,108,742)	(55,108,742)	(56,029,880)
Special Revenue Fund	(1,490,510)	(1,425,000)	(1,425,000)	(1,495,061)
Grand Total - Tax-Supported Budget	\$1,902,042,751	\$1,950,909,291	\$1,950,909,291	\$2,001,643,842

The Adult Education Fund was created July 1, 1991, but was discontinued effective July 1, 2006, because the program was transferred to Montgomery College and the Montgomery County Department of Recreation. The Real Estate Management Fund was created July 1, 1992. The Field Trip Fund was created effective July 1, 1993. The Entrepreneurial Activities Fund was created effective July 1, 1998. The Instructional Television Special Revenue Fund was created July 1, 2000.

**TABLE 3
REVENUE SUMMARY FOR GRANT PROGRAMS BY SOURCE OF FUNDS**

Program Name and Source of Funding	FY 2011 ACTUAL	FY 2012 BUDGET	FY 2012 CURRENT	FY 2013 ESTIMATED
<u>Budgeted</u>				
FEDERAL AID: NO CHILD LEFT BEHIND (NCLB)				
Title I - A (941/949)	\$ 17,678,569	\$ 18,040,997	\$ 18,040,997	\$ 17,414,740
Title I - A (ARRA) (941/949)	5,916,630			
Subtotal	23,595,199	18,040,997	18,040,997	17,414,740
Title I - D				
Neglected and Delinquent Youth (937)	162,840	191,957	191,957	137,644
Total Title I	23,758,039	18,232,954	18,232,954	17,552,384
Title II - A				
Skillful Teaching and Leading Program (915)	324,472	604,923	604,923	426,723
Teacher Mentoring				178,200
Consulting Teachers (961)	3,319,350	3,448,908	3,448,908	3,134,958
Staff Development Team (960)	561,384	361,009	361,009	-
Subtotal	4,205,206	4,414,840	4,414,840	3,739,881
Title II - D				
Enhancing Education through Technology (918)	2,927	-	-	-
Total Title II	4,208,133	4,414,840	4,414,840	3,739,881
Title III				
Limited English Proficiency (927)	3,310,068	3,388,305	3,388,305	3,609,452
Title IV				
Safe & Drug Free Schools & Communities Act (926)	74,466	-	-	-
Title VII				
American Indian Education (903)	25,760	29,028	29,028	29,028
SUBTOTAL	31,376,466	26,065,127	26,065,127	24,930,745
OTHER FEDERAL, STATE, AND LOCAL AID				
State Fiscal Stabilization Fund (SFSF) (901)				
Federal (ARRA)	29,261,214	-	-	-
Head Start Child Development (932)				
Federal	3,433,406	3,433,406	3,433,406	3,433,406
Individuals with Disabilities Education (907/913/963/964/965/966/967)				
Federal	29,073,005	29,160,564	29,160,564	29,425,299
Federal (ARRA)	15,426,098	-	-	-
Subtotal	44,499,103	29,160,564	29,160,564	29,425,299
Infants and Toddlers (930)				
Federal	972,115	974,844	974,844	974,844
Education Jobs Fund (935)				
Federal	17,510,621	4,377,655	4,377,655	-
Medical Assistance Program (939)				
Federal	4,374,100	4,313,912	4,313,912	4,061,262
National Institutes of Health (NIH) (908)				
Federal	-	254,733	254,733	254,733
Provision for Future Supported Projects (999)				
Other	7,786,219	9,448,354	9,448,354	9,448,354

**TABLE 3
REVENUE SUMMARY FOR GRANT PROGRAMS BY SOURCE OF FUNDS**

Program Name and Source of Funding	FY 2011 ACTUAL	FY 2012 BUDGET	FY 2012 CURRENT	FY 2013 ESTIMATED
Carl D. Perkins Career & Technical Ed. Improvement (951)				
Federal	1,342,103	1,314,985	1,314,985	1,142,086
County	185,203	247,114	247,114	218,269
Subtotal	1,527,306	1,562,099	1,562,099	1,360,355
SUBTOTAL	109,364,084	53,525,567	53,525,567	48,958,253
TOTAL	\$ 140,740,550	\$ 79,590,694	\$ 79,590,694	\$ 73,888,998

Summary of Funding Sources				
Federal	\$ 132,769,128	\$ 69,895,226	\$ 69,895,226	\$ 64,222,375
State				
County	185,203	247,114	247,114	218,269
Other	7,786,219	9,448,354	9,448,354	9,448,354
GRAND TOTAL	\$ 140,740,550	\$ 79,590,694	\$ 79,590,694	\$ 73,888,998

FOR INFORMATION ONLY				
Non-Budgeted Grants Received as of November 30, 2011 - Continuation is Dependent on Future Funding				
Perkins - Career and Technology Education			\$ 38,816	
Title I Part A			31,637	
IDEA - Adequate Yearly Progress (AYP)			87,761	
Medical Assistance			123,788	
Title II - Enhancing Education Through Technology			15,001	
IDEA - Part B			264,735	
Team Nutrition Refresh			9,998	
Least Restrictive Environment (LRE)			59,968	
Education Cluster Model (thru DHHS)			175,750	
Alternative Maryland State Assessment			30,090	
Homeless Children and Youth			83,000	
Infants and Toddlers (ARRA)			134,900	
SUBTOTAL FEDERAL FUNDING			1,055,444	
Educator Effectiveness Academy			232,465	
Maryland Model for School Readiness (MMSR) Program			95,078	
Judith Hoyer Childcare & Education (Judy Centers)			524,988	
Project Lead the Way - Biomedical Sciences			19,999	
SUBTOTAL STATE FUNDING			872,530	
Defined Contribution Plan			25,000	
National Institute of Standards and Technology Project			30,000	
Healthy Eating and Lifestyles Youth Initiative			30,000	
AAAS - Earth Science			2,500	
SUBTOTAL OTHER			87,500	
TOTAL			\$ 2,015,474	

**TABLE 4
SUMMARY OF STUDENT ENROLLMENT - FY 2010 THROUGH FY 2013**

DESCRIPTION	(1) FY 2010 ACTUAL 9/30/2009	(2) FY 2011 ACTUAL 9/30/2010	(3) FY 2012 ACTUAL 10/30/2011	(4) FY 2012 BUDGET 10/30/2010	(5) FY 2013 BUDGET 10/30/2011	CHANGE COLUMN (5) LESS COLUMN (4)	
						#	%
ENROLLMENT							
PRE-KINDERGARTEN	1,973	1,965	2,060	2,085	2,145	60	2.9
HEAD START	618	618	618	618	618		
KINDERGARTEN	10,605	10,917	11,380	11,075	11,425	350	3.2
GRADES 1-5 / 6 *	51,399	53,281	54,994	54,802	56,717	1,915	3.5
SUBTOTAL ELEMENTARY	64,595	66,781	69,052	68,580	70,905	2,325	3.4
GRADES 6-8 **	30,890	30,754	30,972	31,097	31,145	48	0.2
SUBTOTAL MIDDLE	30,890	30,754	30,972	31,097	31,145	48	0.2
GRADES 9-12	44,580	44,807	44,764	44,894	44,830	(64)	(0.1)
SUBTOTAL HIGH	44,580	44,807	44,764	44,894	44,830	(64)	(0.1)
SUBTOTAL PRE-K - GRADE 12	140,065	142,342	144,788	144,571	146,880	2,309	1.6
SPECIAL EDUCATION							
PRE-KINDERGARTEN	825	929	951	1,250	1,250		
SPECIAL CENTERS	514	463	444	463	503	40	8.6
SUBTOTAL SPECIAL EDUCATION	1,339	1,392	1,395	1,713	1,753	40	2.3
ALTERNATIVE PROGRAMS	219	213	185	225	225		
GATEWAY TO COLLEGE	154	117	129	200	160	(40)	(20.0)
GRAND TOTAL	141,777	144,064	146,497	146,709	149,018	2,309	1.6

SOURCE: Projected enrollment by the Division of Long-range Planning

NOTE: Grade enrollments for FY 2010 - FY 2013 include special education students

* The Elementary enrollment figures include enrollment number for Chevy Chase and North Chevy Chase Grade 6.

** Excludes enrollment numbers for Chevy Chase and North Chevy Chase Grade 6 that are budgeted in the Elementary schools enrollment figures.

**TABLE 5
ALLOCATION OF STAFFING**

POSITIONS	CURRENT FY 2012	BUDGET FY 2013	CHANGE
Executive	17.000	18.000	1.000
Administrative	200.000	197.000	(3.000)
Business/Operations Administrator	92.000	92.000	-
Other Professional	186.900	182.400	(4.500)
Principal/Assistant Principal	484.000	485.000	1.000
Teacher	10,281.220	10,445.670	164.450
Special Education Specialist	482.400	495.200	12.800
Media Specialist	189.200	190.200	1.000
Counselor	451.300	453.300	2.000
Psychologist	94.805	94.905	0.100
Social Worker	13.905	14.405	0.500
Pupil Personnel Worker	45.000	45.000	-
Instructional Aide and Assistant	2,332.898	2,389.241	56.343
Secretarial/Clerical/Data Support	721.250	714.500	(6.750)
IT Systems Specialist	131.000	131.000	-
Security	227.000	226.000	(1.000)
Cafeteria	556.448	556.948	0.500
Building Services	1,335.200	1,342.700	7.500
Facilities Management/Maintenance	342.500	343.000	0.500
Supply/Property Management	51.000	47.000	(4.000)
Transportation	1,685.650	1,685.650	-
Other Support Personnel	691.550	692.625	1.075
TOTAL	20,612.226	20,841.744	229.518

State Budget Categories

State law requires all counties and Baltimore City to appropriate and record expenditures for education in accordance with standardized state budget categories. This is so the Maryland State Department of Education may collect and compare data on local education spending from across the state. These state budget categories are generally based on broad functional classifications such as administration, instructional costs, special education, and student transportation. Effective for FY 1998, the state required the use of two new categories—mid-level administration and textbooks and instructional supplies.

The following tables display actual, budgeted, and recommended funding by state budget category. Listed on the right are the current state budget categories.

CATEGORIES

- 1—Administration
- 2—Mid-Level Administration
- 3—Instructional Salaries
- 4—Textbooks and Instructional Supplies
- 5—Other Instructional Costs
- 6—Special Education
- 7—Student Personnel Services
- 8—Health Services
- 9—Student Transportation
- 10—Operation of Plant and Equipment
- 11—Maintenance of Plant
- 12—Fixed Charges
- 14—Community Services
- 37—MCPS Television Special Revenue Fund
- 51—Real Estate Fund
- 61—Food Services Fund
- 71—Field Trip Fund
- 81—Entrepreneurial Activities Fund

**Category 1
Administration
Summary of Resources
By Object of Expenditure**

OBJECT OF EXPENDITURE	FY 2011 ACTUAL	FY 2012 BUDGET	FY 2012 CURRENT	FY 2013 BUDGET	FY 2013 CHANGE
POSITIONS					
Administrative	71,000	70,000	70,000	70,000	
Business/Operations Admin.	21,000	20,000	20,000	20,000	
Professional	11,600	10,600	10,600	9,100	(1,500)
Supporting Services	235,050	226,450	227,450	225,950	(1,500)
TOTAL POSITIONS	338,650	327,050	328,050	325,050	(3,000)
01 SALARIES & WAGES					
Administrative	\$9,803,282	\$9,561,352	\$9,561,352	\$9,549,321	(\$12,031)
Business/Operations Admin.	1,984,653	1,975,350	1,975,350	2,013,185	37,835
Professional	1,182,939	1,097,132	1,097,132	960,839	(136,293)
Supporting Services	16,835,181	16,475,020	16,475,020	16,569,998	94,978
TOTAL POSITION DOLLARS	29,806,055	29,108,854	29,108,854	29,093,343	(15,511)
OTHER SALARIES					
Administrative					
Professional	253,979	697,259	693,739	583,319	(110,420)
Supporting Services	821,695	841,929	845,449	872,612	27,163
TOTAL OTHER SALARIES	1,075,674	1,539,188	1,539,188	1,455,931	(83,257)
TOTAL SALARIES AND WAGES	30,881,729	30,648,042	30,648,042	30,549,274	(98,768)
02 CONTRACTUAL SERVICES	5,083,824	5,584,488	5,511,087	5,143,035	(368,052)
03 SUPPLIES & MATERIALS	651,891	610,696	610,696	550,560	(60,136)
04 OTHER					
Local/Other Travel	221,438	255,587	255,587	243,286	(12,301)
Insur & Employee Benefits		50,000			
Utilities	17,205				
Miscellaneous	314,453	221,751	271,751	272,015	264
TOTAL OTHER	553,096	527,338	527,338	515,301	(12,037)
05 EQUIPMENT	1,017,527	995,638	995,638	721,727	(273,911)
GRAND TOTAL AMOUNTS	\$38,188,067	\$38,366,202	\$38,292,801	\$37,479,897	(\$812,904)

Category 2
Mid-Level Administration
Summary of Resources
By Object of Expenditure

OBJECT OF EXPENDITURE	FY 2011 ACTUAL	FY 2012 BUDGET	FY 2012 CURRENT	FY 2013 BUDGET	FY 2013 CHANGE
POSITIONS					
Administrative	564.000	562.000	563.000	564.000	1.000
Business/Operations Admin.	26.000	26.000	26.000	26.000	
Professional	83.900	87.100	87.100	87.100	
Supporting Services	1,008.975	994.225	994.225	993.675	(.550)
TOTAL POSITIONS	1,682.875	1,669.325	1,670.325	1,670.775	.450
01 SALARIES & WAGES					
Administrative	\$69,898,816	\$69,498,075	\$69,498,075	\$70,431,274	\$933,199
Business/Operations Admin.	2,252,621	2,297,930	2,297,930	2,295,253	(2,677)
Professional	9,276,032	9,634,738	9,634,738	9,194,352	(440,386)
Supporting Services	49,017,562	48,758,991	48,758,991	49,182,305	423,314
TOTAL POSITION DOLLARS	130,445,031	130,189,734	130,189,734	131,103,184	913,450
OTHER SALARIES					
Administrative	166,102	697,576	697,576	382,576	(315,000)
Professional	487,008	630,492	620,492	549,000	(71,492)
Supporting Services	1,841,650	1,786,893	1,796,893	1,757,604	(39,289)
TOTAL OTHER SALARIES	2,494,760	3,114,961	3,114,961	2,689,180	(425,781)
TOTAL SALARIES AND WAGES	132,939,791	133,304,695	133,304,695	133,792,364	487,669
02 CONTRACTUAL SERVICES	1,810,709	1,916,410	1,989,811	1,675,819	(313,992)
03 SUPPLIES & MATERIALS	642,398	479,874	479,874	465,010	(14,864)
04 OTHER					
Local/Other Travel	224,303	331,159	331,159	448,194	117,035
Insur & Employee Benefits					
Utilities					
Miscellaneous	179,135	184,321	184,321	184,321	
TOTAL OTHER	403,438	515,480	515,480	632,515	117,035
05 EQUIPMENT	22,919	28,919	28,919	28,919	
GRAND TOTAL AMOUNTS	\$135,819,255	\$136,245,378	\$136,318,779	\$136,594,627	\$275,848

