GO ITEM #1
June 25, 2012

MEMORANDUM

June 21, 2012

TO: Government Operations and Fiscal Policy Committee

FROM: Stephen B. Farber, Council Staff Director SBF
Jacob Sesker, Senior Legislative Analyst JS

SUBJECT: Resolution to Approve the Tax Supported Fiscal Plan Summary for the FY13-18 Public Services Program

Section 302 of the County Charter states in part: *The County Executive shall submit to the Council, not later than March 15 of each year, comprehensive six-year programs for public services and fiscal policy. The six-year programs shall require a vote of at least five Councilmembers for approval or modification. Final Council approval of the six-year programs shall occur at or about the date of budget approval.*

Background

On June 29, 2010 the Council approved policies on reserve and other fiscal matters in Resolution No. 16-1415. Action clause 5 states: ***The County should adopt a fiscal plan that is structurally balanced, and that limits expenditures and other uses of resources to annually available revenues. The fiscal plan should also separately display reserves at policy levels, including additions to reserves to reach policy level goals.*** On November 29, 2011 the Council clarified and strengthened these policies in Resolution No. 17-312, which retained the fiscal plan language.

Pursuant to these policies, on June 29, 2010 the Council approved the Tax Supported Fiscal Plan Summary for the FY11-16 Public Services Program in Resolution No. 16-1416. On June 28, 2011 the Council approved the Tax Supported Fiscal Plan Summary for the FY12-17 Public Services Program in Resolution No. 17-184.

On June 19 the Council introduced a resolution to approve the Tax Supported Fiscal Plan Summary for the FY13-18 Public Services Program. See the resolution on ©1-4. **The Committee is scheduled to review the resolution at this meeting.** The Council is scheduled to act on June 26.

The FY13-18 Tax Supported Fiscal Plan Summary, like all editions of the fiscal plan, is a snapshot in time that reflects current fiscal projections and policy assumptions. The one certainty from past experience is that as conditions change, future versions of the plan will change as well. What this version shows – as Rows 25 and 34 on ©3 make clear – is what we already know intuitively: that absent a far more robust economic recovery than has occurred to date, strict adherence to the County's fiscal policies will sharply limit the resources available to allocate to the agencies in FY14 and beyond.

Issues

1. Resources available to allocate to the agencies. Rows 25 and 34 show that based on current fiscal projections and policy assumptions, resources available to allocate to the agencies in FY14-18 will change by -1.1%, +2.0%, +3.3%, +3.0%, and +2.8%, respectively. These changes are far smaller than the 5.0% increase reflected in the approved FY13 budget. This increase came after the sharply constrained budgets of FY10-12 caused by the impact of the Great Recession.[1]

2. Focus on FY14. The **overall 1.1% decline** in agency resources projected for FY14 is broken out by agency on rows 29-32. Because of State maintenance of effort requirements for MCPS and Montgomery College, plus year two of the State's pension cost shift for MCPS, the County contribution is **up 1.5% for MCPS** and is **flat for the College.**[2] The impact of these MOE requirements on the other two agencies, MNCPPC and County Government (MCG), is dramatic: **both are down 5.2%.**

3. Fiscal projections and policy assumptions. Fiscal projections are now especially subject to change because national and global economic and financial prospects are so uncertain. Updated projections will be available for the next two editions of the fiscal plan, which are scheduled for December 2012 and March 2013. The policy assumptions in this edition are listed in the notes on ©3:

a. FY13 property tax revenue is $26 million below the Charter limit using a $692 income tax offset credit, per the Council's action. Property tax revenue at the Charter limit is assumed in FY14-18. See row 1.

b. The FY11-12 fuel/energy tax revenue increase is reduced by 10% in FY13, per the Council's action, and rates remain flat in FY14-18. This means that 90% of the increase, or just over $100 million each year, is retained for the six-year period. (The increase approved for FY11-12 was originally scheduled to end in FY13.) This assumption is reflected in row 5.

c. Reserve contributions are at the policy level and consistent with legal requirements. See ©4.

d. PAYGO, debt service, and current revenue for the CIP reflect the approved FY13-18 CIP.

e. Retiree health insurance pre-funding (OPEB) is increased up to full funding by FY15 and then is flat. FY14 is year 7 of the 8-year funding schedule. See rows 22 and 58-63. Note that the agencies' tax-supported OPEB funding rose from 0 in FY11 (because of recession-related fiscal pressures) to $49.6 million in FY12 and $105.4 million in FY13. The projected amounts are $142.8 million in FY14 and $171.9 million in FY15 and thereafter.

f. State aid and other intergovernmental revenues are flat in FY14-18.

