

AGENDA ITEM #19  
May 18, 2010  
**Worksession**

**MEMORANDUM**

May 14, 2010

TO: County Council

FROM: Essie McGuire, Legislative Analyst *EMGee*

SUBJECT: **Worksession – FY11 Operating Budget for the Montgomery County Public Schools**

**The Education Committee is scheduled to conclude its review of the FY11 Operating Budget for MCPS on the afternoon of May 18, and will report its recommendation to the Council at this worksession.**

Today the County Council will review the FY11 Operating Budget for the Montgomery County Public Schools (MCPS). The following individuals are expected to participate in today's worksession:

- Patricia O'Neill, President, Board of Education
- Jerry D. Weast, MCPS Superintendent
- Larry Bowers, MCPS Chief Operating Officer
- Marshall Spatz, Director, MCPS Office of Management, Budget, and Planning
- Blaise DeFazio, Office of Management and Budget

The Committee met on April 8 and May 18 to review the FY11 MCPS Operating Budget. The Committee also met jointly with the Health and Human Services Committee to review issues of concern to both MCPS and the Department of Health and Human Services.

This packet is divided into four sections:

- I. **Overview of Recommended Budget**, including Board of Education request, County Executive recommendation, and the Superintendent's proposed reductions
- II. **Maintenance of Effort**, including status of FY11 waiver request, update of recent developments, and FY11 and FY12 calculation issues
- III. **Overview of Revenues**, including local contribution, State Aid projections, and Federal funding, including ARRA funds
- IV. **Enrollment and Demographic Changes**

## **I. OVERVIEW OF RECOMMENDED BUDGET**

### **BOARD OF EDUCATION'S REQUEST**

**The Board of Education requested a total of \$2,263,286,410 for the FY11 MCPS Operating Budget. This amount represents an increase of \$62,709,410 or 2.8 percent over the FY10 approved level.** The tax supported budget request is \$2,078.2 million, an increase of \$58.2 million or 2.8 percent over the FY10 approved tax supported level.

A summary table showing the major elements of the Board's request is on circle 5. Significant highlights include:

- **The Board's request did not include funds for a General Wage Adjustment, or COLA, but did include \$25.9 million for continuing salaries, including step increases. The Board has not completed negotiations with its employee unions for the upcoming fiscal year.**
- The Board's request included additional funds of \$14.8 million associated with **increased enrollment.**
- The Board's request included significant **increases due to increased employee and retiree benefits**, totaling \$33.1 million. The Board's request also included an increase of \$30.9 million to fund Other Post Employment Benefits (OPEB), bringing the total base amount of OPEB funding to \$42.9 million in the recommended FY11 budget.
- **The Board did not make any programmatic changes to the Superintendent's recommended budget.** The Board's budget increased over the Superintendent's recommended level in that it recognized additional State Aid allocated in the Governor's budget. The total projected increase in State Aid (including Federal stimulus dollars) is \$53 million over the FY10 level.
- **In terms of total available resources, the Board of Education budget has additional State Aid of \$37 million over the Superintendent's budget assumptions.** The remaining \$16 million was necessary to address other revenue adjustments between the Superintendent's and the Board of Education's assumptions. The Board budgeted these funds as a reserve, rather than in increased programming, to potentially offset reduced revenues later in the budget process.

### **COUNTY EXECUTIVE'S RECOMMENDATION**

**The County Executive recommended a total MCPS appropriation of \$2,125,542,225.**

This total includes a County contribution of \$1,415,085,344<sup>1</sup>. This recommended appropriation level will require a waiver from the State Maintenance of Effort (MOE) law (details discussed below in Part II of this packet). Relative comparisons of the Executive's recommendation include:

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<sup>1</sup> The printed March 15 budget submission includes a higher number for the MCPS local appropriation. This figure is the current assumed local appropriation level and accounts for other recent changes in State Aid.

- The County Executive's recommendation is \$137.7 million below the Board of Education request, and \$75 million below the total approved FY10 level.
- Excluding the \$79.5 million debt service amount that was appropriated in FY10, the County Executive's recommended FY11 total is \$4.5 million below the total FY10 approved funding for educational programs.
- **The County Executive's recommendation for tax-supported funding of \$1,940.5 million is exactly the same as the FY10 approved tax-supported level excluding the \$79.5 million debt service amount. Tax-supported funding includes primarily new County appropriation, rolled-over current year savings, and State Aid.**
- The County Executive's FY11 recommended tax-supported funding is a decrease of \$137.7 million from the Board of Education request. **However, it is not a year-to-year decrease from the FY10 approved tax-supported funding.**

#### **SUPERINTENDENT'S PROPOSED REDUCTIONS**

In response to the County Executive's recommended appropriation level for MCPS, MCPS Superintendent Jerry Weast issued advice to the Board of Education on his proposed reductions to meet the recommended level (advice memorandum dated March 15 is attached at circles 23-27). The Superintendent proposed to offset some of the Executive's recommended reduction with the increase in State aid. The remaining reductions he proposed to meet the recommended appropriation level are as follows:

- Elimination of all OPEB funding: \$42.9 million
- Elimination of salary increments (steps): \$25.9 million
- Increase class size by one student, all grades: \$16 million
- Central services reductions: \$6 million

These reductions leave \$10.3 million unspecified additional savings necessary to meet the recommended level. MCPS continues to work on its proposed approach to this remaining amount.

On March 24, the Superintendent issued additional direction on his proposed \$6 million in central services reductions (memorandum attached on circles 28-30). These reductions include several reorganization elements, including eliminating the Office of Organizational Development and shifting some of its functions to other offices.

## **II. MAINTENANCE OF EFFORT**

The County Executive's recommended County contribution to the MCPS budget will require a waiver from the State's Maintenance of Effort (MOE) law. This law requires that local jurisdictions fund school systems at a minimum of the same funding level as the previous year, adjusted for enrollment. The requirement for the local contribution is independent of any other funding, such as State or Federal aid. Regardless of any potential changes to other revenue sources, the County is required to maintain the level of its local contribution to the school system, adjusted only for enrollment. The consequence for not meeting this funding level is that a school system may not receive the increase in State Aid over the prior year that it would otherwise be allocated.

### **FY11 COUNTY APPROPRIATION AND WAIVER REQUEST**

The Executive recommends a County contribution of \$1,415,085,344. The County first requested that the State Board of Education waive the MOE requirement and approve this County contribution in a letter dated March 31 (attached at circle 31). Because the General Assembly had been considering potential changes to the MOE waiver process, the State Board instructed counties to apply by the date required under current law (April 1) and indicate only the amount of waiver requested.

**The General Assembly did not adopt any changes to the MOE waiver provisions. The FY11 MOE waiver process as established in the State Education Article is unchanged from prior years.** Under current law, the State Board is required to hold a public hearing and make a determination to "approve or deny in whole or in part a waiver request". Current law gives the State Board no more than 45 days and no later than May 15 to make a determination. Current law does not identify a process for appeal of the State Board's decision.

On April 15, the State Board issued additional instructions for the full application process for an MOE waiver in FY11 (circles 40-42). The County sent a letter with all required supporting documents on May 3, 2010 (attached at circles 43-56). **The County's filing included a clarification that since the Council had not yet completed its operating budget deliberations, the Council would communicate any relevant information to the State Board on or before the public hearing.**

The State Board has scheduled a public hearing for May 25. This date is after the date required in State law for the Board's decision on waiver requests and notification to counties (May 15). The State Board has not indicated when it expects to issue decisions.

### **RECENT RELATED DEVELOPMENTS**

- On April 27, the two co-chairs of the Joint Legislative Workgroup to Study State, County, and Municipal Fiscal Relationships, Senator Edward Kasemeyer and Delegate Adrienne Jones, wrote to the State Board of Education to clarify the General Assembly's intent for the MOE waiver process (circles 57-58). The letter states that although the bill to amend the waiver process did not pass, the co-chairs request that the State Board conduct its evaluation according to the criteria reflected in the compromise legislation.

- The County Board of Education supported the County's application for a waiver at the FY11 County appropriation level recommended by the County Executive. The Board adopted a resolution on March 22 outlining its position (circles 59-64). On May 10, the Board of Education submitted a response to the County's filing, as permitted by the State Board's process (circles 74-79). The letter supports the County's waiver with conditions, primarily that the waiver be one year only and that the FY12 MOE level be based on a higher per pupil base (discussed below).
- On May 11, the County Board of Education unanimously adopted a resolution authorizing legal action to prevent the County Council from reducing the Board's budget below the level recommended by the County Executive (circles 65-66).
- On May 12, the State Board of Education requested that Montgomery County provide additional information on how its MCPS funding since 2003 relates to the effect inflation would have had on MOE. The request letter is attached on circles 67-68.
- While five counties originally filed for an FY11 MOE waiver, two withdrew (Frederick and Talbot); only three are continuing the process: Dorchester, Montgomery, and Wicomico.

#### **FY11 MOE LEVEL AND FY12 MOE BASE**

The calculation of each year's MOE level is based on the prior year funding and the current year enrollment. The County's FY10 local appropriation was \$1,529,554,447, including the amount that was appropriated for school construction debt service. If this debt service is excluded, the County's local appropriation was \$1,450,017,125.

The Attorney General's November 4, 2009 opinion concluded that the debt service repayment was not a permissible element of MOE in FY10 because it was shifted from the County's budget to the Board's budget, but agreed that debt service is a legitimate school system expense. Senator Richard Madeleno requested clarification from the Office of the Attorney General on how this decision affects the FY10 appropriation base relative to the FY11 MOE calculation. In a letter of advice dated February 26, Assistant Attorney General Bonnie Kirkland advised that "If the debt service program is shifted back to the County budget, however, that amount should be excluded from the calculation of the FY11 MOE amount" (see letter on circle 36).

Following this advice, the County's FY11 MOE requirement is \$1,473,129,206 and is based on a per pupil amount of \$10,664.

The Board of Education's resolution and letter to the State Board state that a condition of its support for the FY11 waiver is that the FY12 MOE calculation be based on a per pupil amount of \$11,249. This amount represents the FY10 appropriation with debt service included. The County's waiver request letter acknowledges the different calculations but states that the issue is not central to the FY11 waiver request decision.

### III. OVERVIEW OF REVENUES

Table 1 below shows the MCPS operating budget by revenue source for the FY10 approved level, the FY11 Board of Education request, and the FY11 County Executive recommendation.

Table 1: FY11 Recommended MCPS Operating Budget by Revenue Source								
Source	FY10 Approved		FY11 BOE Request		FY11 CE Rec		FY11 Revised	
	\$	% of total						
County	1,450,017,125	65.9%	1,553,934,287	68.7%	1,415,085,344	66.6%	1,415,085,344	66.6%
Fund Balance	44,200,000	2.0%	30,000,000	1.3%	30,000,000	1.4%	30,000,000	1.4%
Debt Service	79,537,322	3.6%						
State	440,089,248	20.0%	488,478,274	21.6%	489,622,834	23.0%	488,622,834	23.0%
Federal	115,609,261	5.3%	119,647,145	5.3%	119,645,340	5.6%	118,948,740	5.6%
Other Sources	14,980,651	0.7%	14,566,911	0.6%	14,566,911	0.7%	15,011,659	0.7%
Enterprise	54,561,883	2.5%	55,040,286	2.4%	55,040,286	2.6%	54,630,165	2.6%
Special Funds	1,581,510	0.1%	1,619,507	0.1%	1,581,510	0.1%	1,581,510	0.1%
<b>Tax Supported Total</b>	<b>2,020,078,263</b>		<b>2,078,247,129</b>		<b>1,940,540,941</b>		<b>1,939,542,746</b>	
<b>TS Total w/o DS</b>	<b>1,940,540,941</b>							
<b>Total</b>	<b>2,200,577,000</b>		<b>2,263,286,410</b>		<b>2,125,542,225</b>		<b>2,123,880,252</b>	

**The FY11 Revised column in this table reflects the most recent State and Federal aid allocations. OMB, MCPS, and Council staff have all reconciled these revenue figures and agree on the revised column above. Council staff recommends approval of these revised revenues as the basis for the Council's appropriation resolution (pending Council action to determine the County's contribution). The primary differences are as follows:**

- State Aid reflects a reduction of \$1 million to the reimbursements for non-public placements for special education students. This revenue decrease is offset by a corresponding expenditure reduction due to fewer placements and frozen reimbursement rates.
- Federal aid reflects reductions to grant funds including Safe and Drug Free Schools. Title I funds are nearly level funded from FY10, which is below the Board's budget assumptions.

#### Local Contribution

- The County Executive recommendation reflects the County contribution at the level of the waiver request.<sup>2</sup> This reflects a decrease in total amount, but a slight increase in the County's share of the total MCPS budget (compared to FY10 excluding debt service).
- The fund balance reflects the current-year savings achieved by the school system, which are projected to total \$30 million in FY11. The FY10 fund balance total includes \$24.2 million of State funds repaid the school system as a result of the FY09 calculation error, and \$20 million of school system savings.

<sup>2</sup> As noted earlier, the County appropriation level is lower than that in the printed March 15 budget submission because it takes into account the most recent State Aid allocations.

### **State Aid**

- State Aid continues to increase, and comprises a larger portion of the overall budget than in FY10.
- State Aid increases both because of increased enrollment and because of a decline in relative wealth in the County under the wealth adjustment calculation. MCPS estimates that approximately half of the State Aid increase is due to enrollment and approximately half due to the relative decline in wealth, both in real property and income.
- The Governor's budget continued to fund the Geographic Cost of Education Index (GCEI), a total of \$31 million for Montgomery County in FY11.
- The component of State Aid related to students from families with low income increased \$6.1 million in FY11, reflecting increased enrollment in this demographic area. The total State funding for this category increased from \$88.5 million to \$94.6 million.
- The component of State Aid related to students with limited English proficiency increased by just over \$1 million, from \$42.7 million in FY10 to \$43.8 million in FY11.

### **Federal Aid**

- MCPS continues to receive the Federal ARRA funds it received as part of the stimulus funding in FY10. The ARRA funds associated with the Title I and IDEA grants continue at nearly the same level as FY10, and will total \$22.4 million in FY11.
- MCPS also receives significant ARRA funds through the State Fiscal Stabilization Fund (SFSF). The State used these funds in FY10 to maintain funding in the Foundation and GCEI grants, a total of \$27.8 million for MCPS in FY10. For FY11, MCPS is projected to receive \$31.3 million in SFSF in the same two State Aid categories.
- In total MCPS anticipates approximately \$53.7 million in FY11 ARRA funds in Title I, IDEA, and SFSF. MCPS also receives ARRA funds associated with smaller grant areas. Federal ARRA funds are not scheduled to continue past FY11.

## **IV. ENROLLMENT AND DEMOGRAPHIC CHANGES**

The Board's request increases by \$14.8 million over the FY10 approved level due to increased enrollment. A summary chart of actual and projected enrollment is attached on circle 10; associated cost information is detailed on circles 13-15; and enrollment trend graphs are on circles 69-73. Highlights of the enrollment changes are as follows:

- **The Board projects a total enrollment for FY11 of 143,309 students.** This is an increase of 1,532 students over the actual enrollment for FY10. However, for budget purposes, it is important to compare enrollment *projections* as those are the figures that affect the budget changes year to year. **The FY11 projection is an increase of 2,809 students over the projected FY10 level.**

- Enrollment changes are not evenly distributed across the system. Elementary school enrollment continues to increase significantly, while secondary enrollment actually declines slightly. MCPS projects significant increases in the next six-year period, projecting total enrollment of 148,043 by FY16.
- The number of **ESOL students** is projected to increase, with approximately 12.5 percent of MCPS students participating in ESOL language programs. Circle 70 shows that this trend is increasing sharply, primarily at the elementary level. For the 2008-2009 school year, 11.2 percent of students participated in ESOL programs.
- The number and percent of **students eligible for FARMS** remains significant. SY08-09 figures show that 37,692 student, 27.1 percent of total enrollment, are eligible for FARMS. MCPS reports that for SY09-10, 41,464 students, 29.3 percent of total enrollment, participate in FARMS. Circle 70 shows that this trend has also been increasing sharply since 2005.
- **Student demographics** indicate that 38.1 percent are White, non-Hispanic; 23.2 percent are African-American; 22.7 percent are Hispanic; and 15.6 percent are Asian-American.

# Letter from the Board of Education

February 26, 2010

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

Dear Mr. Leggett, Ms. Floreen, and Council Members:

The Montgomery County Board of Education is pleased to submit the Fiscal Year 2011 (FY 2011) Operating Budget for Montgomery County Public Schools (MCPS), which was adopted by the Board on February 17, 2010.

The \$2.263 billion budget contains no new initiatives but, as the state's "maintenance of effort" law requires, maintains the same local per-student funding amount for FY 2011—\$11,249 per student—as the district received for the current fiscal year.

It is imperative that the FY 2011 Operating Budget be funded at the maintenance of effort level so that we can fulfill our mission of providing all students with a world-class education and continue the academic gains we have seen over the past decade. This also will ensure that we receive our full share of available state education funding. In the event that the county does not meet its maintenance of effort obligation, a fine as high as \$51 million could be levied against the students and staff of Montgomery County Public Schools. During these austere economic times, we cannot afford to forego this critical funding.

As you are aware, on January 29, 2010, the Maryland State Board of Education fined the district \$23.4 million for the county's failure to meet maintenance of effort for the current fiscal year. We still are hopeful a legislative solution will occur to waive this year's fine, but we cannot risk a penalty of more than twice that size next year.

Our FY 2011 Operating Budget includes \$1.554 billion in revenue from the county, an increase of only 1.6 percent, to help fund the dramatic enrollment increases we have experienced in recent years. In 2009–2010, student enrollment climbed by more than 2,500 students overall. The number of students receiving Free and Reduced-price Meals System (FARMS) services increased by 10 percent, and the number of students receiving English for Speakers of Other Languages (ESOL) services increased by 6 percent. We expect our overall growth to continue next year and anticipate similar increases in the number of students receiving FARMS and ESOL services.

In addition, the \$79.5 million that the County Council included in our FY 2010 Operating Budget for debt service will be used for direct operating expenses, since the Maryland State Board of Education has ruled that shifting debt service to the MCPS budget does not meet the maintenance of effort law.