Category 3
Instructional Salaries
Summary of Resources
By Object of Expenditure

OBJECT OF EXPENDITURE	FY 2011 ACTUAL	FY 2012 BUDGET	FY 2012 CURRENT	FY 2013 BUDGET	FY 2013 CHANGE
POSITIONS					
Administrative	6.000	6.000	6.000	6.000	
Business/Operations Admin.	3.000	3.000	3.000	3.000	
Professional	9,454,175	9,466,775	9,466,775	9,617,975	151,200
Supporting Services	1,342,025	1,208,313	1,208,313	1,215,438	7,125
TOTAL POSITIONS	10,805,200	10,684,088	10,684,088	10,842,413	158,325
01 SALARIES & WAGES					
Administrative	\$736,998	\$750,953	\$750,953	\$742,769	(\$8,184)
Business/Operations Admin.	298,031	289,893	289,893	301,455	11,562
Professional	721,322,598	721,897,092	721,897,092	744,125,993	22,228,901
Supporting Services	54,280,256	47,468,612	47,468,612	49,653,193	2,184,581
TOTAL POSITION DOLLARS	776,637,883	770,406,550	770,406,550	794,823,410	24,416,860
OTHER SALARIES					
Administrative					
Professional	44,038,999	44,054,731	44,028,821	43,386,143	(642,678)
Supporting Services	3,060,114	5,609,619	5,635,529	5,307,365	(328,164)
TOTAL OTHER SALARIES	47,099,113	49,664,350	49,664,350	48,693,508	(970,842)
TOTAL SALARIES AND WAGES	823,736,996	820,070,900	820,070,900	843,516,918	23,446,018
02 CONTRACTUAL SERVICES					
03 SUPPLIES & MATERIALS					
04 OTHER					
Local/Other Travel					
Insur & Employee Benefits					
Utilities					
Miscellaneous					
TOTAL OTHER					
05 EQUIPMENT					
GRAND TOTAL AMOUNTS	\$823,736,996	\$820,070,900	\$820,070,900	\$843,516,918	\$23,446,018

Category 4
Textbooks And Instructional Supplies
Summary of Resources
By Object of Expenditure

OBJECT OF EXPENDITURE	FY 2011 ACTUAL	FY 2012 BUDGET	FY 2012 CURRENT	FY 2013 BUDGET	FY 2013 CHANGE
POSITIONS					
Administrative					
Business/Operations Admin.					
Professional					
Supporting Services					
TOTAL POSITIONS					
01 SALARIES & WAGES					
Administrative					
Business/Operations Admin.					
Professional					
Supporting Services					
TOTAL POSITION DOLLARS					
OTHER SALARIES					
Administrative					
Professional					
Supporting Services					
TOTAL OTHER SALARIES					
TOTAL SALARIES AND WAGES					
02 CONTRACTUAL SERVICES					
03 SUPPLIES & MATERIALS	22,192,656	24,948,820	24,948,820	25,084,043	135,223
04 OTHER					
Local/Other Travel					
Insur & Employee Benefits					
Utilities					
Miscellaneous					
TOTAL OTHER					
05 EQUIPMENT					
GRAND TOTAL AMOUNTS	\$22,192,656	\$24,948,820	\$24,948,820	\$25,084,043	\$135,223

Category 5
Other Instructional Costs
Summary of Resources
By Object of Expenditure

OBJECT OF EXPENDITURE	FY 2011 ACTUAL	FY 2012 BUDGET	FY 2012 CURRENT	FY 2013 BUDGET	FY 2013 CHANGE
POSITIONS					
Administrative					
Business/Operations Admin.					
Professional					
Supporting Services					
TOTAL POSITIONS					
01 SALARIES & WAGES					
Administrative					
Business/Operations Admin.					
Professional					
Supporting Services					
TOTAL POSITION DOLLARS					
OTHER SALARIES					
Administrative					
Professional					
Supporting Services					
TOTAL OTHER SALARIES					
TOTAL SALARIES AND WAGES					
02 CONTRACTUAL SERVICES	6,105,360	6,461,436	6,461,436	5,945,356	(516,080)
03 SUPPLIES & MATERIALS					
04 OTHER					
Local/Other Travel	876,702	1,247,820	1,172,820	1,071,218	(101,602)
Insur & Employee Benefits					
Utilities					
Miscellaneous	3,003,918	4,719,171	4,719,171	4,983,713	264,542
TOTAL OTHER	3,880,620	5,966,991	5,891,991	6,054,931	162,940
05 EQUIPMENT	1,853,456	1,426,787	1,501,787	1,459,693	(42,094)
GRAND TOTAL AMOUNTS	\$11,839,436	\$13,855,214	\$13,855,214	\$13,459,980	(\$395,234)

Category 6
Special Education
Summary of Resources
By Object of Expenditure

OBJECT OF EXPENDITURE	FY 2011 ACTUAL	FY 2012 BUDGET	FY 2012 CURRENT	FY 2013 BUDGET	FY 2013 CHANGE
POSITIONS					
Administrative	36,200	36,000	36,000	36,000	
Business/Operations Admin.	1,000	1,000	1,000	1,000	
Professional	2,116,800	2,114,350	2,114,350	2,140,500	26,150
Supporting Services	1,507,255	1,510,385	1,510,910	1,556,203	45,293
TOTAL POSITIONS	3,661,255	3,661,735	3,662,260	3,733,703	71,443
01 SALARIES & WAGES					
Administrative	\$4,848,054	\$4,581,686	\$4,581,686	\$4,634,746	\$53,060
Business/Operations Admin.	82,296	82,295	82,295	86,174	3,879
Professional	159,990,664	162,817,972	162,817,972	162,912,534	94,562
Supporting Services	54,909,928	54,814,618	54,814,618	57,105,660	2,291,042
TOTAL POSITION DOLLARS	219,830,942	222,296,571	222,296,571	224,739,114	2,442,543
OTHER SALARIES					
Administrative					
Professional	5,228,036	5,156,595	5,156,595	4,967,083	(189,512)
Supporting Services	4,277,585	3,633,065	3,633,065	3,930,203	297,138
TOTAL OTHER SALARIES	9,505,621	8,789,660	8,789,660	8,897,286	107,626
TOTAL SALARIES AND WAGES	229,336,563	231,086,231	231,086,231	233,636,400	2,550,169
02 CONTRACTUAL SERVICES	2,703,748	2,517,945	2,517,945	2,490,845	(27,100)
03 SUPPLIES & MATERIALS	3,570,930	2,108,570	2,108,570	2,234,389	125,819
04 OTHER					
Local/Other Travel	560,762	509,766	509,766	509,766	
Insur & Employee Benefits					
Utilities		20,000	20,000	12,000	(8,000)
Miscellaneous	34,549,348	35,903,175	35,903,175	37,301,688	1,398,513
TOTAL OTHER	35,110,110	36,432,941	36,432,941	37,823,454	1,390,513
05 EQUIPMENT	665,698	285,861	285,861	335,223	49,362
GRAND TOTAL AMOUNTS	\$271,387,049	\$272,431,548	\$272,431,548	\$276,520,311	\$4,088,763

Category 7
Student Personnel Services
Summary of Resources
By Object of Expenditure

OBJECT OF EXPENDITURE	FY 2011 ACTUAL	FY 2012 BUDGET	FY 2012 CURRENT	FY 2013 BUDGET	FY 2013 CHANGE
POSITIONS					
Administrative	9.000	9.000	9.000	7.000	(2.000)
Business/Operations Admin.					
Professional	65.805	64.905	64.905	65.405	.500
Supporting Services	35.500	34.800	34.800	34.100	(.700)
TOTAL POSITIONS	110.305	108.705	108.705	106.505	(2.200)
01 SALARIES & WAGES					
Administrative	\$1,162,279	\$1,187,378	\$1,187,378	\$933,335	(\$254,043)
Business/Operations Admin.					
Professional	7,437,066	7,458,569	7,458,569	7,452,811	(5,758)
Supporting Services	1,816,603	1,801,291	1,801,291	1,787,313	(13,978)
TOTAL POSITION DOLLARS	10,415,948	10,447,238	10,447,238	10,173,459	(273,779)
OTHER SALARIES					
Administrative					
Professional	5,250	30,565	30,565	18,565	(12,000)
Supporting Services	100,139	378,789	378,789	429,400	50,611
TOTAL OTHER SALARIES	105,389	409,354	409,354	447,965	38,611
TOTAL SALARIES AND WAGES	10,521,337	10,856,592	10,856,592	10,621,424	(235,168)
02 CONTRACTUAL SERVICES	31,537	52,005	52,005	52,005	
03 SUPPLIES & MATERIALS	5,022	14,403	14,403	14,403	
04 OTHER					
Local/Other Travel	98,572	118,328	118,328	118,578	250
Insur & Employee Benefits					
Utilities					
Miscellaneous					
TOTAL OTHER	98,572	118,328	118,328	118,578	250
05 EQUIPMENT					
GRAND TOTAL AMOUNTS	\$10,656,468	\$11,041,328	\$11,041,328	\$10,806,410	(\$234,918)

**Category 8
Health Services
Summary of Resources
By Object of Expenditure**

OBJECT OF EXPENDITURE	FY 2011 ACTUAL	FY 2012 BUDGET	FY 2012 CURRENT	FY 2013 BUDGET	FY 2013 CHANGE
POSITIONS					
Administrative					
Business/Operations Admin.					
Professional					
Supporting Services					
TOTAL POSITIONS					
01 SALARIES & WAGES					
Administrative					
Business/Operations Admin.					
Professional					
Supporting Services					
TOTAL POSITION DOLLARS					
OTHER SALARIES					
Administrative					
Professional	3,440	2,000	2,000	2,000	
Supporting Services					
TOTAL OTHER SALARIES	3,440	2,000	2,000	2,000	
TOTAL SALARIES AND WAGES	3,440	2,000	2,000	2,000	
02 CONTRACTUAL SERVICES	11,641	51,080	51,080	33,812	(17,268)
03 SUPPLIES & MATERIALS	1,187	1,590	1,590	1,590	
04 OTHER					
Local/Other Travel					
Insur & Employee Benefits					
Utilities					
Miscellaneous					
TOTAL OTHER					
05 EQUIPMENT					
GRAND TOTAL AMOUNTS	\$16,268	\$54,670	\$54,670	\$37,402	(\$17,268)

Category 9
Student Transportation
Summary of Resources
By Object of Expenditure

OBJECT OF EXPENDITURE	FY 2011 ACTUAL	FY 2012 BUDGET	FY 2012 CURRENT	FY 2013 BUDGET	FY 2013 CHANGE
POSITIONS					
Administrative	2.000	2.000	2.000	2.000	
Business/Operations Admin.	13.750	13.750	13.750	13.750	
Professional					
Supporting Services	1,726.500	1,717.400	1,717.400	1,717.400	
TOTAL POSITIONS	1,742.250	1,733.150	1,733.150	1,733.150	
01 SALARIES & WAGES					
Administrative	\$246,032	\$276,653	\$276,653	\$248,300	(\$28,353)
Business/Operations Admin.	1,305,847	1,358,264	1,358,264	1,342,233	(16,031)
Professional					
Supporting Services	58,834,419	61,206,037	61,206,037	61,493,909	287,872
TOTAL POSITION DOLLARS	60,386,298	62,840,954	62,840,954	63,084,442	243,488
OTHER SALARIES					
Administrative					
Professional	269,716	105,000	105,000	105,000	
Supporting Services	6,340,350	4,299,462	4,299,462	4,319,462	20,000
TOTAL OTHER SALARIES	6,610,066	4,404,462	4,404,462	4,424,462	20,000
TOTAL SALARIES AND WAGES	66,996,364	67,245,416	67,245,416	67,508,904	263,488
02 CONTRACTUAL SERVICES	1,322,809	1,697,547	1,697,547	1,747,294	49,747
03 SUPPLIES & MATERIALS	14,319,565	13,325,215	13,325,215	15,255,054	1,929,839
04 OTHER					
Local/Other Travel	47,166	76,002	76,002	70,002	(6,000)
Insur & Employee Benefits					
Utilities					
Miscellaneous	1,121,142	1,356,206	1,356,206	1,406,885	50,679
TOTAL OTHER	1,168,308	1,432,208	1,432,208	1,476,887	44,679
05 EQUIPMENT	9,183,871	9,496,741	9,496,741	9,491,871	(4,870)
GRAND TOTAL AMOUNTS	\$92,990,917	\$93,197,127	\$93,197,127	\$95,480,010	\$2,282,883

Category 10
Operation Of Plant And Equipment
Summary of Resources
By Object of Expenditure

OBJECT OF EXPENDITURE	FY 2011 ACTUAL	FY 2012 BUDGET	FY 2012 CURRENT	FY 2013 BUDGET	FY 2013 CHANGE
POSITIONS					
Administrative	5,000	5,000	5,000	5,000	
Business/Operations Admin.	11,000	11,000	11,000	11,000	
Professional					
Supporting Services	1,396,700	1,413,700	1,413,700	1,415,200	1,500
TOTAL POSITIONS	1,412,700	1,429,700	1,429,700	1,431,200	1,500
01 SALARIES & WAGES					
Administrative	\$548,533	\$629,067	\$629,067	\$665,541	\$36,474
Business/Operations Admin.	944,101	994,084	994,084	990,122	(3,962)
Professional					
Supporting Services	58,312,879	59,162,586	59,162,586	59,646,531	483,945
TOTAL POSITION DOLLARS	59,805,513	60,785,737	60,785,737	61,302,194	516,457
OTHER SALARIES					
Administrative					
Professional	573,161	541,500	541,500	541,500	
Supporting Services	2,121,737	1,592,238	1,592,238	1,602,582	10,344
TOTAL OTHER SALARIES	2,694,898	2,133,738	2,133,738	2,144,082	10,344
TOTAL SALARIES AND WAGES	62,500,411	62,919,475	62,919,475	63,446,276	526,801
02 CONTRACTUAL SERVICES	215,414	1,163,016	1,163,016	1,119,714	(43,302)
03 SUPPLIES & MATERIALS	2,374,733	2,572,949	2,572,949	2,703,841	130,892
04 OTHER					
Local/Other Travel	53,455	62,373	62,373	64,073	1,700
Insur & Employee Benefits					
Utilities	42,883,143	44,762,227	44,762,227	41,384,374	(3,377,853)
Miscellaneous	5,475,054	3,954,654	3,954,654	3,994,076	39,422
TOTAL OTHER	48,411,652	48,779,254	48,779,254	45,442,523	(3,336,731)
05 EQUIPMENT	168,186	222,396	222,396	222,396	
GRAND TOTAL AMOUNTS	\$113,670,396	\$115,657,090	\$115,657,090	\$112,934,750	(\$2,722,340)



Category 11
Maintenance Of Plant
Summary of Resources
By Object of Expenditure

OBJECT OF EXPENDITURE	FY 2011 ACTUAL	FY 2012 BUDGET	FY 2012 CURRENT	FY 2013 BUDGET	FY 2013 CHANGE
POSITIONS					
Administrative	5,000	6,000	6,000	6,000	
Business/Operations Admin.	7,000	6,000	6,000	6,000	
Professional					
Supporting Services	368,000	368,000	368,000	368,000	
TOTAL POSITIONS	380,000	380,000	380,000	380,000	
01 SALARIES & WAGES					
Administrative	\$524,883	\$701,291	\$701,291	\$701,833	\$542
Business/Operations Admin.	677,050	627,861	627,861	636,175	8,314
Professional					
Supporting Services	21,822,354	21,778,473	21,778,473	22,429,244	650,771
TOTAL POSITION DOLLARS	23,024,287	23,107,625	23,107,625	23,767,252	659,627
OTHER SALARIES					
Administrative					
Professional	57,321	205,000	205,000	155,000	(50,000)
Supporting Services	541,762	734,404	734,404	744,404	10,000
TOTAL OTHER SALARIES	599,083	939,404	939,404	899,404	(40,000)
TOTAL SALARIES AND WAGES	23,623,370	24,047,029	24,047,029	24,666,656	619,627
02 CONTRACTUAL SERVICES	2,898,854	2,282,041	2,282,041	2,458,416	176,375
03 SUPPLIES & MATERIALS	3,398,324	3,136,039	3,136,039	3,296,951	160,912
04 OTHER					
Local/Other Travel	1,812	8,974	8,974	8,974	
Insur & Employee Benefits					
Utilities					
Miscellaneous	1,722,332	1,823,425	1,823,425	1,823,425	
TOTAL OTHER	1,724,144	1,832,399	1,832,399	1,832,399	
05 EQUIPMENT	1,081,971	1,098,889	1,098,889	1,101,473	2,584
GRAND TOTAL AMOUNTS	\$32,726,663	\$32,396,397	\$32,396,397	\$33,355,895	\$959,498