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[1] One year ago the FY12-17 Fiscal Plan projected a 2.7% decrease in agency resources in FY13. The actual 5.0% increase is $265 million above this projection. Three-fourths of this amount comes from two Council decisions [to extend 90% of the FY11-12 energy tax revenue increase ($103 million) and reduce the projected OPEB contribution ($41 million)] and from lower-than-projected requirements for debt service, PAYGO, and CIP current revenue ($29 million) and resources to fund the first year of the State's unanticipated pension cost shift ($27 million).

[2] Maintenance of effort for MCPS in FY14 requires the FY13 level of per pupil expenditures adjusted for an expected increase in enrollment. MOE for the College in FY14 requires the same level of funding as in FY13. The County's obligation for the State's pension cost shift in FY13-16 is $27.2 million, $34.5 million, $37.8 million, and $44.4 million, respectively. After FY16 the pension obligation is rolled into the MOE requirement.

g. Projected FY14 spending for MCPS and Montgomery College, as noted above, assumes County funding at maintenance of effort, plus year two of the pension cost shift for MCPS. The allocation for MCPS, up 1.5%, does not include potential increases to State aid and other possible agency resources, such as higher-than-expected fund balance. **Thus the total FY14 increase for MCPS is likely to be considerably larger than 1.5%.**[3] The FY14 allocation for the College would also be more than the MOE level (which is no change for FY14) if additional resources from tuition and fund balance are available.

Implications of Maintenance of Effort for MCPS

As noted above, funding MCPS at maintenance of effort in FY14 would sharply impact funding available for MNCPPC and County Government (MCG), reducing both by 5.2%. Such a reduction would place intense pressure on non-school services valued by the school community, including police, fire, safety net, libraries, parks, and transportation.[4] (The FY13 MCG budget itself includes **$38.5 million** in direct support for MCPS – for example, **$22.1 million** for 314 school health positions, including nurses and health room technicians – and **$122 million** for debt service on school construction bonds. See the complete list on ©6.)

For planning purposes it does not make sense to project MCPS funding at <u>less</u> than MOE, even to balance agency funding. The General Assembly's radical changes to the MOE law this year include even more stringent conditions for obtaining a waiver from the State Board of Education. Moreover, to meet the MOE requirement the law now authorizes the State to divert counties' income tax revenue to local school boards and permits county councils to override voter-approved limits on county property taxes. The law effectively guarantees funding protection for school systems regardless of the state of the economy or the impact on other services and taxpayers.

At the same time, funding MCPS at <u>more</u> than MOE would only exacerbate the disparity in agency resources and lock the County into an even higher and irreversible per pupil funding base going forward.

As County Executive Leggett and Council President Berliner noted in their May 23 letter to Board President Brandman and Superintendent Starr, **"The Executive and the Council fully intend to meet the MOE requirement for the MCPS budget again in FY14, but with the continued uncertainty about the economic recovery, the Board should certainly not assume that we can or will exceed it."** See the letter on ©7-8.

The Board of Education will have the ultimate responsibility to allocate its FY14 operating budget within the MOE funding level (plus likely increases in State aid) without adversely affecting the

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[3] Most of the State aid the County receives is education aid for MCPS; in FY13, for example, MCPS received 85% of the County's total State aid ($588.2 million out of $693.7 million). While the fiscal plan assumes that State aid for MCPS continues at the FY13 level, it is more likely that this aid will increase. State K-12 aid is allocated on a per pupil basis. Since MCPS enrollment is projected to increase, the County's education aid would also increase. In addition, MCPS receives per pupil State aid allocations for students with low incomes, Limited English Proficiency, and special education needs. The number of MCPS students in these specific populations has been steadily growing and is projected to continue to grow, which also would increase overall State aid. Note, however, that because per pupil allocations are wealth equalized, year-to-year fluctuations in the County's wealth relative to other jurisdictions could affect the amount of increased State aid MCPS receives as a result of higher enrollment or other factors.

[4] The recessionary pressures of the past three years, FY10-12, have constrained all agency budgets. But MCPS (and the College) actually saw a small increase in this period, while core MCG functions, including public safety and social services, saw sharp reductions, including a 30% decline for libraries. See the graph on ©5.

classroom or the children. Recent history illustrates these allocation choices. **For FY11-13 MCPS has given higher priority to employee salaries and benefits than to instructional services:**

- For FY11 MCPS chose to increase average class size by one rather than take two furlough days, while MCG, MCNPPC, and the College had furloughs ranging from three to ten days.

- For FY12 MCPS chose to retain its minimal employee share of group insurance premiums (5%-10% compared to 20-25% for MCG) rather than prevent staff cuts that included music teachers, media assistants, counselors, and academic intervention teachers.