The Montgomery County Board of Education recognizes the impact the economic downturn has had on the revenue available to fund education and other government services. The district has done a tremendous amount to help the county weather these difficult times. In the past two years, we have reduced spending by more than \$200 million through staff reductions, expenditure controls, and systemwide efficiencies. For example, the 22,000 employees of MCPS voted to forego their cost-of-living increases last year, providing the county with ongoing annual savings of about \$90 million. This was a very difficult sacrifice for all of our employees, but they have neither complained nor wavered in their commitment to the students. In fact, it's quite the opposite.

Over the past year, student achievement at MCPS has continued to grow from its already high level. For instance, about half of our 2009 graduates (48.7 percent) scored a three or higher on at least one Advanced Placement (AP) exam, a strong indicator of college readiness. This is nearly double the AP success rate for the state (24.8 percent) and more than triple the national rate (15.9 percent). Our African American and Hispanic students also outperformed all students across the state and the nation in AP participation and performance. We are seeing comparable success at all grade levels and in all subjects, even as our student population grows and faces more challenges than ever before.

If we are to continue to see our students achieve at such high levels, we must make a commitment to provide them the services, the resources, and the instruction they need. This budget request allows us to do just that—maintain our commitment to the students of Montgomery County and create a brighter future for them and for our county.

We realize these are unprecedented times in the history of Montgomery County, and difficult choices are going to have to be made. We look forward to working closely with you and your staff on a budget that balances the needs of the county and its children with our fiscal responsibility, given today's economic realities.

In closing, the members of the Board wish to thank those who worked so hard to develop this budget, including MCPS staff, our employee associations, and the Montgomery County Council of Parent Teacher Associations.

We also want to thank the large number of parents, staff, and students who contacted us or attended our budget hearings to advocate for their schools and programs. They have told us that even in difficult economic times, they want Montgomery County to continue to invest in education. We submit this budget on their behalf.

Sincerely,



Patricia B. O'Neill, President  
Montgomery County Board of Education

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**TABLE 1**  
**SUMMARY OF RESOURCES**  
**BY OBJECT OF EXPENDITURE**

OBJECT OF EXPENDITURE	FY 2009 ACTUAL	FY 2010 BUDGET	FY 2010 CURRENT	FY 2011 BUDGET	FY 2011 CHANGE
<b>POSITIONS</b>					
Administrative	725,000	718,000	717,000	717,000	
Business/Operations Admin.	91,000	93,000	94,000	94,000	
Professional	11,769,000	11,924,700	11,915,500	12,106,980	191,480
Supporting Services	8,182,911	8,216,889	8,223,415	8,269,755	46,340
<b>TOTAL POSITIONS</b>	<b>20,767,911</b>	<b>20,952,589</b>	<b>20,949,915</b>	<b>21,187,735</b>	<b>237,820</b>
<b>01 SALARIES &amp; WAGES</b>					
Administrative	\$90,699,378	\$90,945,699	\$90,820,913	\$91,685,820	\$864,907
Business/Operations Admin.	7,899,011	8,842,815	8,940,425	9,044,075	103,650
Professional	899,747,287	923,405,790	923,435,491	948,211,237	24,775,746
Supporting Services	329,101,085	340,215,446	340,549,620	347,133,566	6,583,946
<b>TOTAL POSITION DOLLARS</b>	<b>1,327,446,761</b>	<b>1,363,409,750</b>	<b>1,363,746,449</b>	<b>1,396,074,698</b>	<b>32,328,249</b>
<b>OTHER SALARIES</b>					
Administrative	737,402	497,576	497,576	497,576	
Professional	52,099,882	58,769,278	59,461,018	61,302,503	1,841,485
Supporting Services	22,868,737	21,926,200	22,378,621	22,182,712	(195,909)
<b>TOTAL OTHER SALARIES</b>	<b>75,706,021</b>	<b>81,193,054</b>	<b>82,337,215</b>	<b>83,982,791</b>	<b>1,645,576</b>
<b>TOTAL SALARIES AND WAGES</b>	<b>1,403,152,782</b>	<b>1,444,602,804</b>	<b>1,446,083,664</b>	<b>1,480,057,489</b>	<b>33,973,825</b>
<b>02 CONTRACTUAL SERVICES</b>	<b>26,405,595</b>	<b>24,553,459</b>	<b>24,971,969</b>	<b>25,909,119</b>	<b>937,150</b>
<b>03 SUPPLIES &amp; MATERIALS</b>	<b>63,278,079</b>	<b>71,292,969</b>	<b>71,329,841</b>	<b>75,050,881</b>	<b>3,721,040</b>
<b>04 OTHER</b>					
Staff Dev & Travel	3,033,423	3,479,832	3,488,819	3,678,278	189,459
Insur & Fixed Charges	431,411,363	451,720,535	451,545,028	558,094,429	106,549,401
Utilities	43,453,625	48,294,419	47,944,932	43,285,255	(4,659,677)
Grants & Other	56,180,363	138,516,451	138,641,236	59,538,516	(79,102,720)
<b>TOTAL OTHER</b>	<b>534,078,774</b>	<b>642,011,237</b>	<b>641,620,015</b>	<b>664,596,478</b>	<b>22,976,463</b>
<b>05 EQUIPMENT</b>	<b>14,264,597</b>	<b>18,116,531</b>	<b>16,921,511</b>	<b>17,572,443</b>	<b>750,932</b>
<b>GRAND TOTAL AMOUNTS</b>	<b>\$2,041,179,827</b>	<b>\$2,200,577,000</b>	<b>\$2,200,927,000</b>	<b>\$2,263,286,410</b>	<b>\$62,359,410</b>

**TABLE 1A**  
**FY 2011 OPERATING BUDGET**  
**SUMMARY OF BUDGET CHANGES**  
(\$ in millions)

ITEM	AMOUNT	ITEM	AMOUNT
CURRENT FY 2010 OPERATING BUDGET	\$2,200.9	INFLATION AND OTHER	
ENROLLMENT CHANGES		Utilities	(5.5)
Elementary/Secondary	7.8	Special Education Including Non-public Tuition	1.7
Special Education	2.1	Transportation	2.2
ESOL	1.0	Facilities/Plant Operations/Maintenance	0.2
PreKindergarten	0.4	Inflation	1.6
Transportation/Food Service/Facilities/Plant Ops/Other	0.1	Food Service	(0.3)
Benefits for Staff	3.4	Other	(0.9)
<b>Subtotal</b>	<b>\$14.8</b>	<b>Subtotal</b>	<b>(\$1.0)</b>
NEW SCHOOLS/SPACE	\$1.0	OTHER	
EMPLOYEE SALARIES		Retiree Health Trust Fund	30.9
Continuing Salary Costs	23.1	Reserve for Future Obligations	37.2
Benefits for Continuing Salary Costs	2.8	Debt Service - One-time Payment	(79.5)
<b>Subtotal</b>	<b>\$25.9</b>	<b>Subtotal</b>	<b>(\$11.4)</b>
EMPLOYEE BENEFITS AND INSURANCE		<b>FY 2011 BUDGET REQUEST</b>	<b>\$2,263.3</b>
Employee Benefit Plan (active)	21.0	<b>FY 2010-FY 2011 CHANGE</b>	<b>\$62.4</b>
Employee Benefit Plan (retired)	4.9	Less Enterprise funds	(56.6)
Retirement	3.1	Less Grants	(128.4)
Tuition Reimbursement	0.2	<b>SPENDING AFFORDABILITY BUDGET</b>	<b>\$2,078.3</b>
FICA/Self-insurance/Workers' Compensation	3.9	REVENUE INCREASE BY SOURCE	
<b>Subtotal</b>	<b>\$33.1</b>	Local	26.4
		State	48.4
		Federal	1.8
		Other	(0.2)
		Fund Balance	(14.2)
		Enterprise	0.2
		<b>TOTAL REVENUE INCREASE</b>	<b>\$62.4</b>

**TABLE 2**  
**BUDGET REVENUE BY SOURCE**

SOURCE	FY 2009 ACTUAL	FY 2010 BUDGET	FY 2010 CURRENT	FY 2011 ESTIMATED
<b>CURRENT FUND</b>				
<b>From the County:</b>	\$ 1,513,763,860	\$1,529,554,447	\$1,527,534,160	\$1,553,934,287
<b>From the State:</b>				
Bridge to Excellence				
Foundation Grant	190,233,753	223,582,900	223,603,678	264,591,855
Supplemental Grant	10,039,105			
Limited English Proficient	42,602,132	42,741,657	42,741,912	42,761,205
Compensatory Education	85,772,752	88,497,375	88,497,924	94,625,966
Students with Disabilities - Formula	32,771,701	32,668,658	32,668,658	32,894,560
Students with Disabilities - Reimbursement	13,232,446	11,304,742	11,304,742	11,704,742
Transportation	31,481,949	31,266,002	31,266,432	31,611,353
Miscellaneous	726,086	750,000	750,000	750,000
Geographic Cost of Education Index	18,373,381	9,277,914	9,278,167	9,538,593
Programs financed through State Grants	4,280,641	0	0	0
Total from the State	429,513,946	440,089,248	440,111,513	488,478,274
<b>From the Federal Government:</b>				
Impact Aid	139,884	245,000	245,000	245,000
Programs financed through Federal Grants	70,980,835	115,364,261	117,565,461	119,402,145
Total from the Federal Government	71,120,719	115,609,261	117,810,461	119,647,145
<b>From Other Sources:</b>				
Tuition and Fees				
D.C. Welfare	269,705	250,000	250,000	250,000
Nonresident Pupils	682,761	925,000	925,000	925,000
Summer School	1,832,839	1,982,536	1,982,536	1,982,536
RICA				
Evening High School	93,852			
Outdoor Education	425,552	496,905	496,905	496,905
Student Activities Fee	724,903	795,000	795,000	795,000
Hospital Teaching	217,405	240,127	240,127	240,127
Miscellaneous	879,176	1,300,000	1,300,000	900,000
Programs financed through Private Grants	776,690	8,991,083	8,787,905	8,977,343
Total from Other Sources	5,902,883	14,980,651	14,777,473	14,566,911
Fund Balance	17,927,455	44,200,000	44,200,000	30,000,000
Total Current Fund	2,038,228,863	2,144,433,607	2,144,433,607	2,206,626,617
<b>ENTERPRISE &amp; SPECIAL FUNDS</b>				
<b>School Food Service Fund:</b>				
State	985,094	1,067,287	1,067,287	1,067,287
National School Lunch, Special Milk and Free Lunch Programs	18,311,345	18,746,883	18,746,883	18,746,883
Child Care Food Program		700,000	700,000	700,000
Sale of Meals and other	22,348,729	27,307,802	27,307,802	26,848,831
Total School Food Service Fund	41,645,168	47,821,972	47,821,972	47,363,001

**TABLE 2**  
**BUDGET REVENUE BY SOURCE**

SOURCE	FY 2009 ACTUAL	FY 2010 BUDGET	FY 2010 CURRENT	FY 2011 ESTIMATED
<b>Real Estate Management Fund:</b>				
Rental fees	2,397,720	2,651,095	3,001,095	3,074,719
Total Real Estate Management Fund	2,397,720	2,651,095	3,001,095	3,074,719
<b>Field Trip Fund:</b>				
Fees	1,578,741	2,314,716	2,314,716	2,369,952
Total Field Trip Fund	1,578,741	2,314,716	2,314,716	2,369,952
<b>Entrepreneurial Activities Fund:</b>				
Fees	1,872,573	1,774,100	1,774,100	2,232,614
Total Entrepreneurial Activities Fund	1,872,573	1,774,100	1,774,100	2,232,614
Total Enterprise Funds	47,494,202	54,561,883	54,911,883	55,040,286
<b>Instructional Television Special Revenue Fund:</b>				
Cable Television Plan	1,582,830	1,581,510	1,581,510	1,619,507
Total Instructional Special Revenue Fund	1,582,830	1,581,510	1,581,510	1,619,507
<b>GRAND TOTAL</b>	<b>\$2,087,305,895</b>	<b>\$2,200,577,000</b>	<b>\$2,200,927,000</b>	<b>\$2,263,286,410</b>

Tax - Supported Budget	FY 2009 ACTUAL	FY 2010 BUDGET	FY 2010 CURRENT	FY 2011 ESTIMATED
Grand Total	\$2,087,305,895	\$2,200,577,000	\$2,200,927,000	\$2,263,286,410
<b>Less:</b>				
Grants	(76,038,166)	(124,355,344)	(126,353,366)	(128,379,488)
Enterprise Funds	(47,494,202)	(54,561,883)	(54,911,883)	(55,040,286)
Special Revenue Fund	(1,582,830)	(1,581,510)	(1,581,510)	(1,619,507)
<b>Grand Total - Tax-Supported Budget</b>	<b>\$1,962,190,697</b>	<b>\$2,020,078,263</b>	<b>\$2,018,080,241</b>	<b>\$2,078,247,129</b>

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 2009 ACTUAL	FY 2010 BUDGET	FY 2010 CURRENT	FY 2011 ESTIMATED
<u>Budgeted</u>				
<b>FEDERAL AID: NO CHILD LEFT BEHIND (NCLB)</b>				
Title I - A (941/949)	\$ 21,221,798	\$ 19,466,779	\$ 19,466,779	\$ 18,435,970
Title I - A (ARRA) (941/949)		6,100,000	5,906,005	5,906,005
<b>Title I - D</b>				
Neglected and Delinquent Youth (937)	134,488	114,051	166,875	166,875
<b>Subtotal</b>	21,356,286	25,680,830	25,539,659	24,508,850
<b>Title II - A</b>				
Skillful Teacher Program (915)	604,923	604,923	604,923	604,923
Consulting Teachers (961)	3,707,825	3,672,598	3,679,111	3,311,808
<b>Title II - D</b>				
Enhancing Education through Technology (918)	279,314	183,272	161,203	154,242
<b>Subtotal</b>	4,592,062	4,460,793	4,445,237	4,070,973
<b>Title III</b>				
Limited English Proficiency (927)	3,367,798	3,207,854	3,502,034	3,564,888
<b>Title IV</b>				
Safe & Drug Free Schools & Communities Act (926)	471,535	475,361	445,593	444,748
<b>Title V</b>				
Innovative Educational Programs (997)	31,536	-	-	-
<b>Title VII</b>				
American Indian Education (903)	26,527	22,290	23,685	23,685
<b>SUBTOTAL</b>	<b>29,845,744</b>	<b>33,847,128</b>	<b>33,956,208</b>	<b>32,611,144</b>
<b>OTHER FEDERAL, STATE, AND LOCAL AID</b>				
State Fiscal Stabilization Fund (SFSF) (901)				
Federal (ARRA)	-	27,845,773	27,844,286	31,263,019
Aging Schools (972)				
State	1,095,902	-	-	-
Head Start Child Development (932)				
Federal	3,268,873	3,268,873	3,374,329	3,435,318
Federal (ARRA)				
Individuals with Disabilities Education (913/963/964/966/967)				
Federal	27,721,893	27,672,924	29,338,798	29,673,104
Federal (ARRA)		16,156,689	16,488,837	16,488,837
Infants and Toddlers (930)				
Federal	823,222	937,156	928,528	928,528
Medical Assistance Program (939)				
Federal	3,255,047	4,519,801	4,519,801	3,881,982
Provision for Future Supported Projects (999)				
Other	9,901,378	8,991,083	8,787,905	8,977,343

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

Program Name and Source of Funding	FY 2009 ACTUAL	FY 2010 BUDGET	FY 2010 CURRENT	FY 2011 ESTIMATED
Carl D. Perkins Career & Technical Ed. Improvement (951)				
Federal	1,031,472	1,115,917	1,114,674	1,118,213
County	276,419	379,794	379,794	379,794
Subtotal	1,307,891	1,495,711	1,494,468	1,498,007
<b>SUBTOTAL</b>	<b>\$ 1,307,891</b>	<b>\$ 1,495,711</b>	<b>\$ 1,494,468</b>	<b>\$ 1,498,007</b>
<b>TOTAL</b>	<b>\$ 177,219,950</b>	<b>\$ 124,735,138</b>	<b>\$ 126,733,160</b>	<b>\$ 128,759,282</b>

<u>Summary of Funding Sources</u>				
Federal	\$ 65,946,251	\$ 115,364,261	\$ 117,565,461	\$ 119,402,145
State	1,095,902	-	-	-
County	276,419	379,794	379,794	379,794
Other	9,901,378	8,991,083	8,787,905	8,977,343
<b>GRAND TOTAL</b>	<b>\$ 177,219,950</b>	<b>\$ 124,735,138</b>	<b>\$ 126,733,160</b>	<b>\$ 128,759,282</b>

**FOR INFORMATION ONLY**

**Non-Budgeted Grants Received as of November 2009 - Continuation is Dependent on Future Funding**

Title V-D, Fund for the Improvement of Education			\$ 143,000
Perkins Vocational Education (5 projects)			54,988
Learn and Serve			7,828
Homeless Education Grant			60,000
IDEA - Enabling Students with Emotional Disabilities			62,816
IDEA - ED Cluster Model			185,000
IDEA - Least Restrictive Environment (LRE)			38,800
IDEA - Alt/MSA			20,000
IDEA - Transition Drop-out Grad Gap			40,000
IDEA - High School Assessments			329,866
IDEA - AYP			151,259
Reading First			565,167
Ambassadors Invested in Mentorship			154,259
ARRA - Equipment			72,305
ARRA - Head Start			259,330
ARRA - Infants and Toddlers			208,534
ARRA - Neglected and Delinquent Youth			58,594
ARRA - Homeless Children and Youth			85,000
<b>SUBTOTAL FEDERAL FUNDING</b>			<b>\$ 2,496,746</b>
Judith Hoyer Childcare & Education-Silver Spring Center			202,988
Judith Hoyer Childcare & Education-Gaithersburg Center			322,000
Infants and Toddlers - Part C			51,884
Chess Grants			24,800
Maryland Model for School Readiness (MMSR) Program			105,785
<b>SUBTOTAL STATE FUNDING</b>			<b>\$ 102,457</b>
Naval Architects and Marine Engineers Program			22,574
Startalk			28,399
Families Who Read Succeed			49,020
Bridge Lawn Care			15,000
Study Circles			10,000
<b>SUBTOTAL OTHER</b>			<b>\$ 124,993</b>
<b>TOTAL</b>			<b>\$ 3329,996</b>