Category 12
Fixed Charges
Summary of Resources
By Object of Expenditure

OBJECT OF EXPENDITURE	FY 2011 ACTUAL	FY 2012 BUDGET	FY 2012 CURRENT	FY 2013 BUDGET	FY 2013 CHANGE
POSITIONS					
Administrative					
Business/Operations Admin.					
Professional					
Supporting Services					
TOTAL POSITIONS					
01 SALARIES & WAGES					
Administrative					
Business/Operations Admin.					
Professional					
Supporting Services					
TOTAL POSITION DOLLARS					
OTHER SALARIES					
Administrative					
Professional					
Supporting Services					
TOTAL OTHER SALARIES					
TOTAL SALARIES AND WAGES					
02 CONTRACTUAL SERVICES					
03 SUPPLIES & MATERIALS					
04 OTHER					
Local/Other Travel					
Insur & Employee Benefits	460,839,539	471,096,403	471,096,403	489,152,534	18,056,131
Utilities					
Miscellaneous	1,338,063	683,299	683,299	683,299	
TOTAL OTHER	462,177,602	471,779,702	471,779,702	489,835,833	18,056,131
05 EQUIPMENT					
GRAND TOTAL AMOUNTS	\$462,177,602	\$471,779,702	\$471,779,702	\$489,835,833	\$18,056,131

③

**Category 14
Community Services
Summary of Resources
By Object of Expenditure**

OBJECT OF EXPENDITURE	FY 2011 ACTUAL	FY 2012 BUDGET	FY 2012 CURRENT	FY 2013 BUDGET	FY 2013 CHANGE
POSITIONS					
Administrative					
Business/Operations Admin.					
Professional					
Supporting Services					
TOTAL POSITIONS					
01 SALARIES & WAGES					
Administrative					
Business/Operations Admin.					
Professional					
Supporting Services					
TOTAL POSITION DOLLARS					
OTHER SALARIES					
Administrative					
Professional					
Supporting Services	62,704				
TOTAL OTHER SALARIES	62,704				
TOTAL SALARIES AND WAGES	62,704				
02 CONTRACTUAL SERVICES	13,041	158,495	158,495	158,495	
03 SUPPLIES & MATERIALS	9,435				
04 OTHER					
Local/Other Travel					
Insur & Employee Benefits					
Utilities					
Miscellaneous	50,000	50,000	50,000	50,000	
TOTAL OTHER	50,000	50,000	50,000	50,000	
05 EQUIPMENT					
GRAND TOTAL AMOUNTS	\$135,180	\$208,495	\$208,495	\$208,495	

Category 37
MCPS Television Special Revenue Fund
Summary of Resources
By Object of Expenditure

OBJECT OF EXPENDITURE	FY 2011 ACTUAL	FY 2012 BUDGET	FY 2012 CURRENT	FY 2013 BUDGET	FY 2013 CHANGE
POSITIONS					
Administrative	1.000	1.000	1.000	1.000	
Business/Operations Admin.					
Professional					
Supporting Services	13.000	11.500	11.500	11.500	
TOTAL POSITIONS	14.000	12.500	12.500	12.500	
01 SALARIES & WAGES					
Administrative	\$133,105	\$124,786	\$124,786	\$133,104	\$8,318
Business/Operations Admin.					
Professional					
Supporting Services	885,831	842,579	842,579	896,224	53,645
TOTAL POSITION DOLLARS	1,018,936	967,365	967,365	1,029,328	61,963
OTHER SALARIES					
Administrative					
Professional					
Supporting Services	7,483	5,042	5,042	5,042	
TOTAL OTHER SALARIES	7,483	5,042	5,042	5,042	
TOTAL SALARIES AND WAGES	1,026,419	972,407	972,407	1,034,370	61,963
02 CONTRACTUAL SERVICES	19,124	17,600	17,600	17,600	
03 SUPPLIES & MATERIALS	95,777	78,670	78,670	78,670	
04 OTHER					
Local/Other Travel	1,626	2,000	2,000	2,000	
Insur & Employee Benefits	331,183	314,373	314,373	322,471	8,098
Utilities					
Miscellaneous	2,546	1,600	1,600	1,600	
TOTAL OTHER	335,355	317,973	317,973	326,071	8,098
05 EQUIPMENT		38,350	38,350	38,350	
GRAND TOTAL AMOUNTS	\$1,476,675	\$1,425,000	\$1,425,000	\$1,495,061	\$70,061

**Category 51
Real Estate Fund
Summary of Resources
By Object of Expenditure**

OBJECT OF EXPENDITURE	FY 2011 ACTUAL	FY 2012 BUDGET	FY 2012 CURRENT	FY 2013 BUDGET	FY 2013 CHANGE
POSITIONS					
Administrative	1.000	1.000	1.000	1.000	
Business/Operations Admin.					
Professional					
Supporting Services	5.500	5.500	5.500	6.000	.500
TOTAL POSITIONS	6.500	6.500	6.500	7.000	.500
01 SALARIES & WAGES					
Administrative	\$118,677	\$110,519	\$110,519	\$120,177	\$9,658
Business/Operations Admin.					
Professional					
Supporting Services	271,012	290,648	290,648	281,121	(9,527)
TOTAL POSITION DOLLARS	389,689	401,167	401,167	401,298	131
OTHER SALARIES					
Administrative					
Professional					
Supporting Services	34,210	167,594	167,594	153,688	(13,906)
TOTAL OTHER SALARIES	34,210	167,594	167,594	153,688	(13,906)
TOTAL SALARIES AND WAGES	423,899	568,761	568,761	554,986	(13,775)
02 CONTRACTUAL SERVICES	99,626	1,766,122	1,766,122	2,304,222	538,100
03 SUPPLIES & MATERIALS	15,375	71,863	71,863	48,304	(23,559)
04 OTHER					
Local/Other Travel	831	3,693	3,693	3,693	
Insur & Employee Benefits	136,292	140,115	140,115	138,314	(1,801)
Utilities	161,704	181,951	181,951		(181,951)
Miscellaneous	1,645,341	524,225	524,225	442,225	(82,000)
TOTAL OTHER	1,944,168	849,984	849,984	584,232	(265,752)
05 EQUIPMENT	355,638	9,700	9,700	28,859	19,159
GRAND TOTAL AMOUNTS	\$2,838,706	\$3,266,430	\$3,266,430	\$3,520,603	\$254,173

Category 61
Food Service Fund
Summary of Resources
By Object of Expenditure

OBJECT OF EXPENDITURE	FY 2011 ACTUAL	FY 2012 BUDGET	FY 2012 CURRENT	FY 2013 BUDGET	FY 2013 CHANGE
POSITIONS					
Administrative	2,000	2,000	2,000	2,000	
Business/Operations Admin.	11,000	11,000	11,000	11,000	
Professional					
Supporting Services	570,448	570,448	570,448	569,948	(,500)
TOTAL POSITIONS	583,448	583,448	583,448	582,948	(,500)
01 SALARIES & WAGES					
Administrative	\$217,343	\$253,164	\$253,164	\$220,566	(\$32,598)
Business/Operations Admin.	805,371	925,620	925,620	924,286	(1,334)
Professional					
Supporting Services	16,406,675	17,511,624	17,511,624	17,697,012	185,388
TOTAL POSITION DOLLARS	17,429,389	18,690,408	18,690,408	18,841,864	151,456
OTHER SALARIES					
Administrative					
Professional					
Supporting Services	667,633	657,129	657,129	556,480	(100,649)
TOTAL OTHER SALARIES	667,633	657,129	657,129	556,480	(100,649)
TOTAL SALARIES AND WAGES	18,097,022	19,347,537	19,347,537	19,398,344	50,807
02 CONTRACTUAL SERVICES	1,218,345	1,104,028	1,104,028	1,192,028	88,000
03 SUPPLIES & MATERIALS	13,809,866	14,958,778	14,958,778	15,078,148	119,370
04 OTHER					
Local/Other Travel	119,786	130,385	130,385	128,385	(2,000)
Insur & Employee Benefits	9,868,261	10,943,711	10,943,711	11,283,706	339,995
Utilities					
Miscellaneous	145,789	145,000	145,000	145,000	
TOTAL OTHER	10,133,836	11,219,096	11,219,096	11,557,091	337,995
05 EQUIPMENT	77,555	267,606	267,606	250,684	(16,922)
GRAND TOTAL AMOUNTS	\$43,336,624	\$46,897,045	\$46,897,045	\$47,476,295	\$579,250

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Category 71
Field Trip Fund
Summary of Resources
By Object of Expenditure

OBJECT OF EXPENDITURE	FY 2011 ACTUAL	FY 2012 BUDGET	FY 2012 CURRENT	FY 2013 BUDGET	FY 2013 CHANGE
POSITIONS					
Administrative					
Business/Operations Admin.	.250	.250	.250	.250	
Professional					
Supporting Services	4.250	4.250	4.250	4.250	
TOTAL POSITIONS	4.500	4.500	4.500	4.500	
01 SALARIES & WAGES					
Administrative					
Business/Operations Admin.	25,048	26,125	26,125	26,175	50
Professional					
Supporting Services	260,156	276,432	276,432	266,481	(9,951)
TOTAL POSITION DOLLARS	285,204	302,557	302,557	292,656	(9,901)
OTHER SALARIES					
Administrative					
Professional					
Supporting Services	873,821	999,826	999,826	961,463	(38,363)
TOTAL OTHER SALARIES	873,821	999,826	999,826	961,463	(38,363)
TOTAL SALARIES AND WAGES	1,159,025	1,302,383	1,302,383	1,254,119	(48,264)
02 CONTRACTUAL SERVICES	36,697	76,411	76,411	49,638	(26,773)
03 SUPPLIES & MATERIALS	386,163	560,089	560,089	521,666	(38,423)
04 OTHER					
Local/Other Travel		138	138	138	
Insur & Employee Benefits	158,949	182,193	182,193	198,880	16,687
Utilities					
Miscellaneous					
TOTAL OTHER	158,949	182,331	182,331	199,018	16,687
05 EQUIPMENT		1,605	1,605	1,605	
GRAND TOTAL AMOUNTS	\$1,740,834	\$2,122,819	\$2,122,819	\$2,026,046	(\$96,773)

Category 81
Entrepreneurial Activities
Summary of Resources
By Object of Expenditure

OBJECT OF EXPENDITURE	FY 2011 ACTUAL	FY 2012 BUDGET	FY 2012 CURRENT	FY 2013 BUDGET	FY 2013 CHANGE
POSITIONS					
Administrative					
Business/Operations Admin.					
Professional	1,000	1,000	1,000	1,000	
Supporting Services	8,000	8,000	8,000	11,000	3,000
TOTAL POSITIONS	9,000	9,000	9,000	12,000	3,000
01 SALARIES & WAGES					
Administrative					
Business/Operations Admin.					
Professional	118,786	111,579	111,579	118,787	7,208
Supporting Services	444,488	433,735	433,735	596,629	162,894
TOTAL POSITION DOLLARS	563,274	545,314	545,314	715,416	170,102
OTHER SALARIES					
Administrative					
Professional	330,467	876,474	876,474	621,474	(255,000)
Supporting Services	26,369	56,269	56,269	69,373	13,104
TOTAL OTHER SALARIES	356,836	932,743	932,743	690,847	(241,896)
TOTAL SALARIES AND WAGES	920,110	1,478,057	1,478,057	1,406,263	(71,794)
02 CONTRACTUAL SERVICES	338,650	508,520	508,520	557,520	49,000
03 SUPPLIES & MATERIALS	497,011	546,800	546,800	679,308	132,508
04 OTHER					
Local/Other Travel	10,573	12,864	12,864	12,649	(215)
Insur & Employee Benefits	222,799	249,830	249,830	316,216	66,386
Utilities					
Miscellaneous					
TOTAL OTHER	233,372	262,694	262,694	328,865	66,171
05 EQUIPMENT	25,000	26,377	26,377	34,980	8,603
GRAND TOTAL AMOUNTS	\$2,014,143	\$2,822,448	\$2,822,448	\$3,006,936	\$184,488

Update

April 11, 2012

As you have no doubt heard, the failure of the Maryland General Assembly late Monday evening, April 9, 2012, to finish the work on all of the bills necessary to complete the state budget and avoid a drastic cut in state aid to education has created uncertainty in the county budget process. There is a serious risk of a reduction of more than \$40 million in state aid to Montgomery County Public Schools (MCPS). We are hopeful that Governor Martin O'Malley will quickly reconvene the Maryland General Assembly for a special session to complete the budget process that was started more than two months ago.

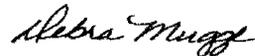
The Board of Education's \$2.13 billion budget request for Fiscal 2013 includes funding for salary increases within the rebased Maintenance of Effort (MOE) budget approved by the Board in February 2012 and recommended by the county executive last month. MOE, which requires the county to spend at least the same amount per student next year as it does this year, increases the budget by \$22 million due to enrollment increases. MCPS also expected \$28 million of additional state aide. Montgomery County Executive Isiah Leggett has recommended full funding of the Board's budget based on the projected revenue.

The Montgomery County Board of Education and the three employee associations—the Montgomery County Education Association (MCEA), the Service Employees International Union (SEIU) Local 500, and the Montgomery County Association of Administrators and Principals (MCAAP)—have been engaged in contract negotiations for the past five months. The uncertainty of the state aid amount makes it necessary to delay action at this time. The Board of Education and the employee associations are committed to salary increases for our employees next year. MCPS employees have not received cost-of-living adjustments for the past three years and have not received their scheduled step increases or longevity increments for the past two years. There is agreement that we need to recognize our employees for their contributions to our students each and every day. We believe that this is the year to provide some stability for our employees, but we need to have greater clarity about the state budget.

We urge the Maryland General Assembly to move forward as quickly as possible to resolve the budget process, in the interest of our students and our staff. We encourage all employees to contact the Governor (<http://www.governor.maryland.gov/mail/>), the Senate president (thomas.v.mike.miller@senate.state.md.us) and the Speaker of the House (michael.busch@house.state.md.us) to urge a special session to be convened to complete the state budget.



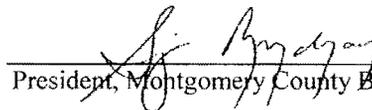
President, Montgomery County Education Association



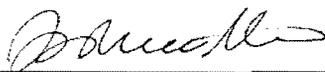
President, Montgomery County Association of
Administrators and Principals



President, Service Employees International Union
Local 500



President, Montgomery County Board of Education



Superintendent of Schools

ED COMMITTEE #1&2
April 30, 2012
Worksession

MEMORANDUM

April 27, 2012

TO: Education Committee

FROM: Essie McGuire, Senior Legislative Analyst 

SUBJECT: **Worksession – FY13 Operating Budget, Montgomery County Public Schools, and Supplemental Appropriation to the MCPS FY12 Capital Budget and Amendment to the FY11-16 Capital Improvements Program, \$1,339,200 for Education Rate (E-Rate) Program for the Technology Modernization Project (Source: Federal Funds)**

Today the Education Committee will continue its review of the FY13 Operating Budget for the Montgomery County Public Schools (MCPS). In addition, the Committee will consider a Supplemental Appropriation to the MCPS FY12 Capital Budget and Amendment to the FY11-16 Capital Improvements Program, \$1,339,200 for Education Rate (E-Rate) Program for the Technology Modernization Project as part of the Board of Education's request for the Technology Modernization Project in the FY13-18 CIP.