- **For FY13 MCPS chose to provide two base pay increases for employees** (while the other three agencies provided one-time lump-sum increases only) rather than reduce class size or restore the staff cuts from FY12. As Messrs. Leggett and Berliner noted in their May 23 letter, "We hope that the Board's choice to fund compensation increases in FY13 does not jeopardize its future ability to fund the instructional and support elements that make our public school system a uniquely rich teaching and learning environment for our teachers and students." See ©7-8.

These allocation choices have large budget impacts, particularly because employee salaries and benefits account for 90% of the $2.1 billion MCPS budget. For example:

- If MCPS were to use for its active employees the same premium share of group insurance that MCG uses, MCPS would save nearly **$40 million** on an annualized basis, more than the combined FY12 General Fund budgets for Transportation and Housing.[5]

- MCPS is the only school system with a county-funded supplement to the State pension benefit (for which the counties are now increasingly responsible because of the State's pension cost shift). Funding the MCPS pension supplement alone will cost nearly **$30 million** in FY13, more than the entire FY12 budget for Libraries.[6]

In sum, MCPS has the capacity to develop a FY14 budget request at the MOE level that fully protects the classroom and the children. The Fiscal Plan projects that funding even the MOE level for MCPS would require sharp reductions for vital services provided by MNCPPC and MCG.

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[5] At the Council's April 10 public hearing, MCEA president Doug Prouty testified that "the cost of health care for the average MCPS family enrolled in the most popular plan is three quarters of that of the average County Government family." This statement does not present an accurate picture of actual costs. See the memo on ©9.

[6] All non-public safety MCG employees hired since October 1, 1994 are enrolled in a defined contribution retirement plan (or, starting in 2009, a cash balance plan if they prefer) that is far less costly than the MCPS defined benefit pension plan.

Resolution No.: ______
Introduced: June 19, 2012
Adopted: ______

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

By: Government Operations and Fiscal Policy Committee

SUBJECT: Approval of the County's Tax Supported Fiscal Plan Summary for the FY13-18 Public Services Program

Background

1. Section 302 of the County Charter states in part: *The County Executive shall submit to the Council, not later than March 15 of each year, comprehensive six-year programs for public services and fiscal policy. The six-year programs shall require a vote of at least five Councilmembers for approval or modification. Final Council approval of the six-year programs shall occur at or about the date of budget approval.*

2. Over the last two decades the Council's Government Operations and Fiscal Policy Committee (known until December 2010 as the Management and Fiscal Policy Committee) has collaborated with the Office of Management and Budget and the Department of Finance to develop and refine County fiscal projections. The result has been continuous improvement in how best to display such factors as economic and demographic assumptions, individual agency funds, major known commitments, illustrative expenditure pressures, gaps between projected revenues and expenditures, and productivity improvements. This work has also increased the County's ability to harmonize the fiscal planning methodologies of the four tax supported agencies. Each version of the fiscal projections, or six-year fiscal plan, is a snapshot in time that reflects the best estimate of future revenues and expenditures as of that moment, as well as a specific set of fiscal policy assumptions.

3. On June 29, 2010 the Council approved policies on reserve and other fiscal matters in Resolution No. 16-1415. Action clause 5 states: *The County should adopt a fiscal plan that is structurally balanced, and that limits expenditures and other uses of resources to annually available revenues. The fiscal plan should also separately display reserves at policy levels, including additions to reserves to reach policy level goals.* On November 29, 2011 the Council clarified and strengthened these policies in Resolution No. 17-312, which retained the fiscal plan language and replaced the earlier resolution.

4. On June 29, 2010, pursuant to these polices, the Council approved the Tax Supported Fiscal Plan Summary for the FY11-16 Public Services Program in Resolution No. 16-1416. On June 28, 2011 the Council approved the Tax Supported Fiscal Plan Summary for the FY12-17 Public Services Program in Resolution No. 17-184.

5. The Council introduced the Tax Supported Fiscal Plan Summary for the FY13-18 Public Services Program on June 19, 2012. The Government Operations and Fiscal Policy Committee reviewed the Plan Summary on June 25, 2012.

Action

The County Council for Montgomery County, Maryland approves the Tax Supported Fiscal Plan Summary for the FY13-18 Public Services Program, as outlined on the attached pages. This summary reflects:

(1) current information on projected revenues and non-agency expenditures for the six-year period, which must be updated as conditions change. To keep abreast of changed conditions the Council regularly reviews reports on economic indicators, revenue estimates, and other fiscal data.

(2) the policy on expanded County reserves established in Resolution No. 17-312 and the amendments to the Revenue Stabilization Fund law in Bill 36-10, which the Council approved on June 29, 2010.

(3) other specific fiscal assumptions listed in the summary.

This is a correct copy of Council action.