**TABLE 4**  
**SUMMARY OF STUDENT ENROLLMENT - FY 2008 THROUGH FY 2011**

DESCRIPTION	(1) FY 2008 ACTUAL 9/30/2007	(2) FY 2009 ACTUAL 9/30/2008	(3) FY 2010 ACTUAL 9/30/2009	(4) FY 2010 BUDGET 10/30/2008	(5) FY 2011 BUDGET 10/30/2009	CHANGE COLUMN (5) LESS COLUMN (4)	
	#	%					
<b>ENROLLMENT</b>							
PRE-KINDERGARTEN	1,833	1,878	1,973	1,905	2,025	120	6.5
HEAD START	599	618	618	618	618		
KINDERGARTEN	9,749	10,250	10,605	10,352	10,575	223	2.3
GRADES 1-5	48,827	49,892	51,399	50,691	53,006	2,315	4.7
<b>SUBTOTAL ELEMENTARY</b>	<b>61,008</b>	<b>62,638</b>	<b>64,595</b>	<b>63,566</b>	<b>66,224</b>	<b>2,658</b>	<b>4.4</b>
GRADES 6-8	30,911	30,871	30,890	30,155	30,532	377	1.2
<b>SUBTOTAL MIDDLE</b>	<b>30,911</b>	<b>30,871</b>	<b>30,890</b>	<b>30,155</b>	<b>30,532</b>	<b>377</b>	<b>1.2</b>
GRADES 9-12	44,245	44,240	44,580	44,511	44,386	(125)	(0.3)
<b>SUBTOTAL HIGH</b>	<b>44,245</b>	<b>44,240</b>	<b>44,580</b>	<b>44,511</b>	<b>44,386</b>	<b>(125)</b>	<b>(0.3)</b>
<b>SUBTOTAL PRE-K - GRADE 12</b>	<b>136,164</b>	<b>137,749</b>	<b>140,065</b>	<b>138,232</b>	<b>141,142</b>	<b>2,910</b>	<b>2.1</b>
<b>SPECIAL EDUCATION</b>							
PRE-KINDERGARTEN	585	639	825	1,119	1,230	111	
SPECIAL PROGRAM CENTERS	561	511	514	674	462	(212)	(37.8)
<b>SUBTOTAL SPECIAL EDUCATION</b>	<b>1,146</b>	<b>1,150</b>	<b>1,339</b>	<b>1,793</b>	<b>1,692</b>	<b>(101)</b>	<b>(5.8)</b>
ALTERNATIVE PROGRAMS	212	179	219	225	225		
GATEWAY TO COLLEGE	223	198	154	250	250		
<b>GRAND TOTAL</b>	<b>137,745</b>	<b>139,276</b>	<b>141,777</b>	<b>140,500</b>	<b>143,309</b>	<b>2,809</b>	<b>2.0</b>

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

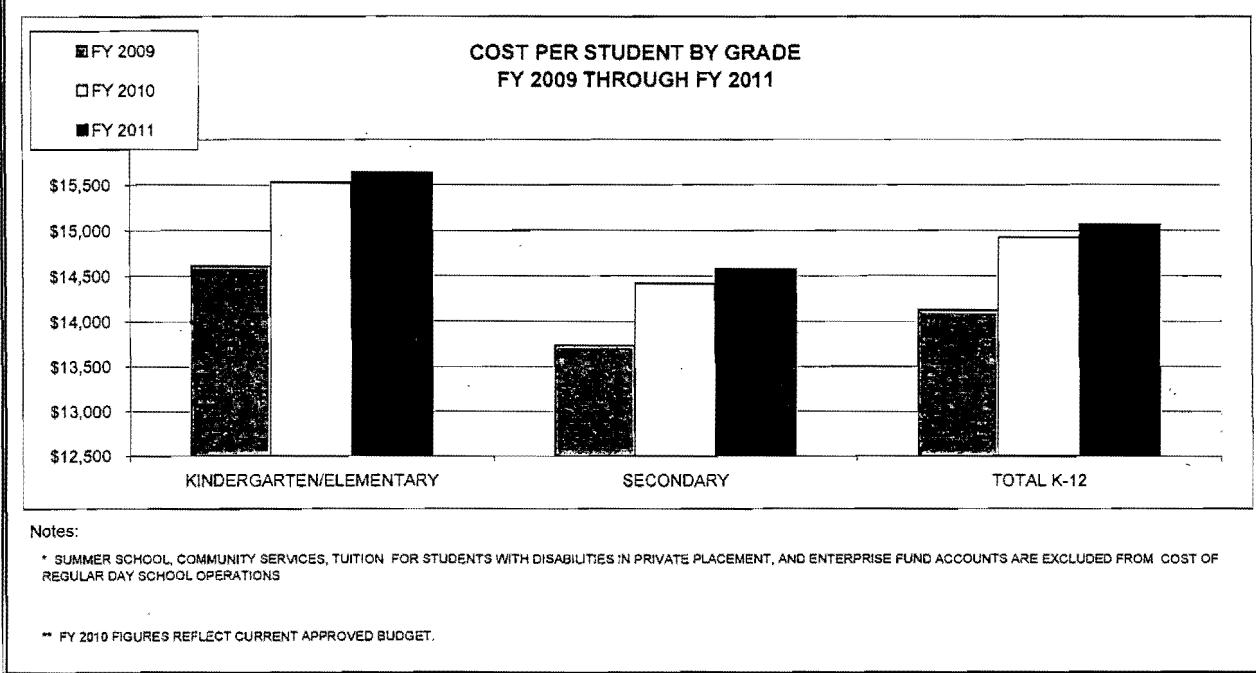
NOTE: Grade enrollments for FY 2008 - FY 2011 include special education students

**TABLE 5**  
**ALLOCATION OF STAFFING**

POSITIONS	CURRENT FY 2010	BUDGET FY 2011	CHANGE
Executive	19.000	19.000	
Administrative	213.000	213.000	
Business/Operations Administrator	94.000	94.000	
Principal/Assistant Principal	485.000	485.000	
Other Professional	210.800	210.800	
Teacher	10,408.500	10,580.070	171.570
Special Education Specialist	469.500	488.600	19.100
Media Specialist	201.500	201.500	
Counselor	467.000	467.000	
Psychologist	97.100	97.205	0.105
Social Worker	14.100	14.805	0.705
Pupil Personnel Worker	47.000	47.000	
Instructional Aide/Assistant	2,614.880	2,655.720	40.840
Secretarial/Clerical Support	1,053.387	1,052.387	(1.000)
IT Systems Specialist	144.500	143.500	(1.000)
Security	230.000	229.000	(1.000)
Cafeteria	557.448	557.448	
Building Services	1,308.700	1,318.200	9.500
Facilities Management/Maintenance	350.500	350.500	
Supply/Property Management	52.500	52.500	
Transportation	1,694.750	1,694.750	
Other Support (Business, Technology, Research, Human Resources, Communications, etc.)	216.750	215.750	(1.000)
<b>TOTAL</b>	<b>20,949.915</b>	<b>21,187.735</b>	<b>237.820</b>

**TABLE 6**  
**COST PER STUDENT BY GRADE SPAN**

	KINDERGARTEN/ ELEMENTARY	SECONDARY	TOTAL K-12	AMOUNT EXCLUDED*	TOTAL BUDGET**
<b>FY 2009 ACTUAL EXPENDITURES STUDENTS 9/30/08 (ACTUAL) COST PER STUDENT</b>	\$888,244,110 60,781 \$14,614	\$1,041,255,456 75,801 \$13,737	\$1,929,499,566 136,582 \$14,127	\$137,959,231	\$2,067,458,797
<b>FY 2010 BUDGET EXPENDITURES STUDENTS 9/30/09 (CURRENT) COST PER STUDENT</b>	\$965,419,538 62,162 \$15,531	\$1,089,391,977 75,565 \$14,417	\$2,054,811,515 137,727 \$14,919	\$146,115,485	\$2,200,927,000
<b>FY 2011 BUDGET EXPENDITURES STUDENTS 9/30/10 (PROJECTED) COST PER STUDENT</b>	\$1,013,731,988 64,811 \$15,641	\$1,101,908,512 75,605 \$14,575	\$2,115,640,500 140,416 \$15,067	147,645,910	\$2,263,286,410



## **Montgomery County Public Schools**

### **FY 2011 OPERATING BUDGET**

#### **Enrollment**

The Montgomery County Public Schools (MCPS) FY 2011 Operating Budget will increase by \$14,792,498 because of enrollment changes. Below are details of the reasons for the increase.

- Enrollment growth impacts most aspects of the Operating Budget, such as requirements for instructional staffing, student transportation (operators, attendants, and buses), instructional materials (textbooks and supplies), other school-based supporting services, and new and expanded school facilities.

#### **Enrollment Projections**

- Official enrollment for the 2009-2010 school year is 141,777 students. This is an increase of 2,501 students from FY 2009, and 1,277 more than what was projected and budgeted for in the FY 2010 Operating Budget.
- Enrollment is projected to be 143,309 students in FY 2011, which is 1,532 more than this year, and 2,809 more than what was budgeted for in the FY 2010 Operating Budget.
- The main reasons for higher enrollment in FY 2010 include:
  - Higher numbers of resident births since 2000, now arriving in elementary schools
  - A reduction in out migration of households from Montgomery County
  - Increased enrollment into MCPS from county private schools
- Elementary school enrollment is projected to increase next year. The projection for Grades K-5 enrollment in FY 2011 is 63,581, up 1,577 from this year's actual enrollment of 62,004. Kindergarten enrollment is projected to be 10,575 next year, the third year this enrollment has topped 10,000.
- Secondary school enrollment is projected to decline in FY 2011. Middle school enrollment is projected at 30,532, a decline of 358 from this year's actual enrollment of 30,890. High school enrollment is projected at 44,386, a decline of 194 from this year's actual enrollment of 44,580.

- Increases in elementary school enrollment will be somewhat offset by decreases in secondary enrollment for the next several years. However, significant total enrollment increases will occur over the six-year forecast period. By FY 2016, Montgomery County Public Schools is projected to have 148,043 students enrolled, 6,266 more than this year.

### **Costs Related to Enrollment Changes**

Budget calculations are based on changes in projected enrollment. Since actual enrollment was 1,277 students above projection in FY 2010, additional resources will need to be requested in the FY 2011 budget for these students. In addition to these students, another increase of 1,532 students is projected for FY 2011, for a total 2,809 students above the budgeted level for FY 2010.

- Total costs related to enrollment growth will increase by \$14,792,498.
- This fall there are 961 more students in elementary schools than were projected and budgeted for. The projection of 1,577 additional elementary students in FY 2011, results in a cumulative increase of 2,538 students from what is budgeted for in FY 2010 to what is projected for FY 2011. This number of additional students requires an additional 138.7 classroom teacher positions and 4.775 lunch hour aide positions at a total cost of \$7,553,449.
- This fall there are 735 more students in middle school than were projected and budgeted for. The projection of 358 fewer middle school students in FY 2011 results in a net increase of 377 students from what was budgeted for in FY 2010 to what is projected for FY 2011. This number of additional students requires 21.0 additional classroom teacher positions at a total cost of \$1,100,568.
- This fall there are 69 more students in high schools than were projected and budgeted for. The projection of 194 fewer high school students in FY 2011 results in a net decrease of 125 students from what was budgeted for the FY 2010 to what is projected for FY 2011. This number of fewer students requires an 16.0 fewer classroom teacher positions for a total decrease of \$875,077.
- This fall there are projected increases of 500 ESOL students. This number of projected additional students requires 21.0 additional classroom teacher positions and 2.5 fewer paraeducator positions at a total cost of \$1,026,131.
- This fall there is a projected increase of 7 additional pre-kindergarten classes to comply with state mandates to serve an additional 140 children. This number of projected additional students requires 3.5 additional classroom teacher positions, 2.625 additional paraeducator positions, and 1.3 additional social services support positions at a total cost of \$423,440.

- Growth in special education requires the addition of 16.0 classroom teacher positions, 9.6 speech pathologists, 5.5 occupational and physical therapist positions, and 26.74 paraeducator positions at a total cost of \$2,115,007. Special education students are now included in the total count of students by grade level. A decrease in the number of students expected to require non-public placement decreases the budget for tuition payments by \$441,282.
- There are other costs related to enrollment changes such as \$180,724 for substitutes, \$95,599 for textbooks, \$33,935 for media centers, and \$157,783 for instructional materials. In addition, there are related changes such as additional square footage added to schools to accommodate enrollment growth. Costs for building services (\$288,439) and utilities (\$870,005) will add \$1,158,444 to the budget. Additional transportation costs related to enrollment growth add \$88,880 to the budget.
- Employee benefits costs related to enrollment changes result in a net increase of \$3,346,194.

## **Montgomery County Public Schools**

### **FY 2011 OPERATING BUDGET**

#### **New Schools**

The Montgomery County Public Schools (MCPS) FY 2011 Operating Budget will increase by a net of \$1,007,976, reflecting the effects of opening new schools. Below are details of the reasons for the decrease.

- The budgetary impact of new schools is a result of the combination of positions added to a school because of the school building itself and one-time start-up costs.
- Costs associated with the opening of new schools rather than enrollment growth include building administrators, reading teachers, staff development teachers, building service workers, secretaries, and other positions. New school costs also include utilities, media and instructional materials, custodial supplies, equipment, food services, and other non-personnel costs.
- One-time costs come out of the budget in the year after the building opens or a grade is added. As a result, the incremental impact of new schools in any single year may be either an increase or decrease.
- In FY 2011, no new schools will open. Part of the one-time costs relative to the opening of the William B. Gibbs, Jr., Elementary School will cease after FY 2010, resulting in a partial decrease in new schools costs.
- The increase of costs related to the addition of 185,000 square feet at several school buildings totals 9.5 building services positions and \$1,270,999. The net decrease in one-time costs related to the William B. Gibbs, Jr., Elementary School is \$263,023.

## **Montgomery County Public Schools**

### **FY 2011 OPERATING BUDGET**

#### **Continuing Salaries**

Continuing salaries and related employee benefits will increase the FY 2011 Operating Budget by \$25,908,503. Continuing salary costs are tied to the negotiated agreements. They include annual salary increments for eligible employees, adjusted by savings for expected employee lapse and turnover. Employee pay is based on salary schedules, published as part of the operating budget, for each pay grade and step. As employees increase their experience, they reach higher steps on the salary schedule. In addition, teacher salaries depend on educational levels. Salaries for supporting services employees depend on the number of hours worked in addition to their years of service.

#### **Continuing Salaries**

Changes in employee salaries are determined by negotiated agreements with four employee organizations:

- Montgomery County Education Association (MCEA) representing teachers and other professional employees
  - SEIU Local 500 representing supporting services employees
  - Montgomery County Association of Administrators and Principals (MCAAP) representing administrators
  - Montgomery County Business and Operations Administrators (MCBOA) representing non-certificated supervisory employees
- 
- Employees receive continuing salary increases related to seniority (steps and longevity). Increases include scheduled annual increments for employees with satisfactory service who are still progressing along salary schedules and for teachers who accumulate sufficient graduate credits to move to a higher salary schedule lane.
  - Included in net continuing salary costs is lapse (savings resulting from short-term vacancies) and turnover (savings from replacing a senior employee with a lower-paid junior employee) savings based on historical experience.
  - The total budget increase for continuing salary costs and related benefits of \$25.9 million includes \$18.5 million for MCEA, \$6.4 million for SEIU Local 500, \$0.1 million for MCBOA, and \$0.9 million for MCAAP.
  - Continuing salaries increase the total budget by 1.2 percent and the budget for salaries and wages by 1.7 percent. As a result of lower than normal turnover due

to the economic downturn, continuing salary costs are increasing more than in most years.

- Budgeted salary costs for FY 2011 assume that all new employees will be hired at the budgeted new-hire rate for their position, including BA4 for regular education teachers and BA6 for special education teachers.

## **Montgomery County Public Schools**

### **FY 2011 OPERATING BUDGET**

#### **Employee Benefits**

The Montgomery County Public Schools (MCPS) FY 2011 Operating Budget includes \$517.9 million to provide employee benefits (23 percent of the total operating budget). This is an increase of \$67.8 million (15.1 percent). Health and life insurance coverage for current active and retired employees and their families are provided through the Employee Benefit Plan (EBP). Other employee benefits include retirement, social security (FICA), worker's compensation and other self-insurance, and tuition reimbursement. The operating budget also includes an increase of \$30.9 million for the fourth year of an eight-year phase-in of payments required for the Retiree Health Trust Fund for Other Post-Employment Benefits (OPEB) to pre-fund retiree health benefits. See a separate section on OPEB.

#### **Health and Life Insurance**

- MCPS works with a consultant firm, Aon Consulting, one of the leading firms in the nation with expertise in employee benefit plan administration. Aon studies both national trends and actual MCPS experience to develop projections of future costs. These projections have been very close to actual results for the last several years.
- Joint negotiations with employee unions have resulted in a series of health care plan design changes, including higher co-pays for some plans, changes in pharmaceutical access, and new plan administration.
- The projected budget increase assumes a 7.7 percent cost increase trend in FY 2011. This rate is higher than in previous years and much higher than the expected rate of inflation. The projection reflects the net of inflationary cost increases and the positive effects of cost containment initiatives and cooperation with other county agencies, including rebidding contracts with third party administrators. In addition to implementing additional efficiencies, the MCPS budget has included the impact of a reduction in the number of new retirees in FY 2011 and the overall impact an economic contraction has on the ability to pass on higher costs for employee health benefits.
- The budget for health and life insurance for active employees will rise by \$21,001,690. Active employees pay an average of 10 percent of plan expenses, although this varies by plan.
- The budget for retiree health care costs will increase by \$4,932,580. Retirees pay 36 percent of plan costs.

### **Other Employee Benefits**

The cost of other employee benefits is expected to increase by \$7.2 million in FY 2011.