The following individuals are expected to participate in this worksession:

- Shirley Brandman, President, Board of Education
- Christopher Barclay, Vice President, Board of Education
- Joshua Starr, Superintendent
- Frieda Lacey, Deputy Superintendent
- Larry Bowers, Chief Operating Officer
- Sherwin Collette, Chief Technology Officer
- Marshall Spatz, Director of Management, Budget, and Planning, MCPS

This packet is divided into four sections:

- I. Technology Modernization**
- II. FY13 Compensation**
- III. Employee Benefit Trust Funds**
- IV. State Legislative Update**

I. TECHNOLOGY MODERNIZATION

1. FY12 Supplemental Appropriation

The Board requested this supplemental appropriation of Federal E-rate funds on November 11, 2011. The County Executive recommended approval of the appropriation of Federal funds and also recommended a transfer of current revenue from the Technology Modernization project to the Relocatable Classrooms project. Council staff concurred with this recommendation. The Committee met on February 6 to review this issue, and unanimously recommended approval of the appropriation and transfer.

A full Council vote on this item was deferred because it was decided that more time was needed to consider this transfer in the context of full CIP discussions and larger budget affordability issues. Subsequently, on April 10 the Council approved a supplemental appropriation of \$4 million in current revenue to fund the Board’s FY12 request for the Relocatable Classrooms project. This action was necessary to meet the pressing capacity needs of the school system; approving the appropriation in the spring is critical to the school system’s ability to have the relocatables in place in time for the start of the next school year.

The Council introduced a new FY12 supplemental appropriation resolution for E-rate funds on April 24, and is tentatively scheduled to hold a public hearing and take action on May 15 (draft approval resolution is attached at circles 1-3). **Council staff continues to recommend approval of the appropriation of Federal funds to make the final payment on the interactive technology initiative. The affordability question remains, however, of whether there is sufficient current revenue in FY12 and FY13 to support the school system’s request to add this amount to the FY12 appropriation, or whether the school system will need to reprioritize technology expenditures between the two fiscal years to free up current revenue resources.**

2. FY13-18 CIP Request

Project: Technology Modernization

	Total	Through FY10	Total 6 Years	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	Beyond 6 Years
FY11-16 Amended	216,755	79,304	137,451	18,878	18,178	21,847	25,313	26,393	26,842	n/a	n/a	
FY13-18 BOE Proposed	266,100	79,304	149,740	18,878	18,178	21,847	25,456	26,805	26,358	23,997	25,277	
change from amended	49,345	-	12,289	n/a	n/a	-	143	412	(484)	n/a	n/a	
percent change from amended	22.8%		8.94%	n/a	n/a	0.0%	0.6%	1.6%	-1.8%	n/a	n/a	

The Board of Education’s request for FY13-18 is a significant increase (\$12.3 million) in the six-year period, but is consistent with the approved funding assumptions for FY13-16 (circle 4). For FY10-12, the Council reduced the funding in this project to reflect a one-year increase to the computer replacement cycle, from four to five years. At that time, the Council indicated its intent to return to a four-year replacement cycle in FY13, contingent on improved fiscal conditions, and programmed funding in FY13-16 consistent with that approach.

The County Executive recommends level funding for the Technology Modernization project across the six-year period in FY13-18, and states that this funding level assumes that MCPS will maintain the project on the currently approved five-year cycle (circle 5). The table below shows the Board’s request compared to the Executive’s recommendation.

	FY13	FY14	FY15	FY16	FY17	FY18	6-year total
BOE Rqst	21,847	25,456	26,805	26,358	23,997	25,277	149,740
CE Rec Red	-3,129	-6,738	-8,087	-7,640	-5,279	-6,559	-37,432
CE Rec Total	18,718	18,718	18,718	18,718	18,718	18,718	112,308

MCPS prepared a table on circles 6-7 that shows the breakdown of funding in the Board’s request for FY13-14. The Board’s request primarily consists of funds related to the replacement program, and resumes a four-year replacement cycle. It also supports 20.5 FTE to implement the program.

On circle 7 MCPS states that even if the system remained on a five-year cycle, the Executive’s recommendation would leave a deficit in each fiscal year, beginning with a nearly \$3 million deficit in FY13-14 combined.

The school system’s response identifies two additional technology efforts that it intends to support through this project.

- The first (circle 8) is the installation of wireless networks in all schools. MCPS estimates that it will cost \$5.4 million to complete this effort at the remaining 126 schools without these networks. MCPS further states that this effort is critical to support both current and future classroom technologies.
- The second is the continued expansion of Promethean Board interactive systems to elementary schools. MCPS anticipates dedicating future E-rate funds to continue to support these purchases.
- MCPS staff emphasizes that these two efforts are closely related in increasing schools’ technology infrastructure and will form a critical foundation to support student access to curriculum.
- Council staff notes that the Board’s request includes funding for the wireless network installation effort, but does not reflect projected E-rate dollars for the Promethean Board purchases.

Council staff is concerned that the Executive’s recommendation may reduce this project below even the current level of effort, and would reduce the project’s ability to support a five-year replacement cycle in conjunction with any other technology infrastructure priorities. While E-rate funds could make up some of the difference, at the current rate of \$1.2-\$1.4 million per year they would not sustain the program near the requested level.

In past years the Council has taken an approach to be generally consistent in funding replacement cycles across the County agencies. The County Government received a funding increase for its desktop modernization program in FY12 and is currently slated to receive a funding increase again in FY13. Council staff understands that these funding adjustments are intended to phase-in a return to a four-year cycle. The College received additional funding in FY11-12 following previous reductions. At this time Council staff understands that the Council is considering some funding for the College’s replacement program above the Executive’s FY13 recommendation and that the College has funds to carry over to support purchases in FY13.

Council staff also acknowledges that current revenue is at a premium as reflected in the Executive’s recommendation for MCPS Technology Modernization, and that the Council still has a funding gap to close relative to its CIP reconciliation. While the Board’s request is not unreasonable and is consistent with the approved assumptions for FY13-16, it may not be affordable in the current fiscal environment.

Council staff recommends the following approach for FY13-14:

- That the Committee consider restoring some of the Executive’s reduction;
- That in determining the amount of current revenue available for this project the Committee assume that the school system will be able to add E-rate funds to the yearly project appropriation each year in FY13-14; and
- That the Committee not specify in FY13-14 whether the level of funding is associated with a specific replacement cycle or technology initiative. This will allow the school system to manage its competing technology infrastructure priorities in the next two years within all available funds.

At this time, Council staff recommends that the Committee consider the following funding:

- **Restore the full Board request by \$3.13 million in FY13. To reach this level, assume that \$1.3 million of FY13 E-rate funds will be available during the year, and at this time add \$1.829 million in current revenue in FY13.**
- **Restore half of the Executive’s reduction in each year FY14-18. Assume that in FY14 MCPS will be able to add FY14 E-rate funds to the appropriation.**

Council staff notes that this recommendation is subject to final CIP reconciliation on May 17. The table below shows the Council staff recommendation in comparison to the Board request and Executive recommendation. *It does not include projected E-rate dollars.*

	FY13	FY14	FY15	FY16	FY17	FY18	6 year total
BOE Rqst	21,847	25,456	26,805	26,358	23,997	25,277	149,740
CE Rec Red	-3,129	-6,738	-8,087	-7,640	-5,279	-6,559	-37,432
CE Rec Total	18,718	18,718	18,718	18,718	18,718	18,718	112,308
CS Rec Addtn	1,829	3,370	4,040	3,820	2,640	3,280	18,979
CS Rec Total	20,547	22,088	22,758	22,538	21,358	21,998	131,287

Council staff also recommends approval of the FY12 E-rate appropriation and a corresponding reduction of \$1.3 million in current revenue in FY12. This will leave the total FY12 appropriation unchanged, and will require the school system to reprioritize technology expenditures across FY12-13.

II. FY13 COMPENSATION

1. Salary increases

The Board's budget identifies a total amount of \$20.6 million in additional dollars over the FY12 base compensation level for increased employee compensation. The exact elements of this compensation increase are not fully identified. As of April 11, the Board and the employee associations state that they need to delay action on contract negotiations at this time due to uncertainty about the State budget (circle 9).

While the budget indicates an increase of \$20.6 million for this purpose, the total budgeted expenditure for salary increases is \$47 million. This total consists of the following two elements:

- The Board's budget states that employees will receive **step and longevity increases**, which range on average approximately 2-3% per employee and are an addition to the base salary going forward. **The total cost to fund step increases is \$35 million.**

MCPS identifies that of this total cost, \$6.2 million is for longevity increases and \$28.1 million is for step increases.

- The Board's budget also includes **\$12 million as a placeholder** to "offset costs of future negotiated agreements with employee unions". There has been no comment to date as to how these funds might be allocated.

It is important to remember that of the 11 major appropriation categories, eight have funds for positions. Personnel dollars are thus spread out among the largest categories (except Category 12, Fixed Charges), and the marginal salary increase in any of these categories will be a relatively small amount of the category total. As a result, the Board has a great deal of latitude as to how to allocate personnel costs within categories.

Similarly, the Board is not required to finalize any element of its budget until after the Council takes final action on the appropriation resolution. **Thus, while the Board has identified this \$47 million (or net \$20.6 million) amount for salary increases at this point, the final outcome for employees could be higher or lower than what is stated at this time.**

The amount MCPS has currently set aside for compensation increases in FY13 represents 3.2 percent of total tax-supported payroll costs.

2. Lapse and Turnover Savings

The Board's FY13 operating budget request assumes a net increase of only \$20.6 million for salary increases because it assumes that a \$26.4 million surplus in FY12 salary costs would offset a portion of the FY13 cost of compensation increases. MCPS states the following about its recent experience in lapse and turnover savings:

- Overall, the school system sees more savings in turnover than in lapse because it often must use temporary or substitute dollars to fill position functions rather than hold positions totally unfilled.
- Turnover savings, which result when more expensive, senior employees are replaced by less expensive, newer employees, have been higher in recent years. MCPS reports a record number of retirements (over 500) in FY11, and may be on pace to see a high number again in FY12.
- MCPS states that the year-to-year lapse and turnover savings from FY12 to FY13 is a one-time correction that does represent budget savings going into FY13 but may not recur and cannot easily be predicted.

Council staff notes the following:

- **Savings in lapse and turnover or other personnel costs could be used toward any purpose and do not in and of themselves reduce the total expenditure for personnel.**
- **This one-time correction in personnel costs is a savings that helps the school system allocate funds toward part of the first year costs of step and longevity increases within a Maintenance of Effort (MOE) budget request. However, step and longevity increases add to the salary base going forward.**
- **MCPS does not predict that these lapse and turnover savings will recur on this scale. MCPS will not be able to fund future years' costs without either exceeding MOE or making reductions in the base budget to accommodate salary increases within future MOE levels.**

Council staff acknowledges that because negotiations are not complete this is a preliminary budget assumption at this time; nonetheless, it is important to note that the current structure of the MCPS budget in FY13 accommodates these salary increases within MOE. **The Committee may want to ask MCPS to comment on how it anticipates supporting the future costs of the step and longevity increases assumed in its budget.**

III. EMPLOYEE BENEFIT TRUST FUNDS

As recommended in the November 2011 Office of Legislative Oversight (OLO) report “A Review of Montgomery County Public Schools’ Budget Category 12”, the Council requested that the Board of Education provide a semi-annual report on key revenue and expenditure trends in Category 12, Fixed Charges, related to the school system’s employee benefit trust funds. On April 4, Board President Brandman transmitted the first report to the Council (circles 10-30).

Below Council staff highlights certain key aspects of this report. **In sum, MCPS anticipates a low funded ratio for its pension fund and high fund balances in its group insurance funds. The Committee will want to understand from Board members and MCPS staff how these recent trends will affect budgeted and anticipated Category 12 expenditures in FY12 and FY13.**

1. Pension Fund

MCPS makes an annual fund contribution to pay for cost of: (1) the “core” pension benefit offered employees who do not participate in the State-run plan; and (2) the “supplemental” benefit for all permanent employees. **For FY13, MCPS must contribute \$70.5 million to meet its required pension fund contribution. This amount is projected to increase to \$81 million by FY15.** The cost of future pension fund contributions will depend on future Board of Education decisions regarding employee pay increases and workforce size.

The “funded ratio” of a pension plan is a term that describes the percentage of the plan’s liabilities covered by the current actuarial value of the plan’s assets. As of the end of FY11, the MCPS pension fund had a funded ratio of 70%. In other words, the MCPS pension fund currently holds 70 cents of assets for every dollar of liability. Among the four County agencies, MCPS currently has the lowest funded pension ratio, with the County Government the next lowest at 77%.

The report states (circle 11) that the Board does not currently have another funding goal to reach a specific ratio. To improve this ratio, MCPS would have to raise additional assets from employer contributions, employee contributions, and/or investment income. For example, to increase the funded ratio to 80% by FY18, MCPS would have to raise its annual pension fund contribution by an additional \$7.5 million in each year from FY14 through FY18.

2. Active and Retiree Group Insurance Funds

MCPS maintains separate fund accounts for active and retired employees.

For active employees:

- MCPS ended FY11 with a fund balance of \$21.6 million in its group insurance fund for active employees; this amount is 8.6% of expenditures.
- MCPS currently projects an FY12 year-end fund balance of \$22.7 million or 8.7%, an increase of \$1.1 million from FY11.
- MCPS notes that claims in FY12 are running below projections and there is a slight increase in fund revenue.
- For FY13, the Board’s budget request includes an increase of \$13.8 million in its employer contribution to the active employee group insurance fund.

For retired employees:

- MCPS ended FY11 with an \$8.8 million fund balance in its group insurance fund for retired employees; this amount is 12.2% of expenditures.
- MCPS currently projects an FY12 year-end fund balance of \$13.6 million or 17.5%, an increase of \$4.8 million from FY11.
- MCPS reports that a factor in the projected FY12 fund balance increase is that under-65 retiree enrollment has decreased by 9%. When retirees reach age 65, Medicare becomes their primary health plan and the MCPS plan becomes a supplement, reducing costs for MCPS.
- For FY13, the Board's budget request includes an increase of \$1.2 million in its employer contribution to the retired employee group insurance fund.

This report shows that both group insurance funds are anticipated to end FY12 with healthy and increased fund balances. County Government is also experiencing this trend, and includes in its FY13-18 Fiscal Projection for the group insurance fund a plan to draw down the fund reserves over two years.

The Committee may want to discuss the following issues with Board members and MCPS staff.

- **Revised projection:** The FY13 budget document was prepared in the fall of 2011, well before the most recent FY12 trend information on group insurance was available. Now that MCPS has the benefit of the FY12 claim information and fund balance projection, does it plan to revise its FY13 group insurance fund contributions?
- **Fund balance:** In FY12, MCPS reduced its employer contribution to the group insurance fund to meet the Council's reduced Category 12 appropriation. How does MCPS anticipate using the projected group insurance fund balance at this time? Does MCPS have a multi-year plan to reduce the fund balance to a lower percent of total expenditures?
- **Pension fund:** As noted above, the pension fund has a low funded ratio, while the group insurance funds have high fund balances at this time. Has the Board considered using any of the FY13 budgeted amount for the group insurance contribution to bolster pension fund assets?

IV. STATE LEGISLATIVE UPDATE

It is too soon for the Committee and Council to make a final recommendation on the MCPS FY13 operating budget because significant funding factors remain outstanding as a result of the inconclusive end to the General Assembly session. At this time, it appears there may be a special session in May to resolve budget issues; however, as of this writing a date has not been set. The Council will continue to monitor these developments carefully as they clearly have the potential for significant impact on the FY13 budget for the County as a whole and MCPS in particular. Below is a brief summary of two major outstanding funding issues related to MCPS.