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Linda Lauer, Clerk of the Council

County Council Approved FY13-18 Public Services Program

Tax Supported Fiscal Plan Summary

($ in Millions)

#		App. FY12	Estimate FY12	% Chg. FY12-13	App FY13	% Chg. FY13-14	Projected FY14	% Chg. FY14-15	Projected FY15	% Chg. FY15-16	Projected FY16	% Chg. FY16-17	Projected FY17	% Chg. FY17-18	Projected FY18
		5-26-11		App/Bud	5-24-12										
	Total Revenues														
1	Property Tax (less PDs)	1,462.2	1,437.0	0.0%	1,462.2	3.0%	1,505.8	3.1%	1,553.2	3.5%	1,608.2	3.5%	1,664.5	3.1%	1,715.4
2	Income Tax	1,117.2	1,227.1	13.1%	1,263.6	2.6%	1,296.6	6.6%	1,382.0	4.7%	1,446.4	3.5%	1,497.6	3.4%	1,548.2
3	Transfer/Recordation Tax	143.5	123.9	-4.8%	136.6	2.9%	140.5	5.6%	148.4	7.4%	159.4	7.4%	171.2	5.6%	180.8
4	Investment Income	1.6	0.2	-70.3%	0.5	33.6%	0.6	94.0%	1.2	134.2%	2.9	55.8%	4.5	26.3%	5.7
5	Other Taxes	325.3	311.6	-6.5%	304.1	1.4%	308.5	2.2%	315.1	1.7%	320.5	1.1%	324.1	0.9%	327.0
6	Other Revenues	842.2	839.0	4.9%	883.4	0.8%	890.2	0.2%	892.5	0.2%	894.6	0.2%	896.8	0.2%	899.0
7	**Total Revenues**	**3,892.1**	**3,938.8**	**4.1%**	**4,050.4**	**2.3%**	**4,142.2**	**3.6%**	**4,292.5**	**3.3%**	**4,432.1**	**2.9%**	**4,558.8**	**2.6%**	**4,676.1**
8															
9	**Net Transfers In (Out)**	**41.3**	**40.1**	**-6.3%**	**38.7**	**2.9%**	**39.8**	**2.9%**	**40.9**	**2.7%**	**42.0**	**2.7%**	**43.1**	**2.7%**	**44.3**
10	**Total Revenues and Transfers Available**	**3,933.4**	**3,978.9**	4.0%	**4,089.0**	2.3%	**4,182.0**	3.6%	**4,333.4**	3.2%	**4,474.1**	2.9%	**4,601.9**	2.6%	**4,720.4**
11															
12	**Non-Operating Budget Use of Revenues**														
13	Debt Service	296.2	279.0	2.5%	303.5	6.8%	324.3	9.6%	355.3	5.4%	374.6	4.1%	389.8	0.0%	389.8
14	PAYGO	31.0	31.0	-4.8%	29.5	20.3%	35.5	56.3%	55.5	0.0%	55.5	0.0%	55.5	0.0%	55.5
15	CIP Current Revenue	35.0	37.7	43.5%	50.2	62.1%	81.4	-26.8%	59.5	-2.7%	58.0	-1.8%	56.9	16.2%	66.1
16	Change in Montgomery College Reserves	(9.0)	(4.0)	46.4%	(4.8)	100.0%	-	n/a	-	n/a	-	n/a	-	n/a	-
17	Change in MNCPPC Reserves	(1.5)	(2.5)	30.6%	(1.1)	109.3%	0.1	27.9%	0.1	14.1%	0.1	0.4%	0.1	35.5%	0.2
18	Change in MCPS Reserves	(17.0)	10.5	0.0%	(17.0)	4.1%	(16.3)	100.0%	0.0	n/a	0.0	n/a	0.0	n/a	0.0
19	Change in MCG Special Fund Reserves	22.8	(0.5)	-12.5%	20.0	-99.9%	0.0	172.1%	0.1	25.2%	0.1	-9.6%	0.1	-10.6%	0.1
20	Contribution to General Fund Undesignated Reserves	66.4	104.5	-144.5%	(29.6)	106.7%	2.0	172.1%	5.4	25.2%	6.8	-9.6%	6.1	-10.6%	5.5
21	Contribution to Revenue Stabilization Reserves	20.4	45.1	3.6%	21.2	3.1%	21.8	4.1%	22.7	3.6%	23.5	3.6%	24.4	2.8%	25.1
22	Retiree Health Insurance Pre-Funding	49.6	49.6	112.3%	105.4	35.5%	142.8	20.4%	171.9	0.0%	171.9	0.0%	171.9	0.0%	171.9
23	Set Aside for other uses (supplemental appropriations)	0.2	0.2	-67.2%	0.1	30441.4%	20.1	0.0%	20.1	0.0%	20.1	0.0%	20.1	0.0%	20.1
24	**Total Other Uses of Resources**	**494.3**	**550.6**	**-3.4%**	**477.5**	**28.1%**	**611.7**	**12.9%**	**690.7**	**2.9%**	**710.5**	**2.0%**	**724.9**	**1.3%**	**734.2**
25	**Available to Allocate to Agencies (Total Revenues+Net Transfers-Total Other Uses)**	**3,439.1**	**3,428.4**	**5.0%**	**3,611.5**	**-1.1%**	**3,570.3**	**2.0%**	**3,642.7**	**3.3%**	**3,763.6**	**3.0%**	**3,877.0**	**2.8%**	**3,986.2**
26															
27	**Agency Uses**														
28															
29	Montgomery County Public Schools (MCPS)	**1,950.9**	**1,923.8**	4.0%	2,028.9	1.5%	2,058.4								
30	Montgomery College (MC)	**218.0**	**214.6**	0.4%	218.8	0.0%	218.8								
31	MNCPPC (w/o Debt Service)	**94.3**	**94.3**	4.9%	98.9	-5.2%	93.8								
32	MCG	**1,175.8**	**1,195.7**	7.6%	1,265.0	-5.2%	1,199.3								
33	Available to Allocate to Agencies FY15-18							n/a	3,642.7	3.3%	3,763.6	3.0%	3,877.0	2.8%	3,986.2
34	**Agency Uses**	**3,439.1**	**3,428.4**	**5.0%**	**3,611.5**	**-1.1%**	**3,570.3**	**2.0%**	**3,642.7**	**3.3%**	**3,763.6**	**3.0%**	**3,877.0**	**2.8%**	**3,986.2**
35	**Total Uses**	**3,933.4**	**3,978.9**	**4.0%**	**4,089.0**	**2.3%**	**4,182.0**	**3.6%**	**4,333.4**	**3.2%**	**4,474.1**	**2.9%**	**4,601.9**	**2.6%**	**4,720.4**
36	(Gap)/Available	**0.0**	**0.0**		**0.0**		**0.0**		**0.0**		**0.0**		**0.0**		**0.0**