- The cost for current retirement programs will increase by \$3.1 million based on 4.70 percent of salary. Investment gains and losses in the retirement fund are smoothed over five years. Thus, some past losses have not yet been fully realized, and there will be a gradual recognition of significant losses and a consequent increase in the percentage of salary used to calculate retirement contributions. As a result of these anticipated actuarial losses, long-term concerns remain about the funded status of the retirement plan.
- Because salary schedules have not changed, contributions to social security are projected to remain the same in FY 2011.
- Self-insurance costs for worker's compensation will increase by \$3.9 million in FY 2011, a 40 percent increase. MCPS participates in an inter-agency risk management fund. That fund has sustained significant investment and operating losses, although the volume of MCPS self-insurance claims has not changed significantly.
- There also is an increase of \$200,000 for tuition reimbursement as more employees take courses to maintain certification and increase job skills.

## **Montgomery County Public Schools**

### **FY 2011 OPERATING BUDGET**

#### **Funding Retiree Benefits - OPEB**

The Montgomery County Public Schools (MCPS) FY 2011 Operating Budget includes an increase of \$30,942,250 million to continue pre-funding of Other Post-Employment health and life insurance Benefits (OPEB) for retired employees, made necessary by the rulings of the Government Accounting Standards Board (GASB). Total pre-funding in the FY 2011 budget is \$42.9 million. This pre-funding is necessary to assure retired and active employees that future retiree health insurance costs will be fully funded, and to protect the County's AAA bond rating.

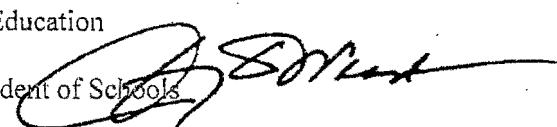
- GASB defines what are considered to be Generally Accepted Accounting Principles (GAAP) for governmental entities, including public school districts. GASB statements 43 and 45 related to disclosure of liabilities for Other Post-Employment Benefits (OPEB).
- OPEB include retiree medical, dental, life insurance, and other benefits not covered by a pension plan.
- MCPS has taken action to limit its liabilities under the new rulings. With the cooperation of retiree representatives, the Board of Education adjusted the share of health and life insurance benefit payments made by retirees to 36 percent of total costs with MCPS responsible for 64 percent.
- Plan sponsors such as MCPS, began to comply with the new rulings beginning in FY 2008. They must determine through an actuarial study and disclose in financial reports OPEB liabilities as they are incurred. MCPS commissioned its pension actuary, Mercer, to conduct the required actuarial analysis.
- The new approach differs from past practice that permitted employers to pay for such benefits on a "pay as you go" basis. Until 1978, MCPS pre-funded retiree insurance benefits. That fund was finally exhausted in FY 2003. After that, the operating budget paid the full cost of retiree benefits.
- Although GASB does not require government bodies to pre-fund OPEB obligations, bond rating agencies expect large governmental entities with favorable bond ratings to phase-in OPEB funding over a period of years, with a plan to achieve full funding of the liabilities. As a result, all County funded agencies have decided to phase-in required pre-funding over no more than eight years. By the end of that period, MCPS would be contributing approximately \$80 million annually to fund the OPEB unfunded accrued liability. FY 2011 is the fourth year of the phase-in period.

- MCPS has established a trust fund to hold and invest employer contributions. Investment earnings of the trust fund will reduce the ultimate cost to the operating budget.
- The FY 2010 budget includes \$12.0 million in contributions for the third year of the eight-year phase-in period. The adverse economic situation and budget shortfalls made it necessary for the County Council to reduce OPEB funding. This has created a shortfall in the phase-in plan. The County Government made no payments to its OPEB trust fund in FY 2010. The County Council required MCPS to delay making the FY 2010 payment to the trust fund until June 30, 2010, in case the money is needed to deal with revenue shortfalls later this fiscal year.
- The FY 2011 budget includes an increase of \$30.9 million to restore the payment schedule to the original eight-year phase-in period. This will make possible a total payment of \$42.9 million. Because of the effects of the recession, the County Council may decide again to postpone required OPEB contributions. That may effectively delay completion of the phase-in period.
- As economic conditions improve, MCPS will make additional contributions to achieve the complete phase-in of required payments within eight years based on actuarial recommendations. This will enable MCPS to achieve full funding of anticipated OPEB obligations.

Office of the Superintendent of Schools  
MONTGOMERY COUNTY PUBLIC SCHOOLS  
Rockville, Maryland

March 15, 2010

MEMORANDUM

To: Members of the Board of Education  
  
From: Jerry D. Weast, Superintendent of Schools  
Subject: FY 2011 Operating Budget: County Executive Recommendation

On March 15, 2010, County Executive Isiah Leggett presented his Fiscal Year 2011 Recommended Operating Budget. He recommended a total of \$2.13 billion for Montgomery County Public Schools (MCPS). This is a decrease of \$75 million (3.4 percent) from the approved FY 2010 Operating Budget of \$2.20 billion. Mr. Leggett's recommendation is actually 6.1 percent less—\$137.7 million—than the Board of Education's FY 2011 Operating Budget Request of \$2.26 billion. (See attachment for detailed numbers).

The recommended budget provides about \$1,000 less per student for next year compared to this fiscal year and about the same amount as FY 2009. This budget recommendation by Mr. Leggett will require a waiver of the Maintenance of Effort (MOE) law. Without a MOE waiver, MCPS may face a penalty of the loss of increased state aid up to \$53.1 million. Thus, I will be recommending to you that we join with the County Government in seeking a waiver from the MOE requirement. It is important to point out that MCPS has been exceedingly cooperative with the County Government as it confronts the worst economic downturn in decades. You will recall that MCPS agreed to allow the county to use its increased state aid for two years in a row (\$70 million in FY 2010 and \$53 million in FY 2011) in lieu of local increases in education spending despite the increases in enrollment. Mr. Leggett made a point of thanking the Board for its leadership and cooperation in these difficult economic times.

The county executive's budget recommends following the Charter limit on property taxes through a \$693 tax credit for owner-occupied residential property, with constant tax rates. Other revenue increases include an increase in the Energy tax (\$50 million) and a new ambulance fee charged directly to third-party payers (\$15 million). County reserves remain at five percent of resources. In addition, the budget assumes a withdrawal of \$102 million from the Rainy Day Fund in FY 2010.

At the press conference held to release the budget recommendation, Mr. Leggett said that he had closed a \$779 million shortfall to balance the budget. Closing the budget shortfall included the following major steps:

1. FY 2010 savings of \$100 million
2. Elimination of 450 County Government positions, including 230 filled positions
3. Reductions in the MCPS FY 2011 Operating Budget of \$137.7 million and a MOE waiver
4. Reductions in the budgets of Montgomery College (\$8.3 million) and the Maryland-National Capital Park and Planning Commission (\$15.1 million)
5. A ten-day furlough for county non-public safety employees
6. No general wage adjustment or salary increments for employees (COLAs and Steps)
7. Deferral of contributions for Other Post-Employment Benefits (OPEB) to pre-fund retiree health benefits
8. Reductions in county services in all departments
9. Increased revenue from the Energy tax (\$50 million) and an ambulance fee (\$15 million)
10. Maintaining the level of reserves at five percent, instead of the county policy level of six percent
11. Withdrawing \$102 million from the Rainy Day Fund in FY 2010.

The total FY 2011 Recommended Operating Budget is reduced by \$169.7 million (3.8 percent) from the FY 2010 Approved Budget. This is the first decrease in county expenditures since before the County Charter system was instituted in 1968. Mr. Leggett called attention to growing unemployment and continued weakness of the national and local economic situations. Because of the length of the recession, Mr. Leggett envisions a structural budget problem for several years in the future. He thanked the members of the Board of Education, the superintendent of schools, and employee union leaders for their cooperation.

Overall, Mr. Leggett recommended that MCPS receive 49.4 percent of total county expenditures compared to 48.3 percent of total county spending in FY 2010, excluding the transfer of \$79.5 million of debt service reimbursement to the MCPS budget. The net result is a 3.4 percent decrease from the FY 2010 Operating Budget for MCPS compared to a decrease of 5.4 percent for County Government, 2.3 percent for Montgomery College, and 12.5 percent for the Maryland-National Capital Park and Planning Commission.

MCPS will be absorbing the \$137.7 million in cuts despite enrollment growth of 2,800 students and an increase in the number of students receiving free and reduced price meals of 3,700 in the last year alone, as well as an increase of 900 students receiving English Language services. As I mentioned earlier, cuts of this magnitude will reduce MCPS' budget to a level of spending that is below the approved FY 2010 budget. The cost per student will drop about \$1,000 from \$15,067 to approximately \$14,124 – nearly the same cost as FY 2009.

Due to an increase in state aid, the Board included a reserve of \$37.2 million in the budget passed in February and forwarded to the county executive. This funding, if approved by the legislature, would offset some of the \$137.7 million in required cuts. The remaining cuts may include:

- Elimination of all OPEB contributions (retiree health trust fund) - \$42.9 million
- Elimination of salary increments (steps) - \$25.9 million
- Increase of class size by 1 student at all grade levels - \$16 million

- Central services reductions - \$6.0 million
- Other savings and reductions - \$10.3 million

We will continue to analyze the county executive's recommendation and I will send you additional financial details as warranted. I will keep you informed of future developments as the County Council begins its review of the MCPS budget. The Council's public hearings begin on April 5, 2010, at 7:00 p.m. The County Council's Education Committee has scheduled its initial worksession on the MCPS budget on April 8, 2010. If you have any questions, please call Mr. Larry A. Bowers, chief operating officer at 301-279-3626; or Dr. Marshall Spatz, director, Management, Budget, and Planning at 301-279-3547.

JDW:jp

Attachments

Copy to:  
Executive Staff

## MONTGOMERY COUNTY PUBLIC SCHOOLS

COUNTY EXECUTIVE RECOMMENDATION  
FY 2011 OPERATING BUDGET

March 15, 2010

	<u>FY 2010 Approved</u>	<u>Board of Education Request</u>	<u>County Executive Recommended</u>	<u>Change from BOE Request</u>
FY 2011 Total Increase / (Decrease)	\$2,200,577,000	\$2,263,286,410 62,709,410 2.8%	\$2,125,542,225 (75,034,775) -3.4%	(\$137,744,185)
FY 2011 Tax-supported Increase / (Decrease)	\$2,020,078,263	\$2,078,247,129 58,168,866 2.9%	\$1,940,540,941 (79,537,322) -3.9%	(137,706,188)
FY 2011 Tax-supported w/o Debt Service Increase / (Decrease)	\$1,940,540,941	\$2,078,247,129 137,706,188 7.1%	\$1,940,540,941 0 0.0%	(137,706,188)
FY 2011 Local Contribution Increase / (Decrease)	\$1,529,554,447	\$1,553,934,287 24,379,840 1.6%	\$1,416,228,099 (113,326,348) -7.4%	(137,706,188)
FY 2011 Local Contribution w/o Debt Service Increase / (Decrease)	\$1,450,017,125	\$1,553,934,287 103,917,162 7.2%	\$1,416,228,099 (33,789,026) -2.3%	(137,706,188)

<b>FISCAL YEAR</b>	<b>BUDGET SUMMARY BY AGENCY</b>				<b>GRAND TOTAL</b>
	<b>A</b>	<b>B</b> <b>TAX SUPPORTED</b>	<b>C</b> <b>GRANT SUPPORTED</b>	<b>D</b> <b>SELF SUPPORTED</b>	
<b>MONTGOMERY COUNTY GOVERNMENT</b>					
FY10 Approved	1,251.2	115.6	263.5	1,630.3	
FY11 Recommended	1,174.7	112.6	255.7	1,543.0	
Percent Change From FY10	-6.1 %	-2.6 %	-2.9 %	-5.4 %	
<b>MONTGOMERY COUNTY PUBLIC SCHOOLS</b>					
FY10 Approved	2,020.1	124.4	56.1	2,200.6	
FY11 Recommended	1,940.5	128.4	56.6	2,125.5	
Percent Change From FY10	-3.9 %	3.2 %	0.9 %	-3.4 %	
<b>MONTGOMERY COLLEGE</b>					
FY10 Approved	217.5	19.1	28.9	265.6	
FY11 Recommended	209.2	21.0	29.1	259.4	
Percent Change From FY10	-3.8 %	9.8 %	0.6 %	-2.3 %	
<b>MARYLAND-NATIONAL CAPITAL PARK AND PLANNING COMMISSION</b>					
FY10 Approved	106.6	0.6	16.7	123.9	
FY11 Recommended	91.6	0.6	16.3	108.4	
Percent Change From FY10	-14.1 %	0.0 %	-2.4 %	-12.5 %	
<b>ALL AGENCIES WITHOUT DEBT SERVICE</b>					
FY10 Approved	3,595.4	259.7	365.2	4,220.3	
FY11 Recommended	3,416.1	262.6	357.7	4,036.3	
Percent Change From FY10	-5.0 %	1.1 %	-2.1 %	-4.4 %	
<b>DEBT SERVICE: GENERAL OBLIGATION &amp; LONG TERM LEASES</b>					
FY10 Approved	251.5	-	2.2	253.6	
FY11 Recommended	265.0	-	2.9	267.9	
Percent Change From FY10	5.4 %	0.0 %	33.6 %	5.6 %	
<b>TOTAL BUDGETS</b>					
FY10 Approved	3,846.9	259.7	367.4	4,474.0	
FY11 Recommended	3,681.1	262.6	360.6	4,304.3	
Percent Change From FY10	-4.3 %	1.1 %	-1.8 %	-3.8 %	

Office of the Superintendent of Schools  
MONTGOMERY COUNTY PUBLIC SCHOOLS  
Rockville, Maryland

March 24, 2010

**MEMORANDUM**

To: Principals and Directors

From: Jerry D. Weast, Superintendent of Schools 

Subject: FY 2011 Central Services Reductions and Reorganization

The budget outlook for Montgomery County Public Schools (MCPS) requires us to make difficult budget reductions for FY 2011. As school-based administrators already know, when staffing allocations went out on March 5, 2010, there were significant reductions in positions. On March 22, 2010, the Board of Education was informed of central services reductions of \$6.5 million and 49 positions and the reorganization of certain central services functions. This memorandum informs you of the organizational changes that will be made in FY 2011. With the reductions being made for FY 2011, the total number of central services positions eliminated over the past three years will be 172 positions and \$23.5 million.

It is not possible to make these types of reductions without focusing the work of the offices in central services on a limited number of priorities. We cannot continue to provide all of the services and supports that have been provided in the past with an 18 percent reduction in resources. Therefore, I have directed staff to focus our work on the following four priorities:

- Human resources and implementation of the three professional growth systems
- Accelerated development of the curriculum, the online learning community, and support to schools
- Information technology that supports other strategic priorities
- Accountability and monitoring

In order to focus our work on these four priorities at the same time we are cutting \$6.5 million, it is necessary to reorganize some offices in central services. The major change is that the Office of Organizational Development (OOD) will be eliminated, and the different units within this office will be moved to the offices of Human Resources (OHR), Curriculum and Instructional Programs (OCIP), and the Chief Technology Officer (OCTO).

**Human Resources and the Professional Growth Systems**

The reorganization will focus on fully developing the MCPS professional growth systems (PGS). The goal is that all employees will follow the PGS continuum throughout their tenure with MCPS. Since the professional growth systems are built on the expectation that support will be

provided throughout this continuum, the structures used to implement and oversee this continuum must be integrated.

The new Office of Human Resources and Development will oversee and coordinate the PGS services. This office will include all of those functions currently in OHR and the following functions previously managed in OOD:

- University partnerships for employees
- Continuing Professional Development courses
- Tuition reimbursement
- Induction of new employees, including mentoring
- Professional growth systems, including Observing and Analyzing/Skillful Teaching courses, Peer Assistance and Review panels, consulting teachers and principals, and professional growth consultants
- Leadership development including the Professional Learning Community Institute, development of leaders (Assistant Principal 1s, Assistant Principal 2s, and interns), and succession planning
- Support staff training, including the paraeducator program
- Equity strategies, training, and development

#### **Accelerated Development of the Elementary Integrated Curriculum and the Secondary Online Learning Community and School Support**

Curriculum development and delivery will be accomplished through the *myMCPS* online learning community. Using *myMCPS*, curriculum development and dissemination will no longer be a centrally controlled model but instead will be a collaborative online model that harnesses the best thinking of MCPS teachers, administrators, parents, and students. Likewise, professional development related to curriculum will move from a predominantly face-to-face presentation model to a just-in-time, on-demand, online model. Two project teams will be formed, one at the elementary level and another at the secondary level. The Elementary Integrated Curriculum Team will focus on the development and implementation of the elementary integrated curriculum and assessments. The Secondary Curriculum and Professional Development Team will ensure continuity of rigorous curricula and assessments from the elementary level through Advanced Placement and International Baccalaureate courses in all content areas.

The reorganization moves the work of the Curriculum Training and Development Team from OOD to OCIP. OCIP will oversee and coordinate the implementation of all of the curriculum, including providing support to school-based teachers and teams. This includes professional development related to curriculum implementation. This work will be critical as the elementary integrated curriculum is developed and implemented. Curriculum writing, professional development, instructional resources and materials, Universal Design for Learning, and technology integration all will be the responsibility of the teams developing the new integrated curriculum.

To support the related professional development, the Staff Development Teacher Project Team (SDTPT) in OOD will be reassigned to OCIP. This team provides direct support to schools through six staff development specialists. The realignment of SDTPT to OCIP will foster a more cohesive approach to school support through greater collaboration with the directors of instruction and achievement and supervisors of the curriculum content areas.

### **Information Technology Initiatives that Support Other Strategic Priorities**

A critical priority is to integrate technology-based teaching and learning in the classroom. Teachers have been engaged in professional development on inquiry-based lessons that provide access to digital content and engage all students in the use of technology. To support this work and ensure that there is job-embedded technology professional development, the Department of Technology Consulting will be reassigned from OOD to OCTO. This department will continue to manage the Center for Technology Innovation, the school system's primary technology training center.