1. Teacher Pensions

The General Assembly had reached a plan to shift a portion of the State's teacher retirement costs to local school boards; however, this plan did not pass before the Assembly adjourned. At this juncture it is unclear whether pension costs will shift in FY13 or if so, what form the shift would take.

The most recent conference committee plan called for a four-year phase-in of the normal costs only of teacher retirement, with the local board responsible for payment. This amount, approximately \$27 million in FY13, would then be an added requirement for counties to fund above MOE for the phase-in period. Following the phase-in, the full amount of the shift, currently estimated at \$44 million, would be rolled into MOE, increasing the per pupil base going forward.

2. "Doomsday" Budget Elements

If the General Assembly does not return or is otherwise unable to pass Budget Reconciliation and Financing Act (BRFA), a set of "doomsday" budget reductions will go into effect on July 1 for FY13 in order to balance the State budget. For Montgomery County, the bulk of these reductions would affect MCPS.

If the contingent budget reductions go into effect, MCPS would receive approximately \$41 million less in State Aid than currently anticipated in the Board's request. These reductions consist of:

- Elimination of GCEI: -\$32.7 million
- Reduce per pupil funding: -\$8.3 million

There appears to be some question as to whether the reduced per pupil funding could go into effect as it may require additional statutory changes.

Resolution No.: _____
Introduced: April 24, 2012
Adopted: _____

**COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND**

By: County Council

SUBJECT: Special Appropriation to the FY12 Capital Budget and
Amendment to the FY11-16 Capital Improvements Program
Montgomery County Public Schools
Technology Modernization (No. 036510)
Federal Education Rate (E-Rate) Program, \$1,339,200

Background

1. Section 308 of the County Charter provides that a special appropriation is an appropriation which states that it is necessary to meet an unforeseen disaster or other emergency, or to act without delay in the public interest. Each special appropriation shall be approved by not less than six Councilmembers. The Council may approve a special appropriation at any time after public notice by news release. Each special appropriation shall specify the source of funds to finance it.
2. Section 302 of the County Charter provides that the Council may amend an approved capital improvements program at any time by an affirmative vote of six Councilmembers.
3. The Board of Education requested a special appropriation for the Montgomery County Public Schools' Technology Modernization FY12 capital project as follows:

<u>Project Name</u>	<u>Project Number</u>	<u>Amount</u>	<u>Source of Funds</u>
Tech Mod	036510	\$1,339,200	Federal E-Rate Program
TOTAL		\$1,339,200	Federal E-Rate Program

4. The Board of Education requested a supplemental request of \$1,339,200 in E-Rate funds for the Technology Modernization Project. The E-Rate funds from the Federal Communication Commission's Schools and Libraries Program provide incentives for the use of technology in schools by providing rebates on Internet and telecommunication service costs. MCPS has been using these funds toward a lease/purchase agreement with Dell Marketing, LP to acquire Promethean Boards and learning/response systems for

secondary schools. MCPS is planning to use this supplemental request to complete their fourth and final payment for the interactive technology systems.

5. Notice of public hearing was given and public hearing was held.
6. The County Council declares this request is in the public interest to be acted upon without delay as provided for under special appropriation requirements described in Article 3, Section 308 of the Montgomery County Charter.

Action

The County Council for Montgomery County, Maryland approves the following action:

A special appropriation to the FY12 Capital Budget and an amendment to the FY11-16 Capital Improvements Program are approved for the Montgomery County Public Schools as follows and as shown on the attached project description form.

<u>Project Name</u>	<u>Project Number</u>	<u>Amount</u>	<u>Source of Funds</u>
Tech Mod	036510	\$1,339,200	Federal E-Rate Program
TOTAL		\$1,339,200	Federal E-Rate Program

This is a correct copy of Council action.

Linda M. Lauer, Clerk of the Council

Technology Modernization -- No. 036510

Category
Subcategory
Administering Agency
Planning Area

Montgomery County Public Schools
Countywide
MCPS
Countywide

Date Last Modified
Required Adequate Public Facility
Relocation Impact
Status

June 09, 2011
No
None
On-going

EXPENDITURE SCHEDULE (\$000)

Cost Element	Total	Thru FY10	Rem. FY10	Total 6 Years	FY11	FY12	FY13	FY14	FY15	FY16	Beyond 6 Years
Planning, Design, and Supervision	216,755	60,407	18,897	137,451	18,878	18,178	21,847	25,313	26,393	26,842	0
Land	0	0	0	0	0	0	0	0	0	0	0
Site Improvements and Utilities	0	0	0	0	0	0	0	0	0	0	0
Construction	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0
Total	216,755	60,407	18,897	137,451	18,878	18,178	21,847	25,313	26,393	26,842	0

FUNDING SCHEDULE (\$000)

Current Revenue: General	125,487	11,780	5,525	108,182	2,326	5,578	21,730	25,313	26,393	26,842	0
Current Revenue: Recordation Tax	83,941	48,627	11,572	23,742	13,052	10,573	117	0	0	0	0
Federal Aid	7,327	0	1,800	5,527	3,500	2,027	3366	0	0	0	0
Total	216,755	60,407	18,897	137,451	18,878	18,178	21,847	25,313	26,393	26,842	0

DESCRIPTION

The Technology Modernization (Tech Mod) project is a key component of the MCPS strategic technology plan, Educational Technology for 21st Century Learning. This plan builds upon the following four goals: students will use technology to become actively engaged in learning, schools will address the digital divide through equitable access to technology, staff will improve technology skills through professional development, and staff will use technology to improve productivity and results.

An FY 2005 appropriation was approved to roll-out the implementation of the technology modernization program. This project will update schools' technology hardware, software, and network infrastructure on a four-year replacement cycle, with a 5:1 computer/student ratio. The County Council, in the adopted FY 2005-2010 CIP reduced the Board of Education's request for the outyears of the FY 2005-2010 CIP by \$10.945 million. An FY 2006 appropriation and amendment to the FY 2005-2010 CIP was approved to continue the rollout plan. An FY 2007 appropriation was approved to continue this level of effort project. The expenditures for FY 2007 reflect three years of finance payments, as originally planned, in addition to the current year refreshment costs. The expenditures in the outyears represent the ongoing costs of a four-year refreshment cycle. An FY 2008 appropriation was approved to continue this project.

The Board of Education, in the Requested FY 2009 Capital Budget and FY 2009-2014 CIP, included additional funding for new initiatives for the Technology Modernization program. On May 22, 2008, the County Council approved an FY 2009 appropriation as requested by the Board of Education; however, the County Council reduced the expenditures earmarked for the Middle School Initiative program for FY 2010-2014. In FY 2009, MCPS purchased and installed interactive classroom technology systems in approximately 2/3 of all secondary classrooms. The total cost is projected at \$13.3 million, financed over a four-year period (\$3.4M from FY 2009-2012). The funding source for the initiative is anticipated to be Federal e-rate funds. The Federal e-rate funds programmed in this PDF consist of available unspent e-rate balance: \$1.8M in FY 2010, \$1.8M in FY 2011, and \$327K in FY 2012. In addition, MCPS projects future e-rate funding of \$1.6M each year (FY 2010-2012) that may be used to support the payment obligation pending receipt and appropriation. No county funds may be spent for the initiative payment obligation in FY 2010-2012 without prior Council approval.

This PDF reflects a decrease in the FY 2010 appropriation and FY 2010-2012 expenditures as requested by the Board of Education. The decrease in expenditures will temporarily extend the MCPS desktop replacement cycle from four to five years. The County Council will reconsider how to resume the four-year replacement cycle in a future CIP. An FY 2011 appropriation was approved; however, it was \$1.011 million less than the Board of Education's request. The appropriation will continue the technology modernization project and return to a four-year replacement cycle starting in FY 2013; as well as fund one additional staff position for this project. During the County Council's reconciliation of the amended FY 2011-2016 CIP, the Board of Education's requested FY 2012 appropriation was reduced by \$3.023 million due to a shortfall in Recordation Tax revenue.

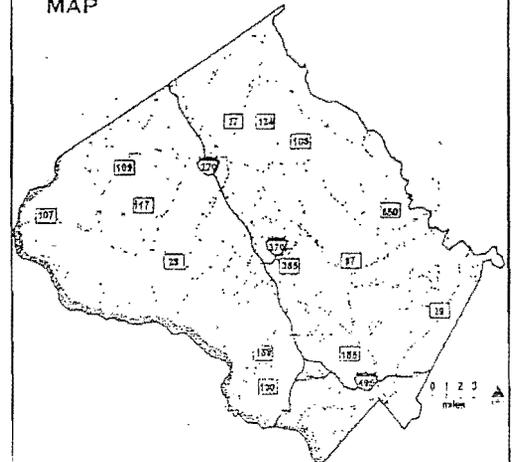
APPROPRIATION AND EXPENDITURE DATA

Date First Appropriation	FY03	(\$000)
First Cost Estimate	FY00	0
Current Scope		
Last FY's Cost Estimate		219,778
Appropriation Request	FY12	18,178
Supplemental Appropriation Request		1,334
Transfer		0
Cumulative Appropriation		98,182
Expenditures / Encumbrances		84,043
Unencumbered Balance		14,139
Partial Closeout Thru	FY09	16,050
New Partial Closeout	FY10	0
Total Partial Closeout		16,050

COORDINATION (\$000)

Salaries and Wages:	FY 11	FYs 12-16
Fringe Benefits:	1893	9465
Workyears:	807	4035
	20.5	102.5

MAP



Board of Education Request

Technology Modernization -- No. 036510

Category
Subcategory
Administering Agency
Planning Area

Montgomery County Public Schools
Countywide
MCPS
Countywide

Date Last Modified
Required Adequate Public Facility
Relocation Impact
Status

November 22, 2011
No
None
On-going

EXPENDITURE SCHEDULE (\$000)

Cost Element	Total	Thru FY11	Est. FY12	Total 6 Years	FY13	FY14	FY15	FY16	FY17	FY18	Beyond 6 Years
Planning, Design, and Supervision	266,100	98,182	18,178	149,740	21,847	25,456	26,805	26,358	23,997	25,277	0
Land	0	0	0	0	0	0	0	0	0	0	0
Site Improvements and Utilities	0	0	0	0	0	0	0	0	0	0	0
Construction	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0
Total	266,100	98,182	18,178	149,740	21,847	25,456	26,805	26,358	23,997	25,277	0

FUNDING SCHEDULE (\$000)

	Total	FY11	FY12	Total 6 Years	FY13	FY14	FY15	FY16	FY17	FY18	Beyond 6 Years
Current Revenue: General	174,832	19,631	5,578	149,623	21,730	25,456	26,805	26,358	23,997	25,277	0
Federal Aid	7,327	5,300	2,027	0	0	0	0	0	0	0	0
Current Revenue: Recordation Tax	83,941	73,251	10,573	117	117	0	0	0	0	0	0
Total	266,100	98,182	18,178	149,740	21,847	25,456	26,805	26,358	23,997	25,277	0

DESCRIPTION

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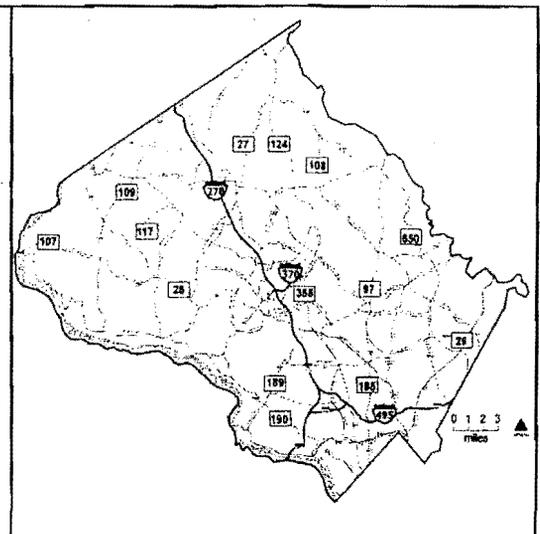
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APPROPRIATION AND EXPENDITURE DATA

Date First Appropriation	FY03	(\$000)
First Cost Estimate		
Current Scope	FY00	0
Last FY's Cost Estimate		216,755
Appropriation Request	FY13	21,847
Appropriation Request Est.	FY14	25,456
Supplemental Appropriation Request		0
Transfer		0
Cumulative Appropriation		116,360
Expenditures / Encumbrances		99,105
Unencumbered Balance		17,255
Partial Closeout Thru	FY10	16,050
New Partial Closeout	FY11	0
Total Partial Closeout		16,050

COORDINATION

(\$000)	FY 13	FYs 14-18
Salaries and Wages:	1893	9465
Fringe Benefits:	807	4035
Workyears:	20.5	102.5



County Executive Recommendation

MCPS Affordability Reconciliation -- No. 056516

Category
Subcategory
Administering Agency
Planning Area

Montgomery County Public Schools
Miscellaneous Projects
Public Schools
Countywide

Date Last Modified
Required Adequate Public Facility
Relocation Impact
Status

January 10, 2012
No
None.
On-going

EXPENDITURE SCHEDULE (\$000)

Cost Element	Total	Thru FY11	Est. FY12	Total 6 Years	FY13	FY14	FY15	FY16	FY17	FY18	Beyond 6 Years
Planning, Design, and Supervision	0	0	0	0	0	0	0	0	0	0	0
Land	0	0	0	0	0	0	0	0	0	0	0
Site Improvements and Utilities	0	0	0	0	0	0	0	0	0	0	0
Construction	0	0	0	0	0	0	0	0	0	0	0
Other	-57,645	0	0	-133,923	-6,873	-19,068	-50,131	-37,118	-17,130	-3,603	76,278
Total	-57,645	0	0	-133,923	-6,873	-19,068	-50,131	-37,118	-17,130	-3,603	76,278

FUNDING SCHEDULE (\$000)

Current Revenue: General	-51,522	0	0	-51,522	-4,532	-6,733	-20,884	-7,653	-5,220	-6,500	0
Current Revenue: Recordation Tax	64,555	0	0	64,555	-2,094	-3,258	14,050	-438	27,354	28,941	0
G.O. Bonds	-129,297	0	7,335	-212,910	-1,186	-17,171	-49,455	-36,299	-59,619	-49,180	76,278
Schools Impact Tax	58,619	0	-7,335	65,954	939	8,094	6,158	7,272	20,355	23,136	0
Total	-57,645	0	0	-133,923	-6,873	-19,068	-50,131	-37,118	-17,130	-3,603	76,278

DESCRIPTION

This project reconciles the Board of Education request with the Executive's recommendation.

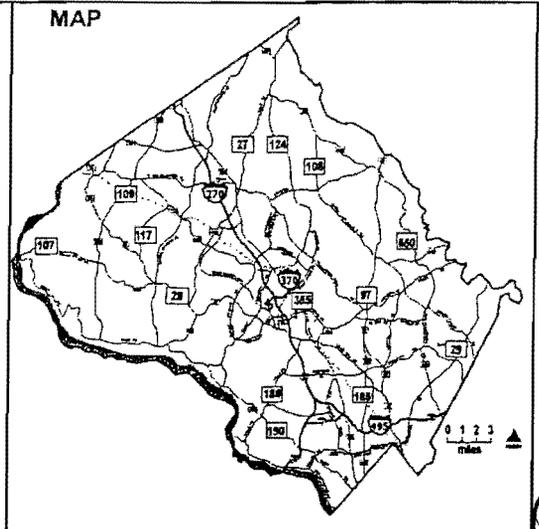
The Executive's priority of educational excellence has resulted in his recommending maintaining 99.7 percent of the amended FY11-16 capital program in the next six-year period. Fiscal constraints lead the Executive to adjust the annual amounts to be affordable within the CIP. The Executive recommends staying within the Spending Affordability Guidelines approved by the County Council in October 2011. The Executive reached the FY13-18 funding level by recommending a two year reopening delay of Richard Montgomery Elementary School #5 to accommodate the relocation of the Children's Resource Center and avoid \$3.45 million in temporary relocation cost as well as a one year delay for two current high school modernizations, and future modernizations for two middle schools and two high schools. The Executive also recommends deleting the Transportation Depot project until we can study alternative options for bus depot operations to ensure that expensive investments in stand alone depots are warranted; maintaining the Technology Modernization project on the currently approved five year cycle; maintaining the Facility Planning project funding at the currently approved FY12 level; and using current revenue funds currently allocated in the Technology Modernization project to help fund the Relocatable Classrooms project's FY13 requested increase.