Notes:
1. FY13 property tax revenue is $26 million below the Charter limit using a $692 income tax offset credit. The Charter limit is assumed FY14-18.
2. May 2010 fuel/energy tax revenue increase is reduced by 10% in FY13-18.
3. Reserve contributions at the policy level and consistent with legal requirements.
4. PAYGO, debt service, and current revenue reflect the approved FY13-18 Capital Improvements Program.
5. Retiree health insurance pre-funding is increased up to full funding by FY15 and then is flat beyond FY15. FY14 is year 7 of 8-year funding schedule.
6. State aid and other intergovernmental revenues are flat in FY14-18.
7. Projected FY14 allocation for MCPS and Montgomery College assumes County funding at maintenance of effort, plus the pension shift for MCPS. This allocation does not include potential increases to State aid and other possible agency resources, such as higher-than-expected fund balance.

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County Council Approved FY13-18 Public Services Program

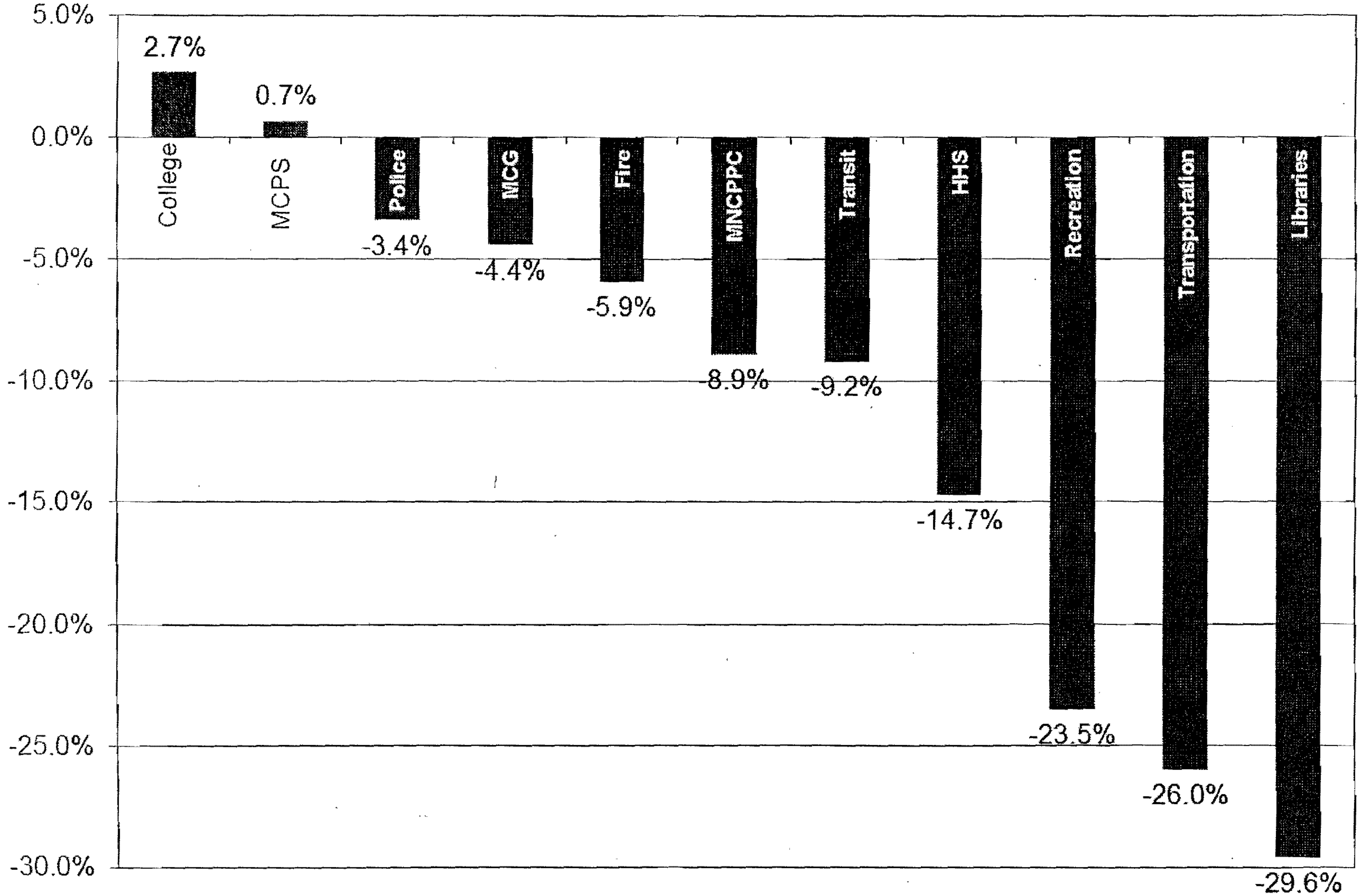
Tax Supported Fiscal Plan Summary

($ in Millions)