### **Ensuring Accountability and Monitoring the Work**

Critical to achieving the mission of MCPS "to provide a high-quality, world-class education that ensures success for every student through excellence in teaching and learning" is the systematic and systemic monitoring of student performance in every school. We have developed continuous improvement processes that focus on outcomes and data-driven decision making intended to reduce the variance in results between schools and groups of students. Central services offices have responsibility for monitoring progress and making changes to processes or structures if the intended purpose or targets are not being met. The offices of School Performance and Shared Accountability use a range of measures to monitor student achievement and cross-functional teams of central services and school-based staff study student performance data by drilling down to root causes and recommending plans for improvement.

### **Next Steps**

Executive staff is informing their staff of the organizational changes and communicating plans to eliminate positions this week. OHR will work with anyone whose position has been eliminated to ensure that he or she knows the process for applying for school-based positions or other positions in MCPS and the related timelines. In addition, I am confident that OHR will work with school-based administrators to identify appropriate positions for these staff members that will utilize their skills and broad-based experience.

I anticipate further refinements to the reorganization of central services as we implement the changes described in this memorandum.

JDW:rlc

Copy to:  
Executive Staff



ROCKVILLE, MARYLAND

March 31, 2010

Mr. Anthony South  
Executive Director  
Maryland State Board of Education  
200 West Baltimore Street  
Baltimore, Maryland 21201

Dear Mr. South:

Pursuant to Section 5-202(d)(7) of Maryland Code, Education Article, Montgomery County requests a waiver from the State's Maintenance of Effort (MOE) requirement as defined under Section 5-202(d)(1)-(6). The basis for this request is that the County's fiscal condition significantly impedes it from funding the MOE requirement. Based on the attached email of March 24, 2010, we are providing you with the amount of the requested waiver and the percentage of the total MOE amount the waiver request represents.

The County Executive's Recommended FY11 Operating Budget includes local funding of \$1,415,085,344 for K-12 public education. Montgomery County requests a waiver of its MOE requirement to permit local funding at the level of \$1,415,085,344.

This amount is below the County's MOE requirement by either \$138,848,943 (8.9 percent of the total MOE amount) or \$58,043,862 (3.9 percent of the total MOE amount). The latter amount reflects advice rendered by Assistant Attorney General Bonnie Kirkland in a February 26, 2010 letter to Senator Richard Madaleno; in that letter Ms. Kirkland advised that \$79.5 million in debt service appropriated to MCPS in FY10 should not be counted in calculating the County's MOE requirement for FY11. A copy of Ms. Kirkland's advice is attached. A final resolution of this issue, however, is not necessary for the purpose of resolving the County's request for an MOE waiver for FY11 because the waiver can be quantified at the local funding level of \$1,415,085,344.

The County Executive's total FY11 Recommended operating budget for MCPS including local funding, State education aid, federal grants, and other revenues is \$2,125,542,225.

Mr. Anthony South  
March 31, 2010  
Page 2

Thank you for your consideration.

Sincerely,



Isiah Leggett  
Montgomery County Executive



Nancy Floreen, President  
Montgomery County Council

IL/NF:jb

c: Montgomery County Council  
Patricia O'Neill, President, Montgomery County Board of Education  
Jerry D. Weast, Ed.D, Superintendent, Montgomery County Public Schools  
Richard S. Madaleno, Jr., Senator, District 18  
Brian J. Feldman, Delegate, District 15

Attachments: April 1, 2010 MOE Waiver Request Filing  
Letter from Assistant Attorney General Bonnie A. Kirkland, February 26, 2010

(32)

### **April 1, 2010 MOE Waiver Request Filing**

At its March 23, 2010 board meeting, the State Board of Education determined that any county requesting an FY 2011 waiver of maintenance of effort (MOE) must send a letter to the State Board by April 1, 2010 stating the amount of the requested waiver and the percentage of the total MOE amount the waiver request represents. The letter should be sent to:

Anthony South, Executive Director  
Maryland State Board of Education  
200 West Baltimore Street  
Baltimore, MD 21201

After legislative enactment of any changes to the MOE process and substance, the State Board will announce the FY 2011 MOE waiver process and the deadlines that will apply. If you have further questions, please contact Mr. South at 410-767-0467 or [tsouth@msde.state.md.us](mailto:tsouth@msde.state.md.us)

**DOUGLAS F. GANSLER**  
ATTORNEY GENERAL

**KATHERINE WINFREE**  
Chief Deputy Attorney General

**JOHN B. HOWARD, Jr.**  
Deputy Attorney General



**DAN FRIEDMAN**  
Counsel to the General Assembly

**SANDRA BENSON BRANTLEY**  
**BONNIE A. KIRKLAND**  
**KATHRYN M. ROWE**  
Assistant Attorneys General

**THE ATTORNEY GENERAL OF MARYLAND**  
**OFFICE OF COUNSEL TO THE GENERAL ASSEMBLY**

February 26, 2010

The Honorable Richard S. Madaleno, Jr.  
Senate of Maryland  
203 James Senate Office Building  
Annapolis, Maryland 21401-1991

Dear Senator Madaleno:

You have requested additional advice concerning the calculation of Montgomery County's FY 11 maintenance of effort target. Your questions and my advice are below.

**Background**

In order to receive the full State share of the foundation program for the local school system, State law requires a county to appropriate local funds for its school operating budget "in an amount no less than the product of the county's full-time equivalent enrollment for the current fiscal year and the local appropriation on a per pupil basis for the prior fiscal year." Education Article ("ED"), §5-202(d)(1)(ii). This is commonly referred to as the maintenance of effort ("MOE") requirement. A county's local appropriation for its school system is made up of its local foundation share, additional amounts necessary to satisfy its MOE requirement, and any other amounts over the MOE that the county chooses to appropriate.<sup>1</sup>

Under State education law, the local school board, Montgomery County Public Schools (MCPS), must submit its proposed budget to the county government. ED §5-102. The County Executive may deny in whole or reduce in part major categories of the local school board's proposed budget, and he must explain in writing the reasons for the denial or reduction. The County Council may restore any denial or reduction. ED §5-102(c).

As you note in your letter, the November 2009 Opinion of the Attorney General concluded that \$79.5 million that Montgomery County appropriated in the MCPS operating budget for debt service on school construction bonds could not be used to meet the County's FY 10 MOE requirement because it had not been appropriated in the MCPS operating budget

<sup>1</sup> For a more extensive description of the foundation program and the computation of the MOE, see 94 *Opinions of the Attorney General* 177 (2009).

The Honorable Richard S. Madaleno, Jr.

February 26, 2010

Page 2

for the prior fiscal year. 94 *Opinions of the Attorney General* 177 (2009). The County appropriation for MCPS in FY 10 was \$1,529,565,696. That amount included the \$79.5 million for debt service.

### Questions

- (1) You first ask whether the \$79.5 million that the County appropriated in the Montgomery County Public Schools (MCPS) FY 10 operating budget must be included as part of the FY 10 local appropriation for the purpose of calculating the County's FY 11 MOE target.

For the purpose of this question, I assume your question relates to the amount that is required for FY 11 MOE purposes and not whether \$79.5 million for debt service is required to be included in the FY 11 MCPS budget.

In my letter of advice to you dated January 11, 2010, I concluded that the County level of funding for determining the next fiscal year's MOE requirement is \$1,529,565,696, the County appropriation for MCPS in FY 10 and an amount that included the \$79.5 million for debt service, notwithstanding that the \$79.5 was found to be impermissible for the purpose of satisfying the County's FY10 MOE requirement.<sup>2</sup> That amount was based on an assumption that an appropriation for debt service would be included in the FY 11 MCPS budget. For the purpose of determining the MOE requirement for FY 11, the county's highest local appropriation to its school operating budget for the prior fiscal year is to be used. ED §5-202(d)(2). This amount was roughly \$1.52 billion.

The county's highest local appropriation shall exclude: (1) a nonrecurring cost that is supplemental to the regular school operating budget, if the exclusion qualifies under regulations adopted by the State Board; and (2) a cost of a program that has been shifted from the county school operating budget to the county operating budget. ED §5-202(d)(3). Thus, for the purpose of calculating the FY 11 MOE target, it is appropriate to determine if either of these exclusions would apply to the \$79.5 million in debt service.

First, debt service is not a nonrecurring cost. It is a recurring cost that was shifted to the FY 10 MCPS operating budget for the purpose of increasing the County appropriation to the required MOE amount. Thus, the first exclusion is inapplicable.

<sup>2</sup> The amount will actually be slightly different because the MOE target is computed from the number of students anticipated in the upcoming year multiplied by the per pupil expenditure for the prior year. Thus, for the purpose of the rest of this letter, I will use "roughly \$1.52 billion" for simplicity.

The Honorable Richard S. Madaleno, Jr.

February 26, 2010

Page 3

If the debt service program is shifted back to the County budget, however, that amount should be excluded from the calculation of the FY 11 MOE amount. ED §5-202(d)(3)(ii). As was explained in the November opinion:

the test whether a county has met its MOE obligation is to be computed on an "apples to apples" basis. See Letter of Assistant Attorney General Robert A. Zamoch to Delegate Norman H. Conway (January 2, 1996) at pp.2-3 & n. 1 ("artificial" shifting of education expenses to be disregarded for MOE purposes whether it involves shifting into or out of the local board's budget). Thus, it appears that, in order to assess accurately whether a county has met that obligation, the computation must include one of the following adjustments: (1) the debt service appropriation for the current fiscal year must be excluded from the comparison; or (2) an equivalent portion of the appropriation for school debt service in the prior county budget must be included as part of the "highest local appropriation to [the] school operating budget for the prior fiscal year" in the computation of the target MOE level. Otherwise, the computation does not accurately assess changes in county support, as intended by the MOE law.

94 *Op. Atty. Gen.* at 197-98. If \$79.5 million in debt service were to remain in the MCPS budget, the MOE for the FY 11 would be roughly 1.52 billion. If it is shifted back to the County's operating budget, it would have the effect of reducing the FY 11 MOE target by \$79.5 million, to roughly \$1.44 billion. This may have the effect of creating an incentive for a county to fail to meet its MOE requirement in one year, thereby lowering its MOE requirement for the following year, contrary to the purpose of the MOE requirement. Chapter 487 of the Laws of 2009 addressed such a circumstance when a temporary or partial waiver is granted. In such instance, the minimum appropriation of local funds to satisfy the MOE requirement shall be calculated based on the appropriation for the prior fiscal year or the second prior fiscal year, whichever is greater. ED § 5-202(d)(7)(v). Thus, if a county fails to meet its MOE obligation and does not obtain a waiver, its school system is penalized by loss of the increment of State aid, but the county may have a lower target for MOE in the subsequent year than if it had satisfied its MOE obligation or obtained a waiver. By contrast, if the county satisfies MOE or obtains a waiver, its school system avoids the penalty but the county may have a higher MOE target for the subsequent year. The General Assembly may wish to consider whether these alternatives create incentives for counties that are consistent with its purpose in establishing the MOE requirement.

The Honorable Richard S. Madaleno, Jr.

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- (2) If the \$79.5 million must be included in calculating the County's FY 11 MOE target, may the County include debt service in the MCPS operating budget and have it count toward meeting the County's FY 11 MOE target?

Yes. Regardless of the amount required to meet the County's FY 11 MOE target, an appropriation for debt service may be included in the FY 11 MCPS budget for the purpose of satisfying the County's FY 11 MOE requirement. In the November 2009 Opinion, Attorney General Gansler concluded that:

an appropriation of local funds in the school operating budget for recurring debt service payments for public school construction may be counted toward satisfaction of a county's MOE target. However, the transfer of a debt service obligation from the county budget to the school system budget may affect how it is counted for MOE purposes in the year in which the transfer is made....In our opinion, the inclusion of an appropriation for debt service in the Fiscal Year 2010 budget for a local school system cannot be used to satisfy the MOE target if the same expense – and appropriation – were not a part of the computation of the highest local appropriation for the school operating budget for the prior fiscal year – Fiscal Year 2009.

94 *Op. Atty. Gen.* at 196-98 (2009). Thus, it is my view that, while the \$79.5 million in debt service was not allowed to be included for the purpose of meeting the FY 10 MOE requirement (the year in which the shift from the County budget to the MCPS budget was made), if debt service is included in the MCPS budget, it may now be used for that purpose.

- (3) If the answer is yes, does the Montgomery County Board of Education (BOE) have to request or consent to inclusion of debt service for it to count toward MOE?

Whether it is for the purpose of counting toward meeting the MOE target or is over and above the MOE target, it is my view that it is primarily the BOE's decision on whether to include debt service in its proposed budget or consent to its inclusion.<sup>3</sup> As was explained in the November opinion:

The power to regulate a school system's expenditures by conditioning how appropriated funds must be spent is constrained by the State's preemption of education policy. 85 *Opinions of the Attorney General* 167, 172 & n.2; see also *McCarthy v. Board of Education of Anne Arundel County*, 280 Md. 634,

<sup>3</sup> On February 17, 2010 the BOE adopted its FY 11 operating budget, which did not include debt service. See <http://www.montgomeryschoolsmd.org/departments/budget/>.

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643-651, 374 A.2d 1155 (1977), *Board of Education of Montgomery County v. Montgomery County*, 237 Md. 191, 205 A.2d 202 (1964). In other words, any conditions set by a county government on local board expenditures may not impinge on the school board's discretion to set education policy in accordance with State law.

94 *Op. Atty. Gen.* at 180, n.5 (2009). Thus, in my view, it is up to MCPS to develop its proposed budget. Further, it was noted that:

the dedication of school board funds to debt service was not requested by the local boards in their proposed budgets, but rather imposed by the counties as a condition on the expenditure of part of the local funds appropriated in the school board budget. The imposition of such a condition on the school board budget could itself be contrary to the State education law if it has the effect of interfering with education policy. *See* note 5 above.

*Id.* at n. 20. Thus, it is not clear that the County government on its own may include items in the MCPS budget that were not included in the proposed budget. It would be reasonable to assume that a local government and the local board of education would work cooperatively to reach agreement on what items should be included in the local school budget.

- (4) Without regard to the issue of BOE consent, may the County include more than \$79.5 million in debt service and have it count toward meeting the County's FY 11 MOE target?**

According to the December 23, 2009 letter from Montgomery County to Dr. Grasmick, the County considered several programs in the County's operating budget that support the MCPS as options for transfer to the MCPS budget. One of those options was to transfer all or a portion of debt service on school construction bonds. Of the \$111.3 million in debt service, the County decided to shift \$79.5 to the MCPS budget. This amounts to slightly more than 71%. It is my view that inclusion of \$79.5 million in debt service or 71% of total debt service on school construction bonds would be justifiable for purposes of meeting the MOE requirement. Shifting an amount greater than that, however, would raise the same issues as were presented for FY 10, and thus, in my view, could not count towards meeting the County's FY 11 MOE target.

- (5) The State Board of Education determined that federal aid should not be included in calculating the amount of State aid that should be withheld from MCPS as penalty for not meeting the FY 10 MOE requirement. If there is an increase in State aid in FY 11, how will the increase be calculated for FY 11 MOE purposes?**

The Honorable Richard S. Madaleno, Jr.

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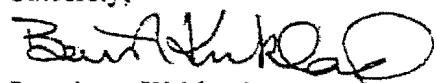
Failure to comply with its MOE requirement results in a penalty in the amount by which "the State's aid due the county in the current fiscal year exceeds the amount which the county received in the prior fiscal year." ED §5-213(b). Thus, if there is a determination that the MOE requirement for FY 11 was not met, the method for making the calculation of the penalty should be consistent with the way in which it was calculated for FY 10. Federal funds should not be included for that purpose.

**(6) How was the increase in State aid of \$23,422,297 for FY 10 MOE purposes calculated?**

The State Board of Education (State Board) determined that federal funds should not be included in determining the increase in State aid for the purpose of calculating the penalty for failure to meet the FY 10 MOE requirement. In making its withhold decision, the State Board stated that "when only state dollars are counted, [MCPS] received a \$23,422,297 increase in State's aid in FY 2010," and "that amount should be the amount of the withhold." Maryland State Board of Education Opinion No. 10-05. Any request for additional information on how the State Board made that calculation should be directed to the State Board.

I hope this is responsive to your inquiry.

Sincerely,

  
Bonnie A. Kirkland  
Assistant Attorney General



Nancy S. Grasmick  
State Superintendent of Schools

200 West Baltimore Street, Baltimore, MD 21201 410-767-0100 410-333-6442 TTY/TDD

## ANNOUNCEMENT

# MAINTENANCE OF EFFORT WAIVER REQUESTS

### ***STATE BOARD SETS SCHEDULE FOR HEARING AND PUBLIC COMMENTS***

**BALTIMORE, MD** – Five counties have made formal requests for waivers from the State's Maintenance of Effort (MOE) requirements: Dorchester, Frederick, Montgomery, Talbot, and Wicomico Counties.

Under the requirements of Maryland Education Article §5-202, Annotated Code of Maryland, county governments must prove that the county's fiscal condition "significantly impedes" the county's ability to fund MOE.

The State Board will accept briefs from these five counties, position papers from local boards, and written comments from the public including teacher associations, parent-teacher organizations and other persons residing in the county requesting the MOE waiver.

The following briefing schedule will govern the waiver request process:

**Date for Filing MOE Brief:** *May 3, 2010 by 5:00 p.m. (Eastern Daylight Time)* Late filings will be rejected.

#### **Minimum Content of Maintenance of Effort Waiver Brief (20 copies must be filed)**

(1) A narrative of no more than 25 pages explaining all the evidence presented, why it demonstrates that the county's fiscal condition "significantly impedes" the county's ability to fund MOE and why it is unique from the general economic crisis that affects all counties in the State.