FISCAL NOTE

FY12 adjustment figures reflect a FY12 amendment to switch school impact tax funds to general obligation bonds in light of the expected impact of Bill 26-11.

APPROPRIATION AND EXPENDITURE DATA		
Date First Appropriation	FY01	(\$000)
First Cost Estimate	FY01	0
Current Scope	FY01	0
Last FY's Cost Estimate		0
Appropriation Request	FY13	-4,532
Appropriation Request Est.	FY14	-6,733
Supplemental Appropriation Request		0
Transfer		0
Cumulative Appropriation		0
Expenditures / Encumbrances		0
Unencumbered Balance		0
Partial Closeout Thru	FY10	0
New Partial Closeout	FY11	0
Total Partial Closeout		0

COORDINATION



Question #1:

Please provide a breakout of the anticipated expenditures in the BOE request for FY13-14, including the replacement cycle payments and any multi-year initiatives or efforts.

Response:

The total FY 2013 Tech Mod funding request of \$21.8 million and \$25.5 million for FY 2014, fall into three categories:

FUNDING CATEGORIES	FY 2013	FY 2014
Number of schools	81	48
Number of computers	19,088	9,199
Funding required to pay for computers and printers purchased for schools in prior years, software licensing fees, and telecommunication networking hardware to connect schools to the network and the Internet	\$12.1 million	\$19.1 million
<ul style="list-style-type: none"> Annual finance payments for computers and printers purchased in previous fiscal years and paid over four years 	\$7.5 million	\$14.3 million
<ul style="list-style-type: none"> Software licensing fees for instructional, productivity, and operating system software 	\$1.2 million	\$1.3 million
<ul style="list-style-type: none"> Telecommunications networking refreshment to provide connectivity of MCPS sites and access to enterprise applications, internet-based phones, and the Web 	\$0.5 million	\$0.5 million
<ul style="list-style-type: none"> Staff to plan, implement, and support the Tech Mod program 	\$2.9 million	\$3.0 million
Funding required to purchase new computers, printers, and new software for the schools scheduled for the FY 2013 Tech Mod refreshment	\$9.1 million	\$5.7 million
<ul style="list-style-type: none"> First-year finance payments for computers, servers, projection devices, printers, and network infrastructure equipment 	\$6.9 million*	\$3.3 million
<ul style="list-style-type: none"> Instructional software, such as <i>MOffice Suite, Math Type, Geometers Sketchpad, TI Smartview, Kidspiration/ Inspiration, Adobe, and other titles</i>, and the purchase of updated web-base versions of selected software titles 	\$0.7 million	\$0.7 million
<ul style="list-style-type: none"> Supplies, materials, and services, such as cables, surge protectors, server installation, hand-held scanners for media centers, and temporary part-time staff to repair and upgrade usable equipment, and disposal of old equipment from schools 	\$1.5 million	\$1.7 million

Funding to refurbish five and six-year-old computers out of warranty for schools whose refreshment schedule was extended to five years beginning in FY 2010	\$0.6 million	\$0.6 million
---	---------------	---------------

***The county executive proposes reducing funding by \$9.561 million in FY 2013 and FY 2014 combined. And, if we remain on a 5 year cycle, \$6.914 would be reduced, still leaving a deficit of \$2.953 million. Please remember that FY 2015 through FY 2018 remains highly problematic in terms of the massive cuts that are assumed in the county executive’s recommendation. In FY 2018 alone there will be a \$4 million deficit.**

Question #2:

How does the BOE anticipate using future e-rate funds?

Response:

Future E-rate funds are projected to be used to provide elementary schools with the similar Promethean interactive technology that has been available across all secondary schools. Minimally, the objective would be to ensure that the Promethean interactive technologies are implemented in at least two-thirds (2/3) of all elementary school classrooms—mirroring the initial secondary implementation.

These interactive technologies are essentially the classroom portal to the world—video conferencing with experts and students in the classroom, engaging in interactive simulations that support STEM fields, participating in virtual fieldtrips to museums around the world, and bringing multimedia presentations and student-centered learning experiences into the classroom.

Question #3:

The BOE request for FY13 assumes resumption of a 4 year replacement cycle, while the County Executive’s recommendation assumes continuation of a 5 year replacement cycle. Please show the funding adjustment for FY13-14 that would be necessary to be consistent with the CE recommendation.

Response:

Please see note below table in response to Question #1.

Question #4:

In the February Committee discussion of the e-rate appropriation, MCPS indicated that a corresponding reduction in current revenue would delay and reduce installation of wireless networks at elementary schools. Please provide additional information about this initiative, including the longer term timeframe and plans for completing the work.

Response:

The ability to teach and learn in mobile, wireless networked learning environments is a key strategy in the district's ongoing efforts to enable staff and student access to content and curriculum that are either already digital or rapidly moving to digital media. Portable and mobile technologies give students better access to their teachers and classmates, enables greater differentiation to meet student learning outcomes, and supports teachers in implementing pedagogical strategies that empower student-centered environments in which technology enables students to be collaborative, self-directed learning leaders.

Although all MCPS middle schools had wireless networks installed to support middle school improvement efforts, currently only six of our comprehensive high schools and 30 elementary schools have wireless networks installed. Implementing this needed learning and technology infrastructure across the remaining 126 schools is estimated to cost \$5.4 million. The \$1.3 million reduction scuttled plans to move up plans to install wireless networks in 23 high impact elementary schools in FY 2012 (enabling the district to leverage substantial discounts available through the E-rate program for these qualifying schools). Without this effort, these 23 schools will be delayed until the year they are scheduled to receive wireless as part of the Technology Modernization (Tech Mod) project in FY 2015. Because of the critical link between building this wireless network infrastructure and maintaining a relevant and competitive instructional program, funding was included in the Board's request that would enable MCPS to complete this build out through FY 2013.

Update

April 11, 2012

As you have no doubt heard, the failure of the Maryland General Assembly late Monday evening, April 9, 2012, to finish the work on all of the bills necessary to complete the state budget and avoid a drastic cut in state aid to education has created uncertainty in the county budget process. There is a serious risk of a reduction of more than \$40 million in state aid to Montgomery County Public Schools (MCPS). We are hopeful that Governor Martin O'Malley will quickly reconvene the Maryland General Assembly for a special session to complete the budget process that was started more than two months ago.

The Board of Education's \$2.13 billion budget request for Fiscal 2013 includes funding for salary increases within the rebased Maintenance of Effort (MOE) budget approved by the Board in February 2012 and recommended by the county executive last month. MOE, which requires the county to spend at least the same amount per student next year as it does this year, increases the budget by \$22 million due to enrollment increases. MCPS also expected \$28 million of additional state aide. Montgomery County Executive Isiah Leggett has recommended full funding of the Board's budget based on the projected revenue.

The Montgomery County Board of Education and the three employee associations—the Montgomery County Education Association (MCEA), the Service Employees International Union (SEIU) Local 500, and the Montgomery County Association of Administrators and Principals (MCAAP)—have been engaged in contract negotiations for the past five months. The uncertainty of the state aid amount makes it necessary to delay action at this time. The Board of Education and the employee associations are committed to salary increases for our employees next year. MCPS employees have not received cost-of-living adjustments for the past three years and have not received their scheduled step increases or longevity increments for the past two years. There is agreement that we need to recognize our employees for their contributions to our students each and every day. We believe that this is the year to provide some stability for our employees, but we need to have greater clarity about the state budget.

We urge the Maryland General Assembly to move forward as quickly as possible to resolve the budget process, in the interest of our students and our staff. We encourage all employees to contact the Governor (<http://www.governor.maryland.gov/mail/>), the Senate president (thomas.v.mike.miller@senate.state.md.us) and the Speaker of the House (michael.busch@house.state.md.us) to urge a special session to be convened to complete the state budget.



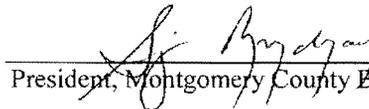
President, Montgomery County Education Association



President, Montgomery County Association of
Administrators and Principals



President, Service Employees International Union
Local 500

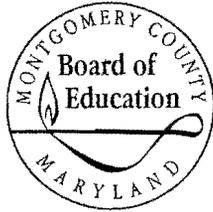


President, Montgomery County Board of Education



Superintendent of Schools

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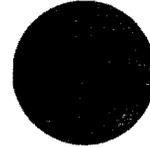
MONTGOMERY COUNTY BOARD OF EDUCATION

850 Hungerford Drive ♦ Rockville, Maryland 20850

April 4, 2012

The Honorable Roger Berliner, President
Montgomery County Council
Stella B. Werner Office Building
100 Maryland Avenue
Rockville, Maryland 20850

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RECEIVED
MONTGOMERY COUNTY
GOVERNMENT

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Dear Mr. Berliner:

As requested in your memorandum of January 18, 2012, this letter provides the information regarding State Expenditure Category 12, an area continually monitored by the Board's Fiscal Management Committee. I look forward to working with you, other County Council members, Board of Education members, and the superintendent of schools to address the fiscal challenges we face.

1. Estimates of the amount of the annual employer contributions to the MCPS pension fund for the next five fiscal years.

The estimated annual required contributions are expected to be the following amounts:

FY 2013*	\$70.5 million	5.42 percent of payroll
FY 2014	\$77.0 million	5.81 percent of payroll
FY 2015	\$81.0 million	6.02 percent of payroll
FY 2016	\$80.0 million	5.85 percent of payroll
FY 2017	\$79.8 million	5.69 percent of payroll
FY 2018	\$81.1 million	5.64 percent of payroll

**FY 2013 provided as a point of reference*

2. A description of the major factors (e.g., salary adjustments, changes in workforce size, investment performance, plan modifications, actuarial assumptions) that affect estimated pension fund contributions over the next five years.

The calculation of the annual employer contribution above is based on actuarial work performed by the Montgomery County Public Schools (MCPS) actuary, Mercer, and submitted to Mrs. Susanne G. DeGraba, chief financial officer, on February 15, 2012 (Attachment A). An addendum was submitted by Mercer (Attachment B) that incorporates the updated market value of assets as of February 14, 2012. The actuary's estimate of the percentage of salary that is required to be contributed each year is applied to the anticipated salaries to be paid from the MCPS operating budget. The percentage contribution is based on actuarial assumptions as follows:

- Salary Adjustments: Aggregate salaries for continuing employees will increase one percent overall over the next three years, reflecting the current economic realities, returning to two percent after three years.

2. Changes in Workforce Size: The number of employees will increase by one percent each year, with salaries adjusted to .57 percent to reflect the lower salaries paid to new employees.
3. Investment Performance: MCPS will achieve its actuarial assumed rate of return on its pension fund of 7.5 percent in all future years. Pension fund investment performance is included through February 14, 2012.
4. Plan Modifications: The pension plan changes effective July 1, 2011, are amortized over a 30-year closed period, the same method used to incorporate the impact of the July 1, 2006, changes.
5. Actuarial Assumptions: Current assumptions of mortality, age at retirement, marital status, and payment option selected will remain the same.

Staff applied the percentages supplied by the actuary to the Fiscal Year (FY) 2013 Board of Education-adopted budget request to calculate the amount of the future required pension contributions.

3. **A written summary of the Board's current strategy to achieve a desired pension funding level ("funded ratio") and the short- and long-term effects of this strategy on the Category 12 budget.**

On February 17, 2012, the MCPS actuary, Mercer, provided a letter (Attachment C) to Mrs. DeGraba about the funded ratio of the MCPS Employees Retirement and Pension Systems. The letter describes the actuarial methodology used to reach 100 percent funding. However, it states that "in the absence of plan changes, assumption changes, or future actuarial gains/losses, the Unfunded Actuarial Accrued Liability will never reach zero" because of the re-amortization process. It is important to note that MCPS continues to fund 100 percent of the actuarially determined contribution.

The Board of Education, the superintendent of schools, and MCPS staff have been working with our actuary to identify strategies that focus on improving the funding level. The actuary letter outlines possible strategies. Strategies that have already been implemented include the following:

- Reduced retiree benefits for newly hired employees as of July 1, 2011.
- Reduced the maximum cost-of-living increases on benefits earned after July 1, 2011.
- Maintaining the contribution level even when projections indicate a reduced percentage.

The Board of Education currently does not have another funding goal to reach a specific funded ratio within a certain period of time. However, the Fiscal Management Committee continues to evaluate possible options. If the Board decided on a funded ratio goal of 80 or 90 percent, the following strategies could be considered:

- Making additional contributions when the funded ratio falls below a certain percentage of the obligation.

- Shortening the amortization period when the funded ratio falls below a certain percentage of the obligation.
- Setting policy to not reduce the contribution level in the future when the funding ratio is below a certain percentage of the obligation, even when the projections calculate a reduced percentage.

There are a number of challenges with any of these strategies. As indicated in the response to #1 above, the operating budget is projected to increase by \$11.5 million over the next five years based on all of the current assumptions and methodology. In addition, the legislature is considering shifting more than \$40 million of state pension costs to MCPS. These increases, along with other financial pressures, will make it difficult to contribute more to the pension each year. If the decision was made to increase the funded ratio to 80 percent by 2018, an additional \$7.5 million would have to be contributed each year for FY 2014 through FY 2018.

4. A comparison of current fiscal year budgeted versus actual revenues and expenditures to date for the Active Employee and Retiree Group Insurance Funds.

The comparison is attached for active employees (Attachment D) and retirees (Attachment E).

5. The projected year-end balance for the Active Employee and Retiree Group insurance funds. This should include an accompanying explanation of the factors causing the variation (e.g., claims experience, plan enrollment) if the projected balance in either Fund differs from what was assumed at the beginning of the year.

These figures are based on revenues and expenses as of February 29, 2012.

Active employees

Beginning fund balance	\$21.6 million
Anticipated change to fund balance	<u>1.1 million</u>
Projected ending fund balance	\$22.7 million

Retirees

Beginning fund balance	\$ 8.8 million
Anticipated change to fund balance	<u>4.8 million</u>
Projected ending fund balance	\$13.6 million

The active fund balance is projected to increase slightly, by only \$1.1 million. It was expected that the fund balance would be reduced by several million dollars, but claims are running below projections and there is a slight increase in revenue.

The projected retiree fund balance increase is lower than expected because revenues are lower. While there has been a 2 percent increase in the number of retirees, there has been a decrease in the under-65 retiree enrollment of approximately 9 percent, which has reduced claims. When retirees reach age 65, Medicare becomes their primary health plan and the MCPS plan becomes a supplement, reducing MCPS claims exposure.

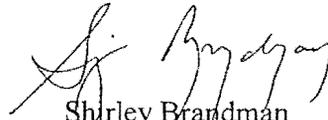
The Honorable Roger Berliner

4

April 4, 2012

Members of the Board of Education, the superintendent of schools, and MCPS staff are prepared to work with the County Council and Council staff to provide additional clarification as needed.