		App. FY12	Est FY12	% Chg. FY12-13	App. FY13	% Chg. FY13-14	Projected FY14	% Chg. FY14-15	Projected FY15	% Chg. FY15-16	Projected FY16	% Chg. FY16-17	Projected FY17	% Chg. FY17-18	Projected FY18
37	**Beginning Reserves**														
38	**Unrestricted General Fund**	66.9	64.0	152.0%	168.6	-17.5%	139.0	1.4%	141.0	3.8%	146.4	4.6%	153.2	4.0%	159.3
39	**Revenue Stabilization Fund**	94.1	94.5	47.7%	139.6	15.2%	160.8	13.6%	182.6	12.4%	205.3	11.5%	228.8	10.7%	253.2
40	**Total Reserves**	161.0	158.6	90.9%	308.1	-2.7%	299.8	7.9%	323.6	8.7%	351.7	8.6%	382.0	8.0%	412.6
41															
42	**Additions to Reserves**														
43	**Unrestricted General Fund**	66.4	104.5	-144.5%	-29.6	106.7%	2.0	172.1%	5.4	25.2%	6.8	-9.6%	6.1	-10.6%	5.5
44	**Revenue Stabilization Fund**	20.4	45.1	6.0%	21.2	3.1%	21.8	4.1%	22.7	3.6%	23.5	3.6%	24.4	2.8%	25.1
45	**Total Change in Reserves**	86.9	149.6	-109.7%	-8.4	384.0%	23.8	18.1%	28.1	7.8%	30.3	0.6%	30.5	0.1%	30.6
46															
47	**Ending Reserves**														
48	**Unrestricted General Fund**	133.3	168.6	4.3%	139.0	1.4%	141.0	3.8%	146.4	4.6%	153.2	4.0%	159.3	3.4%	164.8
49	**Revenue Stabilization Fund**	114.5	139.6	40.4%	160.8	13.6%	182.6	12.4%	205.3	11.5%	228.8	10.7%	253.2	9.9%	278.3
50	**Total Reserves**	247.8	308.1	20.9%	299.8	7.9%	323.6	8.7%	351.7	8.6%	382.0	8.0%	412.6	7.4%	443.1
51	**Reserves as a % of Adjusted Governmental Revenues**	**6.1%**	**7.5%**		**7.1%**		**7.4%**		**7.8%**		**8.2%**		**8.7%**		**9.1%**
52	**Other Reserves**														
53	**Montgomery College**	7.0	11.2	-7.6%	6.4	0.0%	6.4	0.0%	6.4	0.0%	6.4	0.0%	6.4	0.0%	6.4
54	**M-NCPPC**	3.7	4.8	0.7%	3.8	2.6%	3.9	3.2%	4.0	3.6%	4.1	3.5%	4.3	4.5%	4.5
55	**MCPS**	0.0	33.3	n/a	16.3	-100.0%	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0
56	**MCG Special Funds**	2.6	(18.4)	-37.4%	1.6	1.4%	1.6	3.8%	1.7	4.6%	1.8	4.0%	1.8	3.4%	1.9
57	**MCG + Agency Reserves as a % of Adjusted Govt Revenues**	**6.5%**	**8.3%**		**7.8%**		**7.7%**		**8.1%**		**8.5%**		**8.9%**		**9.3%**
58	**Retiree Health Insurance Pre-Funding**														
59	Montgomery County Public Schools (MCPS)	**20.0**	**20.0**		**58.9**		**80.3**		**101.6**		**100.9**		**99.7**		**99.7**
60	Montgomery College (MC)	**1.0**	**1.0**		**1.8**		**2.4**		**3.1**		**3.0**		**2.8**		**2.8**
61	MNCPPC	**2.6**	**2.6**		**3.4**		**6.3**		**7.7**		**7.4**		**7.2**		**7.2**
62	MCG	**26.1**	**26.1**		**41.4**		**53.8**		**59.5**		**60.6**		**62.2**		**62.2**
63	**Subtotal Retiree Health Insurance Pre-Funding**	**49.6**	**49.6**		**105.4**		**142.8**		**171.9**		**171.9**		**171.9**		**171.9**
64	**Adjusted Governmental Revenues**														
65	**Total Tax Supported Revenues**	**3,892.1**	**3,938.8**	4.1%	**4,050.4**	2.3%	**4,142.2**	3.6%	**4,292.5**	3.3%	**4,432.1**	2.9%	**4,558.8**	2.6%	**4,676.1**