(2) The amount the county proposes to appropriate to its school operating budget and the amount the county is required to appropriate to meet the maintenance of effort requirement;

**(more)**



Nancy S. Grasmick  
State Superintendent of Schools

200 West Baltimore Street, Baltimore, MD 21201 410-767-0100 410-333-6442 TTY/TDD

## MAINTENANCE OF EFFORT WAIVER REQUESTS (Page Two)

- (3) Information detailing the county's projected fiscal condition for FY 2011 as compared to the current FY 2010;
- (4) If applicable, information regarding statutory or other limitations impacting the county's ability to raise revenues and documentation of efforts taken by the county to overcome these impediments to raise the revenues necessary to meet maintenance of effort requirements;
- (5) A copy of the county's most recent audited financial statement;
- (6) The county's projected expenditure plan for FY 2011, as well as the current fiscal year expenditure plan;
- (7) A description and explanation of the unique external environmental factors such as loss of a major business or industry or unique economic strains and how they impact the FY 2011 county budget;
- (8) A description and explanation of the effect of the recession on all county tax bases and other revenue generating streams of income in FY 2010 and projected for FY 2011;
- (9) The amounts in each of the county's reserve funds, rainy day funds, or any other savings-type fund and the reasons why such funds are not available to meet MOE requirements including specifically any legal prohibitions on accessing those funds;
- (10) Additional information in support of the waiver request as the county considers necessary including the amount the county has overfunded MOE in the past; the local board of education position on the waiver request; loss of a significant revenue source; loss of industry; unique, severe, and unanticipated expenditures that impacted the county's budget; and any reduction in bond rating or other indicators of severe financial distress;
- (11) A description and explanation of all public meetings on the MOE waiver request and any community support for the waiver;

(more)



**MAINTENANCE OF EFFORT  
WAIVER REQUESTS  
(Page Three)**

(12) The State Board may request additional information from the county as it considers necessary.

<b>Date of Filing Local Board Position Paper on Waiver Request (15 page maximum)</b>	<i>May 10, 2010 by 5:00 p.m. (late filings will be rejected; 20 copies must be filed)</i>
<b>Date of Filing Response/Comment by Public and other organizations to the MOE Waiver Request (3 page maximum)</b>	<i>May 10, 2010 by 5:00 p.m. (late filings will be rejected; 20 copies must be filed)</i>
<b>Date by which County may File a Reply to all Responses and Comments (20 page maximum)</b>	<i>May 12, 2010 by 5:00 p.m. (late filings will be rejected; 20 copies must be filed)</i>
<b>Date of Public Hearing</b>	<i>May 25, 2010 at 9:00 a.m. (All waiver requests will be heard on this date)</i>

**How to File Briefs and Responses:**

Mail or hand-deliver to Maryland State Board of Education for receipt no later  
than the date set forth above at 5:00 p.m. to:

Anthony South, Executive Director  
Maryland State Board of Education  
200 West Baltimore Street  
Baltimore, MD 21201

Please review COMAR 13A.02.05.04 for the regulatory requirements of the Waiver Request process.

# # #



ROCKVILLE, MARYLAND

May 3, 2010

Mr. James H. DeGraffenreidt, Jr.  
President  
Maryland State Board of Education  
200 West Baltimore Street  
Baltimore, Maryland 21201

Dear Mr. DeGraffenreidt:

Pursuant to Section 5-202(d)(7) of Maryland Code, Education Article, Montgomery County requests a waiver from the State's Maintenance of Effort (MOE) requirement as defined under Section 5-202(d)(1)-(6). The following will demonstrate not only that the County's fiscal condition significantly impedes it from funding the MOE requirement<sup>1</sup>, but that it's fiscal condition is unique from the general economic crisis that affects all counties in the State.

Fueled by steep increases in income tax revenues, the County has, for many years, invested local funds in K-12 education above that required by the State MOE law<sup>2</sup>. This investment has paid handsome dividends in improving the educational results achieved by Montgomery County Public Schools (MCPS). Unfortunately, beginning in FY10, the County has endured a steep decline in its income tax revenues, which "significantly impedes" the County's ability to fund MOE. This loss of revenue is attributable to a disproportionately high decline in high income taxpayers that is unique to Montgomery County.

Despite being unable to meet its MOE target in FY11, the County has made every effort to minimize the impact of this decline in revenue on K-12 education. The County has proposed to proportionately take steeper budget reductions in County government and other County funded agencies such as the Maryland National Park and Planning Commission (M-NCPPC) than the County has proposed for MCPS. There is no reasonable alternative to making these painful cuts. As will be explained below, all reasonable avenues for increasing taxes are already being pursued in the FY11 budget.

#### **Montgomery County Requests Waiver to Provide MCPS Appropriation of \$1.415 billion.**

The County Executive's Recommended FY11 Operating Budget includes local funding of \$1,415,085,344 for K-12 public education. Montgomery County requests a waiver of its MOE requirement to permit local funding at the level of \$1,415,085,344.

<sup>1</sup> <sup>1</sup> Md. Code Ann., § 5-202 (d) (7).

<sup>2</sup> See MOE table, page 2; Income Tax Revenue table, page 5.

James H. DeGraffenreidt, Jr.,  
May 3, 2010  
Page 2

This amount is below the County's MOE requirement by either \$138,848,943 (8.9 percent of the total MOE amount) or \$58,043,862 (3.9 percent of the total MOE amount). The latter amount reflects advice rendered by Assistant Attorney General Bonnie Kirkland in a February 26, 2010 letter to Senator Richard Madaleno; in that letter Ms. Kirkland advised that \$79.5 million in debt service appropriated to MCPS in FY10 should not be counted in calculating the County's MOE requirement for FY11. A copy of Ms. Kirkland's advice is attached. A final resolution of this issue, however, is not necessary for the purpose of resolving the County's request for an MOE waiver for FY11 because the waiver can be quantified at the local funding level of \$1,415,085,344.

The County Executive's total FY11 Recommended Operating Budget for MCPS including local funding, State education aid, federal grants, and other revenues is \$2,125,542,225.<sup>3</sup>

#### **Montgomery County Has a History Of Consistently Exceeding MOE Requirements.**

With the exception of FY92, when Maryland permitted a State-wide waiver of the MOE requirement, and arguably FY10, Montgomery County has not only met its MOE requirement but significantly exceeded it. In the last ten years, Montgomery County has increased its local contribution to K-12 Education by nearly \$660 million to over \$1.4 billion. This represents an 75.6 percent increase in local funding – an average annual increase of 5.8 percent – that has enabled Montgomery County to reduce class size, raise test scores, and meet the needs of the growing number of students eligible for FARMS and ESOL services.

Maintenance of Effort (MOE) and Local Funding (in millions)					
Fiscal Year	MOE	App. Budget	\$ Difference	% Difference	
FY 01	884.1	959.8	75.7	8.6 %	
FY 02	983.0	1,029.7	46.7	4.8 %	
FY 03	1,050.7	1,079.2	28.5	2.7 %	
FY 04	1,101.6	1,136.4	34.8	3.2 %	
FY 05	1,144.3	1,217.2	72.9	6.4 %	
FY 06	1,224.2	1,285.8	61.6	5.0 %	
FY 07	1,290.3	1,384.7	94.4	7.3 %	
FY 08	1,373.7	1,456.9	83.2	6.1 %	
FY 09	1,452.5	1,531.5	79.0	5.4 %	
FY 10	1,529.6	1,529.6	0.0	0.0 %	
<b>TOTAL</b>			<b>576.8</b>		

#### **Montgomery County Invests In Education Outside of MOE**

The County Executive's Recommended FY11-16 Capital Improvements Program (CIP) budget includes over \$1.2 billion in locally supported funding for school construction, renovation, information technology, and other capital improvements in support of K-12 public education.

In addition to the County's direct local contribution to MCPS and its funding of capital projects, the County Government also funds over \$37 million to operate several programs in support of the Public Schools' mission, including:

<sup>3</sup> The Executive's Recommended Budget for MCPS does not include funding for debt service reimbursements. The Council has not completed work on the FY11 Operating Budget. The Council will communicate any relevant results of its deliberations at or before the State Board's May 25, 2010 public hearing.

- School Safety: Providing 173 Crossing Guards, 5 support staff, and 7 Police Officer positions, at a cost of \$5.5 million;
- School Safety: Providing 33 Police Officers as Educational Facility Officers assigned to 25 Public High Schools and 2 Middle Schools, at a cost of \$3.5 million;
- School Health: Providing 314 positions including nurses and health room technicians, at a cost of \$19.2 million;
- Wellness: Funding for various wellness programs, including School Suspension programs; reading, tutoring and mentoring programs; Infant and Toddlers programs; and Pre-Kindergarten programs, at a cost of \$3.9 million;
- Linkages to Learning: Providing 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, at a cost of \$4.8 million; and
- Stormwater Facility Maintenance: To comply with the terms of the State issued Municipal Separate Storm Sewer System permit, the County Government invests \$717,000 in maintenance of the School system's stormwater facilities.

*Dividends Received On County's Investment In MCPS.*

In 2009, the MCPS graduation rate of 80.7 percent was tied for first among the nation's large school districts. A historic high of 28,575 Advanced Placement (AP) exams were taken by MCPS students in 2009. Students scored a 3 or higher on 72.3 percent of AP exams taken, compared with 61 percent for Maryland and 57 percent for the nation. In 2009, nearly 48 percent of AP exams taken by African American students scored a 3 or better, significantly higher than the 28 percent for Maryland and 25 percent for the nation. The percentage of African American and Hispanic graduates in the class of 2009 with at least one AP score of 3 or higher surpassed the national average of 15.9 percent for all graduates. The class of 2009 scored a 1615 average combined SAT score surpassing both national and state averages. Nearly 50 percent of graduates in the MCPS classes of 2001-2004 earned a bachelor's degree within 6 years, compared with 27.5 percent nationwide. More than 90 percent of kindergartners have met or exceeded reading targets in each of the past 3 years, essentially closing the achievement gap by race, ethnicity, and socioeconomic status at this grade level. Nearly 55 percent of Grade 5 students took advanced math in 2008-2009.

**Denying A Waiver Will Discourage The County From Exceeding MOE In The Future And Is Contrary To The Intent Of The MOE Law.**

In denying Montgomery County's MOE waiver request for FY10, the State Board stated that it "must consider carefully the full implications of that request, not only at the local level, but statewide as well, because any crumbling in the cornerstone of the State/local share formula for funding education can affect the structural soundness of the education formula going forward." But by the Board's taking a "narrow" view of the waiver criteria as a basis for denying the County's FY10 MOE waiver request, the Board has undermined the "cornerstone of the State/local share for funding education."

If a County that experiences a dramatic decline in tax revenues as the result of a deep, broad based recession cannot count on obtaining a waiver during lean years, a strong fiscal incentive is created to not fund local education above the MOE mark. The reason is simple: from the County's

perspective, its strong support of local education by exceeding MOE over the years is punished by eliminating budget flexibility when a MOE waiver for a County the size and complexity of Montgomery is virtually impossible to obtain. Surely, this is not the outcome the General Assembly intended when it gave the Board the authority to waive MOE.

In approving HB 223 - Maintenance of Effort Penalty, it would appear that the General Assembly validated Montgomery County's rationale for its MOE waiver request. Also, while HB304/SB310 - Education-Maintenance of Effort Requirement – Process and Factors was not approved by the General Assembly for technical, not substantive reasons, it was clear there was significant support for the involvement of the State Superintendent in evaluating waiver requests as well as revised criteria including:

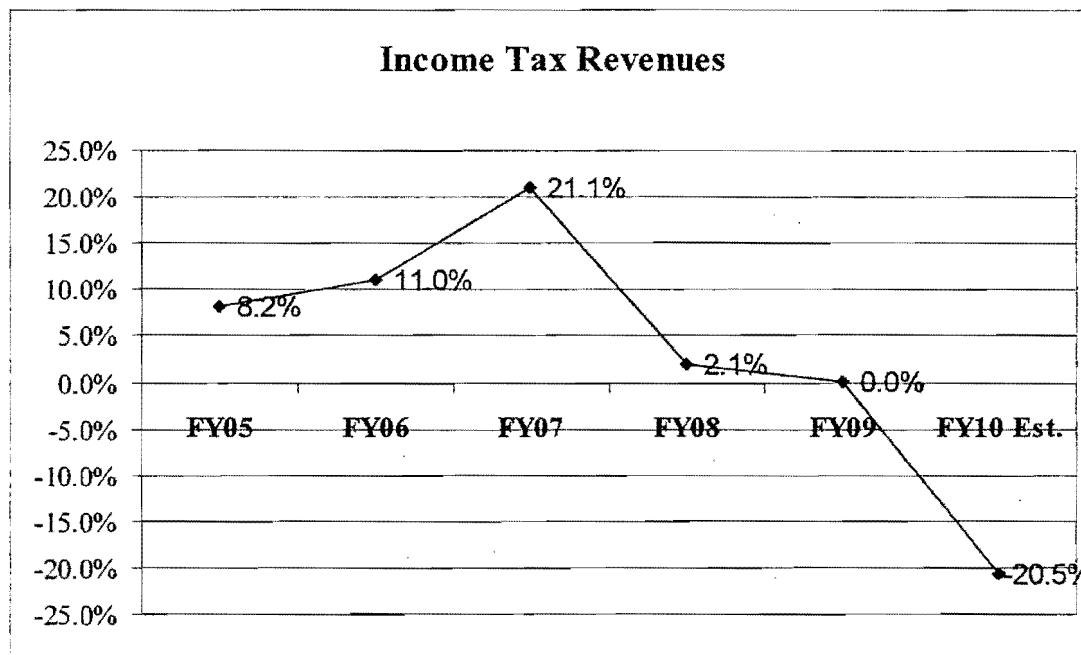
- a county governing body's history of exceeding the required maintenance of effort amount;
- the existence of an agreement between a county governing body and a county board that a waiver should be granted;
- significant reductions in State aid to a county and municipalities of the county for the fiscal year for which a waiver is applied;
- external environmental factors such as a loss of a major employer or industry affecting a county or a broad economic downturn affecting more than one county;
- a county's tax bases;
- rate of inflation relative to growth of student population in a county; and
- maintenance of effort requirement relative to a county's statutory ability to raise revenues.

**Montgomery County's Projected Fiscal Condition for FY2011 Continues to Deteriorate Rapidly. This Deterioration is Attributable to a Decline in Income Tax Revenue that is Unique to Montgomery County.**

In developing the County's FY11 operating budget, Montgomery County was faced with closing a budget shortfall of \$975 million (over 26 percent of the County's tax-supported budget). This serious shortfall resulted from the national economic recession which caused tax revenues, especially income tax revenues, to decline dramatically. Since May 2009, when the County Council approved the FY10 operating budget, the County has revised its FY10 and FY11 tax-supported revenue projections downward by over \$494 million. Montgomery County's net taxable income declined by over \$4.6 billion in tax year 2008, which has contributed to reducing income tax collections down by over \$265 million in the current year.

Subsequent to the County's March 31 waiver request letter, the County Executive was required to substantially amend, and reduce, his original recommended FY11 budget to account for a write-down of revenues of \$168 million. Part of this write-down included a reduction of \$24.5 million in the expected distribution of income tax revenues from the Comptroller's Office in March of 2010. As noted by staff in the Comptroller's Office: "...the distribution for Montgomery County fell substantially, greater than the total \$12.6 million decline [for the entire state]. There appear to be several factors at play ***which are unique to the county*** and are currently under investigation; we are working with county officials to explain the situation (*emphasis added*)."

A top priority in the County Executive's post March 31 amendments to the operating budget was to restore a greater amount of funds to reserves to protect against further deterioration in the County's revenue streams and preserve the County's AAA bond rating. The Chart below shows not only the volatility in the County's income tax revenues, but also the dramatic reduction in these revenues over the past three years.



Montgomery County's revenue structure is highly, and for a local government, unusually dependent on income tax revenues which as recently as FY09 comprised 33.5 percent of the budgeted resources, but in FY11 are only 28 percent of those resources. This change reflects not only the significant volatility of this revenue source, but also indicates the disruption a revenue write down of this magnitude will have on the County's capacity to fund services to the local community including K-12 education. The County's ability to fund and even significantly exceed MOE in the past was dependent on a high level of income tax revenues. The County's proportion of high net worth individuals is higher than other jurisdictions in the State. The recent recession and changes in the State's tax code have adversely impacted Montgomery County disproportionately. As the table below shows, the County's net taxable income declined by over \$4.6 billion in tax year 2008 with over \$4 billion of that decline coming from tax payers with incomes exceeding \$500,000 a year. This is the equivalent of the loss of a major employer or industry in the County (COMAR 13A.02.05.04C.2a).

James H. DeGraffenreidt, Jr.,  
 May 3, 2010  
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Range of Taxable Income	Net Taxable Income		Change	%Change
	2007	2008		
\$1 - 1,000	\$5,242,542	\$2,156,741	(3,085,801)	-59%
\$1,001 - 2,000	\$15,454,542	\$6,788,395	(8,666,147)	-56%
\$2,001 - 3,000	\$24,462,619	\$12,171,670	(12,290,949)	-50%
\$3,001 - 150,000	\$17,688,803,084	\$17,307,287,601	(381,515,483)	-2%
\$150,001 - 300,000	\$4,583,476,473	\$4,669,495,527	86,019,054	2%
\$300,001 - 500,000	\$2,149,744,636	\$2,018,594,698	(131,149,938)	-6%
\$500,001 - \$1,000,000	\$3,254,721,956	\$2,870,497,029	(384,224,927)	-12%
\$1,000,001 or more	\$9,755,275,833	\$5,989,456,954	(3,765,818,879)	-39%
Total	\$37,477,181,685	\$32,876,448,615	(4,600,733,070)	-12%

As the table below indicates, of all of the State's urban jurisdictions, Montgomery County experienced a disproportionately large share of the loss in the amount of net taxable income and the reduction in the number of income tax returns for individuals with income of \$500,000 or more.