Sincerely,

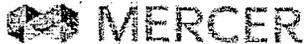


Shirley Brandman
President

SB:sgd

Copy to:

Members of the County Council
Members of the Board of Education
Dr. Starr
Mr. Bowers
Mrs. DeGraba
Mr. Ikheloa



Douglas L. Rowe, FSA, MAAA, EA
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Via Electronic Mail

Ms. Susanne DeGraba
Chief Financial Officer
Montgomery County Public Schools
850 Hungerford Drive
Rockville, MD 20850-1747

February 15, 2012

Subject: Six-Year Projection of Board Contributions to MCPS's Pension Plans

Dear Sue:

We estimated Board contributions to the Montgomery County Public Schools Employees' Retirement and Pension Systems (the "Plan") for the next six years under the investment return/contribution assumptions used for the July 1, 2011 valuation. As a reminder, this assumes assets will earn 7.5% gross (before investment expenses are subtracted). The actual contribution percentage will vary and may vary significantly from the results of this projection due to actuarial gains/losses and demographic changes.

The results are summarized in the table below.

Valuation Date	Fiscal Year (FY) Ending	Board Contribution as % of Payroll	% Funded AVA Basis	% Funded MVA Basis
July 1, 2011	June 30, 2013	5.42	70.1	68.5
July 1, 2012	June 30, 2014	5.85	67.4	64.7
July 1, 2013	June 30, 2015	6.15	66.7	66.8
July 1, 2014	June 30, 2016	6.05	69.5	68.7
July 1, 2015	June 30, 2017	5.95	71.9	71.0
July 1, 2016	June 30, 2018	5.96	73.0	73.0
July 1, 2017	June 30, 2019	5.87	74.9	74.9

The contribution increases as a percentage of payroll through FY2015 are due to past asset losses (including those from July 1, 2011 to December 31, 2011) being recognized in the actuarial value of assets. As an offset to the contribution increases due to these losses, the contribution savings are increasing over time as more and more participants are covered by the new plan features for new hires described in the July 1, 2011 actuarial valuation report.



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For a historical perspective, the table below shows the Board contributions from July 1, 1994 until now.

Valuation Date	Fiscal Year Ending	Board Contribution as % of Payroll
July 1, 1994	June 30, 1996	2.92
July 1, 1995	June 30, 1997	3.30
July 1, 1996	June 30, 1998	2.83
July 1, 1997	June 30, 1999	2.53
July 1, 1998	June 30, 2000	2.11
July 1, 1999	June 30, 2001	1.98
July 1, 2000	June 30, 2002	1.89
July 1, 2001	June 30, 2003	1.86
July 1, 2002	June 30, 2004	2.06
July 1, 2003	June 30, 2005	2.74
July 1, 2004	June 30, 2006	3.30
July 1, 2005	June 30, 2007	4.85
July 1, 2006	June 30, 2008	4.59
July 1, 2007	June 30, 2009	4.53
July 1, 2008	June 30, 2010	4.53*
July 1, 2009	June 30, 2011	4.67
July 1, 2010	June 30, 2012	5.12 ⁺

*The valuation resulted in a 4.37% Board contribution rate, but MCPS continued with the same contribution rate as the previous valuation to avoid a larger increase from fiscal year 2010 to fiscal year 2011.

+ Beginning with the July 1, 2010 valuation report, the contribution was increased with interest from July 1 to October 1 based on expected timing of the actual contribution. The FY2012 Board contribution was later revised to 5.12%, as described in our May 13, 2011 letter, to reflect the plan changes effective July 1, 2011. Prior to reflecting the plan changes, the Board contribution would have been 5.57% of pay.

The last half of the 1990s was characterized by high asset returns, allowing a drop in the Board contributions. The challenging market environment during 2001-2003 caused Board contributions to increase. The plan amendment associated with House Bill 1737 caused the spike in Board contribution for the fiscal year ending June 30, 2007. All increases in cost sharing from the amendment (i.e. phased increase in employee contributions) were reflected fully in the contribution for the fiscal year ending June 30, 2009. MCPS's favorable returns on assets during 2004-2007 helped to lower contributions in FY2008 & 2009. However, the



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FY2008-09 investment losses reversed these gains, and will cause higher future contributions as the asset losses are reflected in the smoothed asset value.

There has been a great deal of volatility in the contribution rate in the past, and the causes of this volatility will continue into the future. One of the main causes of this volatility is the asset returns the fund generates. To calculate contributions, MCPS uses an actuarial value of assets which smoothes market returns over a 5-year period, but even with this smoothing technique, contributions and funded ratios can be volatile. The following table illustrates a distribution of financial outcomes over the course of a one-year time period including the potential change in the plan's funded status and the corresponding impact on the contribution required for the fiscal year ending in 2014 assuming that all actuarial assumptions are met. Please note that at the 50th percentile the Board contribution is lower than the corresponding contribution in the 6-year projection table above because it incorporates an expected 7.50% investment return, while the 6-year projection incorporates actual unfavorable investment performance through December 31, 2011.

Fiscal Year (FY) Ending	Percentile	Board Contribution as % of Payroll	% Funded AVA Basis	% Funded MVA Basis
June 30, 2014	5th	6.05	65.6	55.4
June 30, 2014	10th	5.98	66.2	58.7
June 30, 2014	25th	5.86	67.3	64.2
June 30, 2014	50th	5.73	68.5	70.3
June 30, 2014	75th	5.60	69.8	76.4
June 30, 2014	90th	5.49	70.9	82.0
June 30, 2014	95th	5.42	71.5	85.3

The following statement can be used to interpret the first row of this chart: there is a 5% chance (or 1 chance in 20) that asset returns will be bad enough to result in a funded status of 65.6% or lower, and a Board contribution of 6.05% of payroll or higher. Similarly, there is a possibility that higher than expected returns will actually decrease the future board contributions needed to fund the plan. These percentages assume a normal distribution of returns around the mean. There is a school of thought that a normal distribution understates the portion of returns in the tails (i.e. below 10% or above 90%) of the curve.

Assumptions and Methods for Contribution Projection

In order to complete this projection, we used the following methods and assumptions:

- A 7.5% annual return on the market value of assets (gross) from the actual December 31, 2011 assets to June 30, 2012 and all future years. Reflecting the updated asset amount as of December 31, 2011 results in an \$88 million loss compared to the 7.5% assumption
- Payroll and employee contributions for the current number of active participants are assumed to increase by 1.00% for three years after 2012 to reflect lower across the board increases. After three years, we assume that payroll will return to an ultimate rate of 2% annual increases.
- Based on guidance from MCPS, the active population is assumed to grow at 1% per year. In order to incorporate this guidance into the projections, we have made adjustments to the rate at which normal cost and total payroll will increase. The payroll is assumed to grow with an additional annual factor that takes into account the lower compensation typically paid to new hires compared to the average for the population. Since the average pay for participants with less than or equal to one year of service was 57% of the average pay for all participants, payroll was assumed to grow by an additional 0.57% each year instead of 1.00%. Similarly, the normal cost for new participants is generally lower than the normal cost of an average participant. We assumed that the normal cost increased proportionally to the normal cost of participants as if they were in the "new plan" who had less than or equal to one year of service in the 2011 valuation. Since the average normal cost for participants with less than or equal to one year of service as of July 1, 2011 is 41% the average normal cost for the whole plan, normal cost was assumed to grow at by an additional 0.41% for determining the FY 2014 contribution.
- Normal cost for benefits as percent of payroll is assumed to increase by 1% per year in order to reflect the aging of MCPS' workforce given the current economic environment. This results in a normal cost of 3.61% of payroll for the FY2014 valuation (before the 0.41% load discussed in the bullet above). Normal cost is the value of benefits accrued during the year, and is one component of the board's contribution rate after being adjusted for employee contributions.
- Total expenses are assumed to be 0.70% of beginning of year market value of assets
- Benefit payments increase at a constant rate of 5.63% per year, which is the average rate of increase from 2008-2011.



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- We amortize unrecognized gains and losses over an open 15-year period. The amount of the amortization is increasing over the next 2 years due to the smoothing of the large asset losses in FY2009.
- The results of the plan change effective June 30, 2011 was amortized over a closed 30 year period, which is the same as the method used to amortize the plan change made in 2006.
- We assumed that MCPS will contribute the policy contribution from the valuation each year, which is the amount required to fund the normal cost and amortize the unfunded actuarial accrued liability.
- Benefit payments, employee contributions and expenses are assumed to occur at the middle of each year, and employer contributions are assumed to occur 3 months into each year.
- We assumed there will be no other gains or losses other than investment (due solely to recognition of past asset losses), pay and retiree COLAs. In practice, it is quite likely there will be gains or losses due to future asset performance, pay increases, COLAs and demographics.
- For the contribution volatility exhibit, we have relied on portfolio volatility from expected based on Mercer's Capital Market Outlook on a one-year time horizon.
- In order to incorporate the phase-in of the savings from the July 1, 2011 plan change, we first calculated the estimate ultimate savings of the plan change. We calculated the Normal Cost (NC) as if all of the current EPS participants had always been employed under the new plan and compared that to the NC of the same population assuming they had always been employed under the current accrual rate and contribution environment.
- With the ultimate impact of the plan change calculated, the phase-in of savings in the first year is calculated as the percent reduction in NC if all participants with less than or equal to 1 year of service were replaced with similar participants under the new plan. This percentage reduction was applied to the NC previously calculated for the July 1, 2011 actuarial valuation report. The process of using current, short service employees as proxies for future hires was repeated for participants with less than or equal to 2, 3, 4, 5, and 6 years of service for the 2013-2017 valuations accordingly. Furthermore, because of the below normal turnover experienced over the past few years, the reduction factor was amplified by assuming that the future turnover would be identical to the average experience for FY 2006-2008.
- Unless otherwise noted, we used the same assumptions and plan provisions as for the 2011 valuation. We assumed there will be no changes to the valuation assumptions or provisions in the future.



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Ms. Susanne DeGraba
Montgomery County Public Schools

Important Notices

Mercer has prepared this analysis exclusively for the Montgomery County Public Schools (MCPS); it may not be relied upon by any other party. Mercer is not responsible for reliance upon this letter by any other party.

The only purpose of the letter is to provide an idea of the possible pattern of future contribution rates and funded ratio changes. The letter may not be used for any other purpose; Mercer is not responsible for the consequences of any unauthorized use.

Decisions about benefit changes, granting new benefits, investment policy, funding policy, benefit security and/or benefit-related issues should not be made on the basis of an analysis using a single set of assumptions, but only after careful consideration of alternative economic, financial, demographic and social factors, including financial scenarios that assume sustained investment losses.

MCPS is solely responsible for selecting the plan's investment policies, asset allocations and individual investments. Mercer's actuaries have not provided any investment advice to MCPS.

This letter includes or is derived from projections of future funding and/or accounting costs and/or benefit related results. To prepare these projections or results, various actuarial assumptions, as described in this letter and the 2011 actuarial valuation reports were used to project a limited number of scenarios from a range of possibilities. However, the future is uncertain, and the plan's actual experience will likely differ from the assumptions utilized and the scenarios presented; these differences may be significant or material. In addition, different assumptions or scenarios may also be within the reasonable range and results based on those assumptions would be different. This letter has been created for a limited purpose, is presented at a particular point in time and should not be viewed as a prediction of the plan's future financial condition. To prepare the results shown in this letter, various actuarial methods, as described in this letter and the 2011 actuarial valuation report were used.

Because modeling all aspects of a situation is not possible or practical, we use summary information, estimates, or simplifications of calculations to facilitate the modeling of future events in an efficient and cost-effective manner. We also exclude factors or data that are immaterial in our judgment. Use of such simplifying techniques does not, in our judgment, affect the reasonableness of projected valuation results for the plan.

To prepare this analysis, actuarial assumptions as described herein and in the July 1, 2011 actuarial valuation report are used in a forward looking financial and demographic model to



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Montgomery County Public Schools

present a single scenario from a wide range of possibilities. The results based on that single scenario are included in this letter. The future is uncertain and the plans' actual experience will differ from the assumptions used; these differences may be significant or material because these results are very sensitive to the assumptions made and, in some cases, to the interaction between the assumptions.

Different assumptions or scenarios within the range of possibilities may also be reasonable and results based on those assumptions would be different. As a result of the uncertainty inherent in a forward looking projection over a very long period of time, no one projection is "correct" and many alternative projections of the future could also be regarded as reasonable. Two different actuaries could, quite reasonably, arrive at different results based on the same data and different views of the future. Due to the limited scope of Mercer's assignment, Mercer will not perform or present an analysis of the potential range of future possibilities and scenarios unless requested. At MCPS's request, Mercer is available to determine the cost of a range of scenarios.

Actuarial assumptions may also be changed from one valuation to the next because of changes in mandated requirements, plan experience, changes in expectations about the future and other factors. A change in assumptions is not an indication that prior assumptions were unreasonable when made.

The calculation of actuarial liabilities for valuation purposes is based on a current estimate of future benefit payments. The calculation includes a computation of the "present value" of those estimated future benefit payments using an assumed discount rate; the higher the discount rate assumption, the lower the estimated liability will be. For purposes of estimating the liabilities (future and accrued) in this letter, you selected an assumption based on the expected long term rate of return on plan investments. Using a lower discount rate assumption, such as a rate based on long-term bond yields, could substantially increase the estimated present value of future and accrued liabilities, thus increasing the savings estimated in this letter, but also increasing the cost of the remaining benefits.

Because analyses are a snapshot in time and are based on estimates and assumptions that are not precise and will differ from actual experience, contribution calculations are similarly imprecise. There is no actuarially "correct" level of contributions for a particular plan year.

Valuations do not affect the ultimate cost of the Plan, only the timing of contributions and/or expense recognition into the Plan. Plan funding occurs over time. Contributions not made one year, for whatever reason, including errors, remain the responsibility of the plan sponsor and can be made in later years. If the contribution levels over a period of years are lower or higher than necessary, it is normal and expected practice for adjustments to be made to future contribution levels to take account of this with a view to funding the plan over time.



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Data, computer coding, and mathematical errors are possible in the preparation of an analysis involving complex computer programming, thousands of calculations and data inputs, and limited time to complete the analysis. Errors in an analysis discovered after its preparation may be corrected by amendment to the analysis letter.

Assumptions used are based on the last experience study, as adopted by the Board. MCPS is responsible for selecting the plan's funding policy, actuarial valuation methods, asset valuation methods, and assumptions. The policies, methods and assumptions used in this analysis are those that have been so prescribed and are described in the July 1, 2010 valuation report. MCPS is solely responsible for communicating to Mercer any changes required thereto.

To prepare this analysis, Mercer used and relied on financial data and participant data supplied by MCPS and summarized in the July 1, 2011 actuarial valuation report. Mercer also included an updated trust asset value of \$990 million provided by Jon Grabel at January 1, 2012. You are responsible for ensuring that such participant data provides an accurate description of all persons who are participants under the terms of the Plan or otherwise entitled as of the date of the analysis that is sufficiently comprehensive and accurate for purposes of this analysis. Although Mercer has reviewed the data in accordance with Actuarial Standards of Practice No. 23, Mercer has not verified or audited any of the data or information provided.

Mercer has also used and relied on the plan documents, including amendments, and interpretations of plan provisions, supplied by MCPS and will assume for purposes of the analysis that copies of any official plan document, including all amendments and collective bargaining agreements, as well as any interpretations of any such document, have been provided to Mercer along with a written summary of any other substantive commitments. MCPS is solely responsible for the validity, accuracy and comprehensiveness of this information. If the data or plan provisions supplied are not accurate and complete, the analysis results may differ significantly from the results that would be obtained with accurate and complete information; this may require a later revision of the analysis. Moreover, plan documents may be susceptible to different interpretations, each of which could be reasonable, and that the different interpretations could lead to different valuation results.