66	**Capital Projects Fund**	**45.6**	**60.3**	43.7%	**65.5**	52.1%	**99.6**	2.3%	**101.9**	-11.8%	**89.9**	1.1%	**90.8**	-11.0%	**80.8**
67	**Grants**	**108.9**	**108.9**	-1.7%	**107.0**	2.9%	**110.1**	2.9%	**113.3**	2.7%	**116.3**	2.7%	**119.4**	2.7%	**122.6**
68	**Total Adjusted Governmental Revenues**	**4,046.6**	**4,108.0**	4.4%	**4,222.8**	3.1%	**4,351.9**	3.6%	**4,507.6**	2.9%	**4,638.3**	2.8%	**4,769.0**	2.3%	**4,879.6**

8

Agency Budget Changes FY09-FY12



MEMORANDUM

May 10, 2012

TO: Valerie Ervin, Chair, Education Committee
George Leventhal, Chair, Health and Human Services Committee

FROM: Essie McGuire, Senior Legislative Analyst

SUBJECT: County funding for services that support the Montgomery County Public Schools

In their April 26 worksession, the Education and Health and Human Services Committees requested information regarding County funding for services that support the Montgomery County Public Schools (MCPS). Below is a list of the recommended FY13 County funds that relate to MCPS. **The items on this list (excluding debt service) total $38.48 million for FY13;** debt service for FY13 is budgeted at $122 million.

School Safety

- **$5.0 million** for 173 Crossing Guards, 4 support staff, and 3 Police Officer positions
- **$700,000** for 6 Police Officers as Educational Facility Officers assigned to 25 Public High Schools

School Health

- **$22.1 million** for 314 school health positions including nurses and health room technicians
- **$732,000** for high school wellness centers

Linkages to Learning

- **$4.7 million** for early intervention services to students and families of elementary and middle school communities with the highest indicators of poverty to address non-academic issues that may interfere with a child's success at school

Educational Supports

- **$3.4 million** for suspension programs; reading, tutoring and mentoring programs; and community based Pre-Kindergarten programs

Stormwater Facility Maintenance

- **$1 million** for maintenance of the school system's stormwater facilities to comply with the terms of the State issued Municipal Separate Storm Sewer System permit

Ballfield Maintenance

- **$849,000** for Park and Planning to maintain ballfields at schools

Debt Service

- **$122 million** to pay debt service on school construction

ROCKVILLE, MARYLAND

May 23, 2012

Dr. Joshua Starr, Superintendent of Schools
Ms. Shirley Brandman, President, Board of Education
Montgomery County Public Schools
850 Hungerford Drive
Rockville, Maryland 20850

Dear Dr. Starr and Ms. Brandman:

We are writing regarding the fiscal sustainability and implications of your recently negotiated employee agreements. We are concerned that the Board's decision to provide two raises in one year may have an adverse impact on the classroom in future years.