Maryland Adjusted Gross Income (Tax Returns >= \$500,000)					
	No. of Returns		No. of Returns		
	Tax Year 2007	Tax Year 2008	Change: TY08-TY07	Share of Reduction	
Montgomery	9,272	7,719	(1,553)	49.0%	
Prince George's	361	306	(55)	1.7%	
Frederick	580	447	(133)	4.2%	
Anne Arundel	2,099	1,723	(376)	11.9%	
Howard	1,581	1,385	(196)	6.2%	
Baltimore County	3,589	2,922	(667)	21.0%	
Baltimore City	941	752	(189)	6.0%	
Total All Counties	18,423	15,254	-3,169		
	Tax Year 2007		Taxable Income		
	Taxable Income	Taxable Income	Change: TY08-TY07	Share of Reduction	
Montgomery	\$13,183,902,115	\$9,395,525,221	(\$3,788,376,894)	52.4%	
Prince George's	\$416,008,227	\$312,117,404	(\$103,890,823)	1.4%	
Frederick	\$635,916,083	\$480,120,174	(\$155,795,909)	2.2%	
Anne Arundel	\$2,564,890,087	\$2,201,800,543	(\$363,089,544)	5.0%	
Howard	\$1,902,931,623	\$1,454,650,901	(\$448,280,722)	6.2%	
Baltimore County	\$5,524,234,911	\$3,536,499,251	(\$1,987,735,660)	27.5%	
Baltimore City	\$1,273,720,212	\$892,663,783	(\$381,056,429)	5.3%	
Total All Counties	\$25,501,603,258	\$18,273,377,277	(\$7,228,225,981)		

In addition to the loss in income tax revenues, non-K-12 education aid has been reduced by over \$18 million in FY10 by the Board of Public Works and by nearly \$32 million in FY11 due to proposed changes in funding formulas in the Governor's budget. In fact, Highway User Revenues have been reduced from \$36.6 million in FY08 to less than \$1 million in FY10. During FY10, State support for the County's Health and Human Services programs was reduced by nearly \$5 million, including reductions to health services, homeless services, drug and alcohol treatment, and other critical safety net services.

The chart below shows the impact of the recession on the County's major tax supported revenue streams for FY10 and FY11:

CUMULATIVE FY10 AND FY11 REVENUE LOSSES RELATIVE TO ORIGINAL PROJECTIONS	
CATEGORIES	TOTAL FY10+FY11
<b>TAXES</b>	
Property Tax	(46.9)
Income Tax	(407.6)
Transfer/Recordation Tax	(0.8)
Other Taxes	(11.4)
<b>Total Local Taxes</b>	<b>(466.7)</b>
<b>Non K-12 State Aid</b>	
Highway User	(30.2)
Other State Aid	(13.7)
<b>Subtotal Non K-12</b>	<b>(43.9)</b>
<b>K-12 State Aid</b>	<b>44.0</b>
<b>Fees and Fines</b>	<b>(21.6)</b>
<b>Investment Income &amp; Misc.</b>	<b>(6.5)</b>
<b>TOTAL REVENUES</b>	<b>(494.7)</b>

Attached is a copy of the County's latest review of economic indicators. In addition, some pertinent facts provided below indicate how the recession has impacted Montgomery County residents and led to this sharp decrease in revenues:

- Since December 2007, Montgomery County's unemployment rate has more than doubled to 5.7 percent in March 2010. This is one of the highest unemployment rates in Montgomery County in 20 years of record keeping by the Bureau of Labor Statistics, U.S. Department of Labor, and the Maryland Department of Labor, Licensing and Regulation.
- Resident employment in 2009 was at its lowest level since 2004, with little or no increase in resident employment, despite the entry of thousands of residents into the job market.
- Average home sale prices have declined for two consecutive years: ↓8.4 percent in CY2008 and ↓13.8 percent in CY2009.
- The most recent residential assessments plummeted 19.4 percent.
- The value of new construction (~\$600 million) in CY2009 was the lowest in over thirteen years.

These economic factors, coupled with the stock market plunge and the resulting loss of capital gains tax revenues, have dramatically decreased the County's revenue collections for income, transfer, and recordation taxes. Moreover, the Federal Reserve rate cuts have reduced estimated FY10 tax-supported investment income by 95.0 percent since FY08 and projected FY11 tax-supported investment income by 86.7 percent since FY08.

**Recommended FY11 Budget Includes Major Reductions to All Agencies, With Nearly Level Funding for MCPS.**

To close the budget deficit, produce a balanced budget as required by law, and fund essential services including K-12 education, the County Executive and the County Council have made a number of significant budget reductions for FY10, and the County Executive has also recommended major reductions for FY11, including the following:

- Total mid-year FY10 reductions of nearly \$100 million in Montgomery County Government, Montgomery College, the Maryland-National Capital Park and Planning Commission, and MCPS;
- Total FY11 reductions of over \$198 million across the same four agencies;
- The abolishment of 466 positions in Montgomery County Government, with over half of these positions filled. In fact, since FY08, the County Government has abolished 1,091 positions or approximately 10 percent of all positions.
- The elimination of all General Wage Adjustments and merit pay increases for all employees across all agencies of local government;
- A ten day furlough for all non-public safety employees in FY11 resulting in a nearly 4 percent wage reduction for these public employees;
- The elimination of the planned \$64 million increase in pre-funding of retiree health insurance;
- A reduction of over \$53 million in current revenue funding to the capital budget; and
- A withdrawal from the County's Rainy Day Fund to cover a projected County General Fund deficit of nearly \$82 million.

The County made every effort to minimize the impact of the decline in revenues on the MCPS budget and reduce the size of the MOE waiver request. The County Government tax-supported budget, for example is recommended to be reduced by \$96.1 million or 7.7 percent from FY10. All County Government departments and agencies were reduced from the FY10 budget levels including:

- County Executive's Office: -26.3 percent
- Housing and Community Affairs: -24.3 percent
- Transportation: -24.8 percent
- Libraries: -24.2 percent
- Maryland-National Park and Planning Commission: -15.1 percent
- Health and Human Services: -10.9 percent
- Transit Services: -8.1 percent
- Correction and Rehabilitation: -5.5 percent
- Police: -5.0 percent
- Montgomery College: -3.7 percent

These reductions included the following impact on critical County Government services:

- Eighteen Bus routes (three weekday, 10 Saturday and five Sunday) would be eliminated and another 16 restructured, saving \$2.7 million
- Reduce bus route frequency on 16 weekday routes and 3 Saturday routes.
- Transportation vouchers to low income residents would be reduced in half
- One Fire and Rescue truck and one ambulance would be taken out of service and the a recruit class is cancelled
- Forty Police positions, including 24 sworn officers, would be eliminated including eliminating 16 of the 33 officers stationed in Montgomery County Public Schools.
- Four satellite police sub-stations would be closed.
- Thirty-three Corrections positions would be eliminated.
- Library Hours reduced by 8.7 percent and library materials reduced by over 40 percent

With all of these actions, the total County tax supported budget contracted by 4.9 percent. If the County were required to meet the MOE local contribution, it would mean unacceptable deeper reductions in locally funded services, including public safety, services to the most vulnerable residents, post-secondary education, library and recreation services, and other vital locally funded public programs. These damaging reductions would come at a time when local public safety needs are rising and the need for emergency assistance for individuals and families in crisis is steeply increasing. In 2009, for example, requests for Temporary Cash Assistance (TCA) and food stamps have each increased by 34 percent; Medicaid caseloads have grown by 17 percent; and the number of home energy assistance recipients grew by 18 percent. Further reductions simply cannot be made.

By way of comparison, the MCPS budget reflects a slight increase over the FY10 budget when adjusting for the debt service reimbursement of \$79.5 million in FY10.

#### **Montgomery County is Facing a Potential Bond Rating Downgrade**

Because of the County's revenue volatility and significant reductions in the reserve levels noted above, the County has been placed on a watch list for a possible downgrade of its AAA bond rating by Moody's investor services. In taking this action, Moody's stated the following concerning the County's financial situation: "Placement on watchlist for possible downgrade *reflects deterioration of the county's financial position driven primarily by income tax revenue shortfalls, which is expected to result in the use of a significant portion of the county's General Fund and Revenue Stabilization Fund as of fiscal 2010* (year ends June 30th). Future rating reviews will factor (a) management's ability to mitigate the projected current year operating deficit, given identification of a number of potential gap closing measures that are largely non-recurring in nature; (b) steps taken in the 2011 budget to restore structurally balanced operations, and (c) development of a plan to restore financial flexibility to levels in keeping with the current rating category (*emphasis added*)."

Loss of the AAA bond rating will significantly increase the County's cost of borrowing and consequently impair its ability to provide local support for school construction services. In FY11 alone, the County is projected to allocate \$187.8 million in General Obligation bonds for MCPS capital projects (\$957.7 million for the FY11-16 MCPS Capital Improvements Program). Annual Debt Service costs for MCPS in FY11 will be \$112.9 million. Additionally, higher debt service

James H. DeGraffenreidt, Jr.,  
May 3, 2010  
Page 10

payments in the future will adversely affect the County's ability to fund a variety of operating budget needs, including those for education.

### **Reserve Funds Are Not Available to Meet MOE**

As the chart below indicates, the County is projected to end FY10 with a balance of zero in its General Fund. The only reason that the County will not end FY10 with a deficit of at least \$82 million is because of a transfer of \$82 million from the County's Revenue Stabilization (or Rainy Day Fund). The balance of the Rainy Day Fund at the end of FY10 after this transfer is only \$37.7 million compared to annual General Fund disbursements of \$2.5 billion – a reserve of only 1.5 percent. After the expenditure reductions discussed above and the tax increases to be discussed below, the County General Fund is projected to end FY11 with a balance of \$121.5 million. The Rainy Day Fund is estimated to end FY11 with a balance of \$92.8 million.

<b>County General Fund and Revenue Stabilization Fund Ending Balances: Historical Trend</b>				
	<b>FY07</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>
Cash Balance	\$ 239,433,271	\$ 86,743,201	\$ 17,037,504	TBD
Unreserved/Undesignated	\$ 140,650,260	\$ 83,580,559	\$ 28,853,996	\$ -
Revenue Stabilization Fund	\$ 119,647,620	\$ 119,647,620	\$ 119,647,620	\$ 37,680,370

According to State law<sup>4</sup>, the Rainy Day fund may only be used to support appropriations that have become unfunded. Moreover, even in the absence of State law, the County's General Fund Reserves and Rainy Day Fund should not be used to meet the MOE requirement because doing so would leave the County Government with practically no reserves to address unanticipated mid-year revenue declines and expenditure increases. The combined General Fund and Rainy Day Fund reserves are projected to be \$214.3 million. The County's reduction in income tax revenues alone in FY10 is over \$265 million. Snow removal costs in FY10 were approximately \$60 million (approximately four times the amount normally expended for snow removal) due to the blizzards in December and February.

As noted above, this revenue volatility and need for enhanced reserves to provide improved flexibility in the County's finances were noted by all of the Bond Rating Agency's in their review of the County's finances. The absence of these reserves because of depletion to meet MOE requirements will almost definitely result in the loss of the County's AAA bond rating.

### **Federal ARRA Funds Will Not Make Meeting MOE Affordable**

Montgomery County has benefited in several ways from funding received or expected to be received from the Federal Fiscal Stabilization Act and the American Recovery and Reinvestment Act (ARRA) of 2009. In FY11, MCPS will receive \$5.9 million for Title I programs for disadvantaged children and \$16.5 million for Individuals with Disabilities Education Act (IDEA) programs. This funding will provide 3 additional schools with Title I support and add 8 new full-day Head Start classes, so that all Title I schools that have Head Start classes can offer full-day

<sup>4</sup> Md. Code Ann., § 9-1201

Head Start classes. The Title I funding will also allow recipient schools to restore teacher positions to reduce class size, support reading and mathematics intervention, and provide ESOL support.

The IDEA funding will allow for the restoration of reductions originally proposed for the FY11 budget, including 20.5 special education teachers, 5 secondary intensive reading teachers, tuition for students in non-public placement, and special educational instructional materials. The IDEA funding will also allow the addition of hours-based staffing at 15 additional middle schools, technology to implement the Universal Design for Learning program, and other program improvements.

The additional funds from the Title I grants and IDEA grants, however, are targeted grants for specific purposes and do not represent general aid. Although a portion of this funding will allow MCPS to restore certain positions and activities that may have otherwise been eliminated in the FY11 budget, this aid generally did not have a positive or negative impact on meeting the State MOE requirement.

While we are still exploring other formula funding and competitive grant opportunities under the ARRA, Montgomery County Government and other local public agencies expect to receive approximately \$36 million in funding for a variety of specific purposes, including transportation projects, bus replacement, workforce training, energy projects, public safety equipment, housing, weatherization, emergency shelter grants, Community Development Block Grants, homelessness prevention, and Community Services Block Grants. Since this funding is targeted for specific purposes and frequently carries standard Federal non-supplantation requirements, it cannot be used to supplement the County's local contribution or provide capacity for Montgomery County to increase its local contribution for K-12 schools.

MCPS also anticipates receiving \$31.3 million in unrestricted federal aid as part of the State Fiscal Stabilization Fund (SFSF). This unrestricted revenue is used for general operating expenses. Although it reduces the burden on the State through FY11, the unrestricted ARRA aid will expire after FY11. Without further state or federal assistance, local governments will have to resume responsibility for these expenditures in FY12, called the "funding cliff." This looming responsibility makes it even more difficult for county government to increase its contribution to school aid in FY11.

#### **Granting A Waiver Will Not Adversely Affect Educational Programs.**

We are confident that granting this waiver request will not adversely affect the quality of our local public schools. In fact, the County Executive's recommended budget for FY11 would fund nearly 96 percent of the Montgomery County Board of Education's request (net of a request from the Board for \$37.2 million in funding for a reserve account for future obligations). The reductions that would result from the County Executive's recommended level of funding include pre-funding for retiree health insurance (\$42.9 million) and merit pay increases for employees (\$25.8 million). The other reductions will be specified by the local Board of Education.

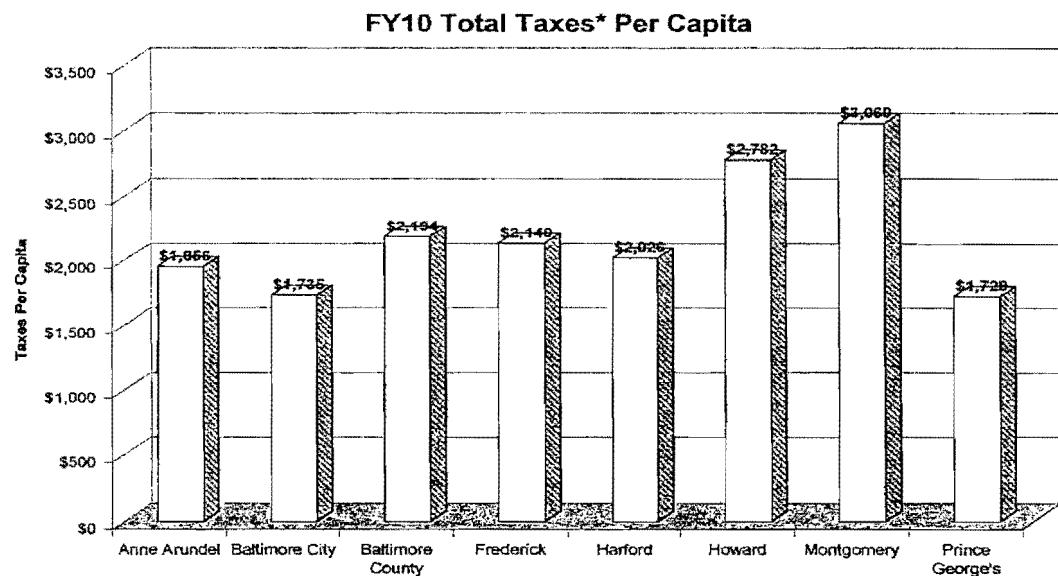
Finally, in this regard it is important to note that the Montgomery County Board of Education supports the County's request for a MOE waiver at the \$1,415,085,344 level.

**The County's Ability To Raise Additional Revenue Is Limited.**

Montgomery County's ability to raise further revenue from additional local taxes has two major constraints. First, Section 305 of the Montgomery County Charter (see attached) requires the unanimous vote of the nine members of the County Council to increase real property tax revenue beyond the rate of inflation (less new construction and other minor categories). We do not support such an increase in the property tax rate, since it would impose an additional burden on families and businesses during this difficult economic time, and also given the fact that the County exceeded the limits imposed by Section 305 of the Charter in FY09 (an increase of 13 percent). Second, Montgomery County's income tax rate is currently at the State-allowed maximum rate, 3.2 percent.

However, the County Executive is recommending an increase in the local fuel energy tax of 100 percent to raise \$151.3 million in additional revenues. In addition, the Executive is recommending an increase in the monthly wireless phone tax from \$2 per line per month to \$3 per line per month to raise an additional \$11.853 million. But even with these significant revenue enhancements, the County will be unable to avoid deep service reductions even if the MOE requirement is not fully funded.

In short, the taxpayers of Montgomery County have been "tapped out" by existing local tax rates, as well as, the additional revenue enhancements recommended by the County Executive. As the chart below indicates, based on information provided by the Maryland Association of Counties, Montgomery County residents pay the highest per capita taxes of any of the major urban jurisdictions in the State.



\*Includes property, income, transfer and recordation, energy, phone, and admissions and amusement taxes; and solid waste fees.

Source: Maryland Association of Counties, *Budgets, Tax Rates, & Selected Statistics Fiscal Year 2010*.

James H. DeGraffenreidt, Jr.,  
May 3, 2010  
Page 13

**Conclusion.**

In closing, we want to stress that education, especially K-12 education, is one of the most important priorities of Montgomery County. We are very proud of the accomplishments of our Public School system in reducing class size, significantly improving test scores, and preparing our children to be productive, well-educated, and responsible citizens. We are committed to investing the resources necessary to achieve these important results for our County and the State.

However, the severity and duration of the current economic recession and the consequent reduction in revenues leave us no responsible choice except to temporarily reduce the County's local contribution. The Montgomery County Board of Education voted on Monday, March 22, 2010 to support this waiver request (see attached resolution). We urge the State Board of Education to approve this request quickly in view of the County's fast-approaching budget deadlines. Thank you for your consideration.