MCPS should notify Mercer promptly after receipt of this letter if MCPS disagrees with anything contained in the report or is aware of any information that would affect the results of the report that has not been communicated to Mercer or incorporated therein. The report will be deemed final and acceptable to MCPS unless MCPS promptly provides such notice to Mercer.

The information contained in this document (including any attachments) is not intended by Mercer to be used, and it cannot be used, for the purpose of avoiding penalties under the Internal Revenue Code that may be imposed on the taxpayer.



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Professional Qualifications

We are available to answer any questions on the material contained in the report, or to provide explanations or further details as may be appropriate. The undersigned credentialed actuaries meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report. We are not aware of any direct or material indirect financial interest or relationship, including investments or other services that could create a conflict of interest, that would impair the objectivity of our work. Please call Doug Rowe at 410 347 2806 or Colin Bracis at 202 331 5294 if you have any questions or concerns regarding the projections.

Sincerely,

Douglas L. Rowe, FSA, MAAA, EA

Colin Bracis, ASA, EA, MAAA

Copy:
Jonathan Gabel, MCPS
Matt Fishel, Mercer

Enclosure

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Addendum to the February 15, 2012 "Six-Year Projection of Board Contributions to MCPS's Pension Plans" Letter

As you requested, we have updated the projected Board contributions and funded ratios to the Montgomery County Public Schools Employees' Retirement and Pension Systems (the "Plan") for the next six years to incorporate the updated market value of assets of \$1,040 million as of February 14, 2012 provided by Jon Gabel.

The results are summarized in the table below.

Valuation Date	Fiscal Year (FY) Ending	Board Contribution as % of Payroll	% Funded AVA Basis	% Funded MVA Basis
July 1, 2011	June 30, 2013	5.42	70.1	68.5
July 1, 2012	June 30, 2014	5.81	68.0	67.7
July 1, 2013	June 30, 2015	6.02	68.1	69.7
July 1, 2014	June 30, 2016	5.85	71.5	71.8
July 1, 2015	June 30, 2017	5.69	74.4	74.0
July 1, 2016	June 30, 2018	5.64	75.9	75.9
July 1, 2017	June 30, 2019	5.55	77.6	77.6

Data, assumptions, methods, and plan provisions utilized in the above calculations are detailed in the February 15, 2012 letter.

Please also refer to the Important Notices outlined in the February 15, 2012 letter.

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Douglas L. Rowe, FSA, MAAA, EA
Principal

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Via Electronic Mail

Susanne G. DeGraba
Chief Financial Officer
Montgomery County Public Schools
850 Hungerford Drive
Rockville, MD 20850

February 17, 2012

Subject: Funded ratio of the Employees' Retirement and Pension Systems

Dear Sue:

The purpose of this letter is to respond to your question about ways to improve the funded ratio of the Employees' Retirement and Pension Systems. We will leave out most of the theory and just cover the options themselves for improving the plan's funded ratio. If you want more background or theory, please let us know. Some of the options may not be practical now or anytime soon, but we'll mention them anyway for the sake of comprehensiveness.

You've probably seen the following equation used to explain the ultimate cost of retirement programs:

Contributions (employer and employee) + investment earnings = Benefits + expenses

The same four elements control your funded ratio, but with a few twists.

For example, MCPS already contributes each year to cover plan expenses. So the only way that reducing plan expenses would help to improve the funded ratio is if you continued to contribute the higher amount even after reducing expenses.

Lower benefits reduce liabilities and, everything else being equal, improve the funded ratio. Lower benefits can come from plan amendments, such as last year's change or lower pay as your plan has experienced over the last couple of years due to budget constraints. Someone using employer contributions as the measure of individual pension remuneration and believing in a total remuneration approach might argue for lower pay increases when pension contributions increase regardless of budget constraints.

Higher investment income improves the funded ratio. The amount of investment income can be increased by increasing plan assets. A higher rate of investment income usually has risk implications and its timing can't be controlled. For many years during the last quarter of the 20th century, investment gains led to significant improvements in funded ratios for many public sector plans and, in some plans, significant improvements in benefits. Few investment advisors seem to expect this to be a significant source of actuarial gain over the next 10 years considering that

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investment performance needs to exceed the Plan's investment return assumption of 7.50% in order to generate gains. Reducing the assumption could lead to actuarial gains, but would also reduce the Plan's funded ratio immediately.

Higher employee contributions only improve the funded ratio if the employer doesn't reduce its contributions correspondingly. When the budget allows, you might consider reversing some or all of the reduction in MCPS contributions that you recognized for the July, 2011 increase in employee contributions until the funded ratio reaches the desired level.

That leaves higher employer contributions as the only other way to improve the funded ratio more quickly than it otherwise would improve. Increasing contributions to improve the funded ratio involves a trade off between higher volatility in contributions (if you only want to contribute extra when the funded ratio is below a desired level), higher contributions (if you're willing to contribute more regardless of the funded ratio) and slower improvement in funding ratio. In other words, if you want to increase the funded ratio quickly when it's low, you have to be ready to increase contributions quickly in meaningful amounts. Before we go into detail on forms of higher contributions, we would like to describe what the combination of actuarial cost methods and current GASB standards are suppose to do and what can go wrong.

Most¹ actuarial cost methods produce (1) a Normal Cost and (2) an Unfunded Actuarial Accrued Liability (UAAL) to amortize to reach 100% funding. If the amortization period is closed (a GASB term meaning that the remaining amortization period is reduced each year until it reaches zero), in the absence of future actuarial gains/losses, assumption changes, or plan changes, the UAAL will eventually reach zero. GASB allows average amortization periods of up to 30 years and allows both level dollar amortization and level percentage of assumed payroll amortization. Long amortization periods and level percentage of assumed payroll amortization can result in the UAAL increasing for many years before it finally decreases back to its original amount and then to zero. The plan change portions of MCPS's UAAL are in this increase period now. For example, the UAAL for the 2006 improvement increased from \$124.2 million at July 1, 2010 to \$125.2 million at July 1, 2011, but this \$1-million increase is only 0.07% of the AAL so its impact of the funded ratio is minimal. Please also note that the funded ratio can improve even while the UAAL is increasing.

GASB also allows open amortization. This means that in the absence of plan changes, assumption changes, or future actuarial gains/losses, the UAAL will never reach zero because the

¹ A relatively small percentage of plans use a cost method that does not directly calculate an Actuarial Accrued Liability (AAL) each year.

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UAAL is re-amortized over its set period every year. MCPS uses this method and a 15 year amortization period for actuarial gains/losses and assumption changes in order to reduce the volatility of contribution requirements. You might say that this approach depends on future actuarial gains to offset past actuarial losses in order to reach 100% funding. Or you might say that this approach serves to continually improve the plan's funded status and funding ratio, but by a smaller and smaller margin each year so that the funded status will never reach 100% without actuarial gains, assumption changes, or plan changes. Under the GASB Exposure Drafts, continuing to use this method may have negative consequences for plan accounting, i.e. the required use of a discount rate based on a combination of expected plan asset returns and municipal bond returns (GASB has stated that it is not trying to govern plan funding).

Relatively few plans use a cost method that does not directly calculate an Actuarial Accrued Liability (AAL) each year.

The things that can prevent this designed progression to 100% funding are actuarial experience losses (e.g. lower than assumed investment returns, higher than assumed pay increases or retiree COLAs, retirees living longer than assumed, a lag in actually contributing higher amounts when contribution requirements are increasing, etc.), changes in actuarial assumptions, and plan improvements. Of course, actuarial gains and benefit reductions can improve the funded ratio.

At July 1, 2011, MCPS had UAAL of \$435 million due to a combination of:

- The UAAL amount of \$176 million in 2005 when the amortization period was re-set. This included assumption changes made at that time, one of which was the reduction in the investment return assumption from 8% to 7.5%.
- A net of \$108 million due a plan improvement in 2006 and a benefit reduction in 2011
- Actuarial losses and changes in actuarial assumptions since 2005

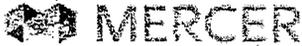
In the addendum to our letter dated February 15, 2012, our projections show the AVA funded ratio improving from 70.1% at July 1, 2011 to 77.6% at July 1, 2017 based on February 14, 2012 plan assets (or 74.9% projecting from December 31, 2011 assets which were \$50 million lower). During this projection period \$24 million of pre-July 1, 2011 actuarial investment losses (compared to the assumption) will be recognized in the AVA as will approximately \$40 million using February 14, 2012 plan assets (or \$88 million using December 31, 2011 assets) of actuarial investment losses from July 1, 2011 through December 31, 2011. Those projections assume no other actuarial gains/losses except the impact of the one year lag between the valuation date and the date that the contribution rate changes. The projections do not show steady improvement from 70.1% to

77.6% (or 74.9%). They show the AVA funded ratio dipping to 68.0% (or 66.7%) due to recognition of investment losses in the AVA and then steadily improving to 2017.

Here are some possibilities for improving the funded ratio more than it would otherwise improve.

- Choose a dollar amount of additional contributions. Since the AAL was \$1.454 billion at July 1, 2011, an additional contribution of \$14.54 million on that date would have improved the funded ratio by 1%. The AAL is likely to grow for the foreseeable future, so the cost of each 1% improvement is likely to grow. An extra half or quarter of a percent might be worthy goals also, with proportionately lower cash requirements. For any given dollar amount or improvement percentage, multi-year additional contributions will have more impact than only one additional contribution.
 - A variation on the extra contribution concept is to make the extra contributions any time the funded ratio falls below your minimum desired level and to make the extra contributions until the funded ratio returns to the desired level. This policy could result in high contribution volatility.
- One way to increase contributions is to reduce the amortization period. For accounting purposes GASB has proposed a period equal to the average remaining expected work years of active participants. We'll be measuring that period for MCPS as we look at the GASB proposals. The period probably is closer to 10 years than it is to 15 and may be even shorter than 10 years. If we had used a 10 year amortization period in the 2011 valuation instead of a combination of 15, 25 and 29 years remaining, the contribution for FY 2013 would have increased by \$16.8 million. You could phase down the amortization period instead of jumping all the way to 10 years. Using 15 years for all UAAL would have only increased the FY 2013 contribution by \$2.6 million; using 14 years would have meant a \$4.6 million increase (cumulative, not in addition to the \$2.6 million).
- Alternatively, you might accelerate the amortization only for the portion of UAAL below a specified minimum goal. You were \$143.9 million below 80% funded on July 1, 2011 and \$289.3 million below 90% funded at that time. Additional contributions to fund those shortfalls over 5 or 10 years instead of 15 would have been as follows.

Amortization period	Funding goal	
	80%	90%
5 years	\$18.9 million	\$38.0 million
10 years	\$4.7 million	\$9.4 million



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If you had that policy in 2010, the additional contributions would have been even higher. Please note that we do not mean to imply that either 80% or 90% should be your ultimate funding ratio target, only that they may be sufficient targets for accelerated contributions.

While improvement in the funded ratio is an important goal, the need for additional steps to speed that improvement and the priority of that goal versus other budget considerations are less clear. In the absence of further actuarial losses or plan improvements, the six year projections in the February 15, 2012 letter show the funded ratio dipping then improving over the next six years. Only you can decide whether that improvement will be sufficient to satisfy bond rating agencies, constituents, etc. Your 7.5% investment return assumption and 15 year amortization period probably are better than the average public sector plan's already, but they aren't on the leading edge. A shorter amortization period would move you toward the leading edge and closer to the GASB Exposure Drafts' *accounting* requirements. Remember that GASB only governs accounting, not funding. We recommend that you consider the implications under a range of economic scenarios before making any change in funding policy.

The liability, contributions and funded ratios in this letter are based on the data, assumptions, actuarial methods, plan provisions and important notices shown in the 2011 Actuarial Valuation Report dated October 17, 2011 and the Six-Year Projection letter dated February 15, 2012.

The undersigned credentialed actuaries meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this document. We are not aware of any relationship, including investments or other services that could create a conflict-of-interest that would impair our objectivity.

Sincerely,

Douglas L. Rowe, FSA, MAAA, EA
Principal

Colin Bracis, ASA, MAAA, EA,
Senior Associate

MF/DLR:CB/elb

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MCPS Employee Benefit Trust Fund
Schedule of FY2012 Actual Expenditures for the Active Employee Trust Account
As of June 30, 2012 (Actual Through February 29, 2012)

	FY12 Projection	YTD actual	Projected Remaining	Total	Variance Fav - (Unfav)
Revenue Receipts:					
County Appropriation	215,479,223	211,391,723	4,087,500	215,479,223	-
Enterprise Funds	8,683,933	5,182,596	3,501,336	8,683,933	-
Capital Projects	775,679	485,567	245,219	730,785	(44,894)
Supported Programs	6,577,451	4,608,540	2,680,810	7,289,350	711,899
Employee Payments	22,559,100	14,041,405	8,682,716	22,724,121	165,021
Optional Life	686,026	409,163	271,328	680,491	(5,535)
Investment Earnings	29,370	14,553	11,882	26,435	(2,935)
Rebates/ Recoveries/Other	5,923,584	4,805,946	939,575	5,745,521	(178,063)
Total Revenue	260,714,366	236,481,749	24,878,110	261,359,860	645,494
Expenditures:					
Premiums:					
Prudential Life	3,506,400	2,361,515	1,195,385	3,556,900	(50,500)
Aetna Dental	1,920,800	1,217,556	619,454	1,837,010	83,790
Kaiser Permanente Health Plan	39,675,600	25,347,339	13,449,386	38,796,725	878,875
All Other	9,893,280	6,709,888	3,395,144	10,105,033	(211,753)
Claims:					
Dental	13,171,785	8,611,118	4,486,900	13,098,018	73,767
Health	140,959,162	90,574,266	47,263,800	137,838,066	3,121,096
Prescription	53,596,565	35,625,461	18,311,800	53,937,261	(340,696)
Vision	172,034	94,623	50,500	145,123	26,911
Administrative Expenses	940,197	28,354	920,089	948,443	(8,246)
Total Expenditures	263,835,823	170,570,120	89,692,458	260,262,578	3,573,246
	(3,121,457)			1,097,282	4,218,739

MCPS Employee Benefit Trust Fund
Schedule of FY 2012 Actual Expenditures for the Retired Employee Trust Account
As of June 30, 2012 (Actual Through February 29, 2012)

	FY12 Projection	YTD actual	Projected Remaining	Total	Variance Fav - (Unfav)
Revenue Receipts:					
County Appropriation	48,105,935	47,193,435	912,500	48,105,935	-
Retiree Payments	28,547,417	19,286,284	9,515,806	28,802,090	254,673
Investment Earnings	8,224	4,053	2,741	6,794	(1,430)
Rebates/ Recoveries/Other	3,737,000	869,371	724,500	1,593,871	(2,143,129)
Medicare Part D Reimbursements	4,205,000	3,108,400	907,600	4,016,000	(189,000)
Total Revenue	84,603,576	70,461,542	12,063,147	82,524,690	(2,078,886)
Expenditures:					
Premiums:					
Prudential Life	1,837,200	1,384,440	702,800	2,087,240	(250,040)
Aetna	336,000	232,823	119,600	352,423	(16,423)
Kaiser Permanente Health Plan	6,403,800	4,372,775	2,149,600	6,522,375	(118,575)
All Other	3,306,600	2,287,560	1,147,600	3,435,160	(128,560)
Claims:					
Dental	3,986,506	2,745,659	1,477,000	4,222,659	(236,153)
Health	33,069,861	20,261,441	11,039,500	31,300,941	1,768,920
Prescription	29,130,348	18,912,024	10,424,000	29,336,024	(205,676)
Vision	56,480	36,864	18,800	55,664	816
Administrative Expenses					
	386,799	8,185	379,915	388,100	(1,301)
Total Expenditures	78,513,594	50,241,771	27,458,815	77,700,586	813,008
	<u>6,089,982</u>			<u>4,824,103</u>	<u>(1,265,879)</u>