As we have shared with you, the Council and the Executive have been flooded with correspondence, public testimony, and personal communication from parents and teachers expressing frustration with recent programmatic reductions, including increasing class sizes, in the school system. These advocates have repeatedly referenced the budget reductions of recent years as preventing schools from having enough classroom resources.

For your recently announced collective bargaining agreements to include two base pay raises in one year seems incongruent with these concerns about classroom resources. The Board's budget already indicated that its compensation would be more generous than any other County employee would receive. To add then a second raise for most employees to "restore" an increase that did not occur in FY11 is a concern, particularly when no employee in any other County agency will receive even one base pay raise. FY11, as you remember, was a year in which no County agency employees received a step increase, and in which all employees except MCPS employees took furlough days.

This twofold addition to the salary base raises serious questions about the capacity to address critical classroom needs within a Maintenance of Effort budget going forward. We understand that you have allocated funds in the FY13 budget to accommodate these increases in the coming fiscal year and we commend you for staying within a Maintenance of Effort budget in FY13. However, these increases were principally funded with what you have acknowledged are extraordinary one-time savings. Accordingly, we are concerned that the ongoing costs of these compensation agreements will crowd out your ability in future years to fund enhancements that parents and teachers alike have been asking for to improve the teaching experience and student learning. A more prudent approach would have been to provide compensation improvements commensurate with the timing of an improving economy in order to assure that those increases were affordable, sustainable and appropriate relative to your other needs.

The Executive and the Council fully intend to meet the MOE requirement for the MCPS budget again in FY14, but, with the continued uncertainty about the economic recovery, the Board should certainly not assume that we can or will exceed it. In addition to class size, Board members as well as community stakeholders speak frequently to the need to restore much needed music teachers, media assistants, counselors, and academic intervention teachers. We hope that the Board's choice to fund compensation increases in FY13 does not jeopardize its future ability to fund the instructional and support elements that make our public school system a uniquely rich teaching and learning environment for our teachers and students.

Sincerely,

Isiah Leggett
County Executive

Roger Berliner
Council President

MEMORANDUM

April 11, 2012

TO: Steve Farber, Council Staff Director

FROM: Craig Howard, CH Office of Legislative Oversight

SUBJECT: **Comparison of MCPS and MCG Health Care Costs**

In response to your request, this memorandum summarizes information prepared by Aon-Hewitt that compares health care costs for employees in MCPS and County Government (MCG).

This past fall, in a report to the Task Force on Employee Wellness and Consolidation of Agency Group Insurance Programs, Aon-Hewitt (the health care consultant used by both MCPS and MCG) provided a comparative analysis of health care costs between MCPS and MCG:[1]

In sum, Aon-Hewitt's analysis shows that:

- **The average health care cost per member (associated with active employees only) is essentially the same in MCPS and MCG; and**
- **The primary factor behind differences in premium rates between the two agencies is that MCPS separates active and retired employees into separate pools for rate setting while MCG does not.**

Aon-Hewitt's report explained that while average group insurance premiums were lower in MCPS,[2] premium levels are not a valid measure for comparing actual health care costs between MCPS and MCG. Specifically, Aon-Hewitt wrote:

> Since MCPS and MCG utilize different methodologies for rate setting, the use of premium rates to compare costs does not provide the most valid comparison...In sum, a detailed comparative analysis indicates that the primary reason behind the differences in premium costs for MCPS and MCG is that MCG includes retirees with active employees in its pool for rate setting while MCPS separates active employee and retirees into separate pools. (page 17)

Aon-Hewitt reported that a more accurate comparison of health care costs between the agencies is to calculate the cost per covered member (i.e., all enrolled employees plus their dependents) and not to cross-compare active employees and retirees. In conducting this more accurate cost analysis, Aon-Hewitt found that when averaged out over all covered members associated with active employees, the annual amount spent per member is essentially the same in MCPS and MCG as shown in the table below.

Average cost per member (associated with active employees only) across all plan types

	MCPS	MCG
All Medical (includes Kaiser Rx)	$4,066	$4,028
All Prescription Drug	$1,273	$1,235

Source: Aon-Hewitt report, page 17.

[1] Aon-Hewitt, *Overview of Programs Offered by Montgomery County Agencies*, Nov. 21, 2011. Available at: http://www.montgomerycountymd.gov/content/council/wgitf/Report/appendix_b_aon_hewitt_report.pdf

[2] Aon-Hewitt reports that MCPS' average total premium for medical and Rx coverage across all plans and coverage levels is $13,206, while MCG's average total premium is $15,201.