Sincerely,



Isiah Leggett  
Montgomery County Executive



Nancy Floreen, President  
Montgomery County Council

IL/NN:jb

c: Anthony South, Executive Director, Maryland State Board of Education  
Montgomery County Council  
Patricia O'Neill, President, Montgomery County Board of Education  
Jerry D. Weast, Ed.D, Superintendent, Montgomery County Public Schools  
Richard S. Madaleno, Jr., Senator, District 18  
Brian J. Feldman, Delegate, District 15

Attachments:

- Tax Supported Current Revenue FY09-FY11
- Revenues: Excerpt from County Executive's Recommended FY11 Operating Budget
- Section 305 of the Montgomery County Charter: Approval of the Budget; Tax Levies
- Overview of Economic Indicators and Revenues, Montgomery County Department of Finance, March 15, 2010
- Montgomery County Board of Education, Resolution in support of MOE Waiver, March 22, 2010
- Comprehensive Annual Financial Reports (Audited) FYs 2007-2009
- County Executive's Recommended FY11 Operating Budget
- Approved Montgomery County Operating Budget FY10
- Supplemental Information on County Fiscal Condition for FY10 and FY11:
  - Memorandum from County Executive Isiah Leggett, FY10 and FY11 Budget Adjustments, April 22, 2010
  - Memorandum from County Executive Isiah Leggett, Additional Revenue Write-down, April 13, 2010

James H. DeGraffenreidt, Jr.,

May 3, 2010

Page 14

- Memorandum from County Executive Isiah Leggett, March Income Tax Distribution and Rating Agency Feedback, April 5, 2010
- Memorandum from County Executive Isiah Leggett, Additional FY10 and FY11 Budget Actions, March 25, 2010
- County Fiscal Update to Montgomery County Council: February 23, 2010
- Memorandum from County Executive Isiah Leggett, FY10 Savings Plan Round II, January 7, 2010
- Memorandum from Joseph Beach, Director, Office of Management and Budget, Fiscal Plan Update, November 30, 2009
- Memorandum from County Executive Isiah Leggett on the FY10 Savings Plan Round I, October 28, 2009



THE MARYLAND GENERAL ASSEMBLY  
ANNAPOLIS, MARYLAND 21401-1991

April 27, 2010

Mr. James H. DeGraffenreidt, Jr.  
President, Maryland State Board of Education  
200 West Baltimore Street  
Baltimore, Maryland 21201

Dear President DeGraffenreidt:

You may be aware that House Bill 304 / Senate Bill 310, *Education - Maintenance of Effort Requirement - Process and Factors* failed to pass the General Assembly before the 2010 Session adjourned Sine Die. An unfortunate turn of events created delays that resulted in this outcome. While the Senate voted unanimously in support of the Senate Bill 310 conference committee report, it was too late for the House to take it up.

The State Board currently has before it five maintenance of effort waiver requests for Fiscal Year 2011. We are writing to request that as the Board evaluates these requests, the members follow the process and guidelines for considering waivers as reflected in the compromise legislation approved by the full Senate and the House Committee on Ways and Means.

We consider it particularly important that the Board incorporate, as criteria for considering the waiver requests pending before it, all the factors that were included in the bills as introduced and that were overwhelmingly supported by the full Senate and House memberships. The seven factors contained in both bills were:

- a county governing body's history of exceeding the required maintenance of effort amount;
- the existence of an agreement between a county governing body and a county board that a waiver should be granted;
- significant reductions in State aid to a county and municipalities of the county for the fiscal year for which a waiver is applied;
- external environmental factors such as a loss of a major employer or industry affecting a county or a broad economic downturn affecting more than one county;

Mr. James H. DeGraffenreidt, Jr.

April 27, 2010

Page 2

- a county's tax bases;
- rate of inflation relative to growth of student population in a county; and
- maintenance of effort requirement relative to a county's statutory ability to raise revenues.

Also, we request that the Board respect the provision included in the conference committee report on Senate Bill 310 that requires the participation of the State Superintendent in evaluating the waiver requests. The language reads as follows: *The State Superintendent shall provide a preliminary assessment of a waiver application to the State Board prior to any public hearing.*

The outcome of this important piece of legislation was unintended and unfortunate. However, we believe the intent of the General Assembly is clear. Even without any statutory changes, the Board clearly has the authority to include the additional factors and require the participation of the Superintendent when deciding the outcome of waiver requests.

Sincerely,



Edward J. Kasemeye

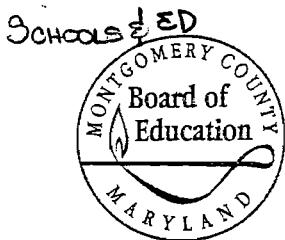
Co-Chair, Jt. Legislative Workgroup  
to Study State, County & Municipal  
Fiscal Relationships



Adrienne A. Jones

Co-Chair, Jt. Legislative Workgroup  
to Study State, County & Municipal  
Fiscal Relationships

cc: The Honorable Martin O'Malley  
The Honorable Thomas V. Mike Miller, Jr.  
The Honorable Joan Carter Conway  
The Honorable Ulysses Currie  
The Honorable Michael E. Busch  
The Honorable Sheila E. Hixson  
Dr. Nancy S. Grasmick  
Mr. Anthony South



# MONTGOMERY COUNTY BOARD OF EDUCATION

850 Hungerford Drive • Rockville, Maryland 20850

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March 23, 2010

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RECEIVED  
MONTGOMERY COUNTY  
COUNCIL

The Honorable Isiah Leggett, County Executive  
Montgomery County Government  
Executive Office Building  
101 Monroe Street  
Rockville, Maryland 20850

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

Dear Mr. Leggett and Mrs. Floreen:

I am transmitting a resolution adopted by the Board of Education at its meeting on March 22, 2010, to support Montgomery County's application for a waiver of the state Maintenance of Effort (MOE) requirement for the FY 2011 Operating Budget.

The resolution adopted by the Board specifically endorses the county executive's recommendation for the Montgomery County Public Schools (MCPS) FY 2011 Operating Budget. The Board understands that the recommendation will necessitate an unprecedented reduction of \$137.7 million in tax-supported funds below the Board of Education's Operating Budget Request. As you know, the Board of Education is required by state law to request a budget at a level that includes a local contribution no less than the MOE requirement. The members of the Board understand that the county's fiscal situation precludes making that local contribution without crippling other vital local government services. They know that in these difficult times all agencies must sacrifice to enable the county to maintain a balanced budget. The Board recognizes that MCPS must make major sacrifices, possibly including continued cuts in central support services, no wage increases for MCPS employees, delays in pre-funding retiree health care costs, significant increases in class size, and other major program reductions. The Board believes that the quality of education can be preserved with a budget at the level recommended by the county executive, but any further reductions will endanger the improvements in student achievement.

The Honorable Isiah Leggett  
The Honorable Nancy Floreen

2

March 23, 2010

Thank you very much for working so closely with the Board of Education and our staff to resolve the fiscal issues impacting the quality of education in Montgomery County. Our staff will be available to answer any questions.

*Sincerely,*

*Patricia O'Neill*

Patricia O'Neill  
President

PO:sz

Enclosure

Copy to:

Members of the Board of Education

Dr. Weast

Executive Staff

DISCUSSION/ACTION

7.0

Office of the Superintendent of Schools  
MONTGOMERY COUNTY PUBLIC SCHOOLS  
Rockville, Maryland

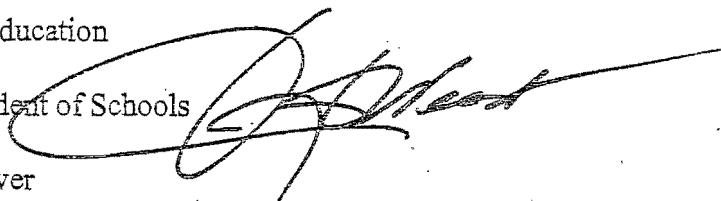
March 22, 2010

MEMORANDUM

To: Members of the Board of Education

From: Jerry D. Weast, Superintendent of Schools

Subject: Maintenance of Effort Waiver



On March 15, 2010, County Executive Isiah Leggett presented his Fiscal Year 2011 Recommended Operating Budget. He recommended a total of \$2,125,542,225 for Montgomery County Public Schools (MCPS), including \$1,940,540,941 in tax-supported resources (excluding grants and enterprise funds) and \$1,416,228,099 in local contribution. The county executive's recommendation, if approved by the County Council, will require reductions of \$137.7 million (6.3 percent) from the Board of Education's FY 2011 Operating Budget Request. This reduction actually exceeds the total increase requested by the Board for FY 2011, and provides exactly the same amount for educational programs as the FY 2010 operating budget despite a projected increase of 2,809 students. These reductions will be extremely painful to schools and employees. Any possible further reductions will significantly endanger the quality of education for MCPS students.

The county executive's budget recommendation will require a waiver of the Maintenance of Effort (MOE) law. Based on the most recent revenue information, the local contribution required for Mr. Leggett's recommended tax-supported budget is \$1,415,085,344. To avoid violating the MOE requirement, the county will need a waiver to be approved by the Maryland State Board of Education (State Board). Without a MOE waiver, MCPS may face a penalty of the loss of increased state aid up to \$52.4 million. I am recommending to you that we join with the County Government in seeking a waiver from the MOE requirement. It is important to point out that MCPS has been exceedingly cooperative with the County Government as it confronts the worst economic downturn in decades.

Mr. Leggett intends to submit a request for a MOE waiver to the Maryland State Board of Education by the current deadline of March 31, 2010. Pursuant to Section 5-202 (d) (7) of the Annotated Code of Maryland, Education Article, he will state that the county's fiscal condition prevents it from funding the MOE requirement without seriously impairing other county services. A copy of the relevant section of the code is attached. Pursuant to State Board procedure, the Montgomery County Board of Education must state its position on this request no

later than April 10, 2010. It is expected that the State Board will schedule a public hearing on the county request during April 2010. The Board of Education will have an opportunity to participate in that public hearing. Thus, it is important that the Board of Education make its position clear on the county's waiver request. The following resolution therefore is recommended for the Board's consideration.

WHEREAS, Montgomery County intends to request a waiver of the Maintenance of Effort requirement to permit a local contribution for FY 2011 of \$1,415,085,344, pursuant to Section 5-202 (d) (7) of the Annotated Code of Maryland, Education Article, because the county's fiscal condition prevents it from funding the Maintenance of Effort requirement without seriously impairing other county services; and

WHEREAS, This amount of local contribution will result in a total of \$1,940,540,941 in tax-supported resources (excluding grants and enterprise funds), which is exactly the same amount for educational programs in the FY 2010 operating budget despite a projected increase of 2,809 students; and

WHEREAS, Pursuant to Maryland State Board of Education procedures, the Montgomery County Board of Education must state its position on the county's waiver request no later than April 10, 2010; and

WHEREAS, Montgomery County Public Schools' staff has received information about the county's fiscal condition and has worked closely with county staff to review economic and revenue data; and

WHEREAS, The county executive's Recommended FY 2011 Operating Budget requires the Board of Education to make \$137.7 million in nonrecommended reductions in its FY 2011 Operating Budget Request; and

WHEREAS, No further reductions can be made without seriously endangering the quality of education for Montgomery County Public Schools' students; now therefore be it

Resolved, That the Board of Education supports the Montgomery County request for a waiver of the Maintenance of Effort requirements for FY 2011, if the following conditions are agreed to by the county executive and the County Council and are included in the action of the Maryland State Board of Education:

1. The operating budget amount of \$1,940,540,941 in tax-supported resources (excluding grants and enterprise funds) recommended by the county executive on March 15, 2010, is fully funded by the County Council. This amount necessitates \$137.7 million in nonrecommended reductions in the Board of Education's Operating Budget Request.

2. The FY 2011 appropriation does not include any transfers of functions or expenditures from the County Government budget to the Board of Education budget unless the amount of the transfer is added to the amount recommended by the county executive.
3. The Maintenance of Effort requirement for FY 2012 will be based on the FY 2010 level of \$11,249 per student, unless subsequent action of the General Assembly changes the amount of the FY 2012 requirement by law; and be it further

Resolved, That the president of the Board of Education be authorized to submit this resolution to the Maryland State Board of Education and to represent the Board of Education at a public hearing on the county's waiver request; and be it further

Resolved, That a copy of this resolution be sent to the county executive and the County Council.

JDW:LAB:MCS;jp

Attachment

## Article- Education

§5-202.

(d) (1) To be eligible to receive the State share of the foundation program:

(i) The county governing body shall levy an annual tax sufficient to provide an amount of revenue for elementary and secondary public education purposes equal to the local share of the foundation program; and

(ii) The county governing body shall appropriate local funds to the school operating budget in an amount no less than the product of the county's full-time equivalent enrollment for the current fiscal year and the local appropriation on a per pupil basis for the prior fiscal year.

(2) Except as provided in paragraph (3) of this subsection, for purposes of this subsection, the local appropriation on a per pupil basis for the prior fiscal year for a county is derived by dividing the county's highest local appropriation to its school operating budget for the prior fiscal year by the county's full-time equivalent enrollment for the prior fiscal year. For example, the calculation of the foundation aid for fiscal year 2003 shall be based on the highest local appropriation for the school operating budget for a county for fiscal year 2002. Program shifts between a county operating budget and a county school operating budget may not be used to artificially satisfy the requirements of this paragraph.

(3) For purposes of this subsection, for fiscal year 1997 and each subsequent fiscal year, the calculation of the county's highest local appropriation to its school operating budget for the prior fiscal year shall exclude:

(i) A nonrecurring cost that is supplemental to the regular school operating budget, if the exclusion qualifies under regulations adopted by the State Board; and

(ii) A cost of a program that has been shifted from the county school operating budget to the county operating budget.

(4) The county board must present satisfactory evidence to the county government that any appropriation under paragraph (3)(i) of this subsection is used only for the purpose designated by the county government in its request for approval.

(5) Any appropriation that is not excluded under paragraph (3)(i) of this subsection as a qualifying nonrecurring cost shall be included in calculating the county's highest local appropriation to its school operating budget.

(6) Qualifying nonrecurring costs, as defined in regulations adopted by the State Board, shall include but are not limited to:

- (i) Computer laboratories;
- (ii) Technology enhancement;
- (iii) New instructional program start-up costs; and
- (iv) Books other than classroom textbooks.

(7) (i) The provisions of this subsection do not apply to a county if the county is granted a temporary waiver or partial waiver from the provisions by the State Board of Education based on a determination that the county's fiscal condition significantly impedes the county's ability to fund the maintenance of effort requirement.

(ii) After a public hearing, the State Board of Education may grant a waiver under this paragraph in accordance with its regulations.

(iii) In order to qualify for the waiver under this paragraph for a fiscal year, a county shall make a request for a waiver to the State Board of Education by April 1 of the prior fiscal year.

(iv) The State Board of Education shall inform the county whether the waiver for a fiscal year is approved or denied in whole or in part by May 15 of the prior fiscal year.

DISCUSSION/ACTION  
2.4

Office of the Superintendent of Schools  
MONTGOMERY COUNTY PUBLIC SCHOOLS  
Rockville, Maryland

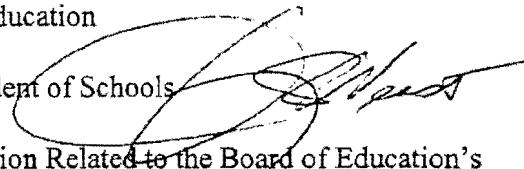
May 11, 2010

MEMORANDUM

To: Members of the Board of Education

From: Jerry D. Weast, Superintendent of Schools

Subject: Authorization for Legal Action Related to the Board of Education's FY 2011 Operating Budget Request



WHEREAS, In the last two fiscal years, the school system's budget has been reduced and savings totaling \$223,000,000 made available to the County through hiring freezes, expenditure restrictions, cuts in existing services, and the agreement of our 22,000 employees to forego any cost-of-living salary adjustment; and

WHEREAS, The Board of Education and the superintendent of schools worked cooperatively with the Montgomery County Executive to balance the needs of the school system, its 22,000 employees and its 142,000 students with the fiscal realities facing local government; and

WHEREAS, The Board of Education and the superintendent of schools, for the second year in a row, are supporting and joining with the County Council and the County Executive to seek a waiver of the County's obligation to fund so-called "maintenance of effort" from the Maryland State Board of Education; and

WHEREAS, The requested waiver effectively would reduce the school system's budget by an additional \$137,700,000 and subject the school system to a decrease in state education funding of up to \$51,300,000, if the waiver is not granted; and

WHEREAS, Further reductions by the Council to the school system's budget below that recommended by the County Executive will most certainly trigger a penalty of up to \$51,300,000 in state aid even if the State Board of Education approves the County's request for a waiver of maintenance of effort; and

WHEREAS, These significant reductions in the school system's budget come at a time when the school system's enrollment increased by approximately 4,000 students over the past two years, including a 10 percent increase in the number of students receiving Free and Reduced-price

Meals System services in just one year, so that nearly one-third of elementary school students are eligible to receive subsidized meals; and

WHEREAS, An additional reduction of at least \$30,000,000 proposed by some members of the County Council will threaten the education reforms that have resulted in record student achievement and could lead to a significant dismantling of the school system's programs in this County; and

WHEREAS, Additional reductions of at least \$30,000,000 combined with a potential state penalty of \$51,300,000 will be very difficult, if not impossible, to implement before the opening of school; and

WHEREAS, The students and families rely on the school system to provide nutrition, often not available elsewhere, and an education that is closing the gap and providing students with the ability to enter college and to enter careers to become productive citizens and taxpayers; and

WHEREAS, The Board of Education has a fiduciary duty to provide the education our students require to secure their futures and a statutory duty, pursuant to Section 4-101 of the Education Article, to promote the interests of the schools under our jurisdiction; and

WHEREAS, The County Council is without legal authority to reduce the school system's budget beyond reductions made by the County Executive when the level of funding he proposes is below the level required by state law to maintain the effort; now therefore be it

Resolved, That legal counsel representing the Board of Education and the school system are hereby authorized to take any and all appropriate legal action to prevent the County Council from exceeding its authority by making any further reductions in the County Executive's recommendation for the FY 2011 Operating Budget for Montgomery County Public Schools.

JDW:BKE:dh



# Maryland State Board of Education

200 W. BALTIMORE STREET / BALTIMORE, MARYLAND 21201-2595 / (410) 767-0467

May 12, 2010

Mr. Isiah Leggett  
Montgomery County Executive  
Executive Office Building  
101 Monroe Street, 2<sup>nd</sup> Floor  
Rockville, MD 20850

Dear Mr. Leggett:

After reviewing your submission, the State Board requests that you supply additional information by May 17, 2010. Please explain the effect that inflation would have had on the amounts you overfunded Maintenance of Effort (MOE). As you know, the MOE target is not adjusted for inflation. Please set forth the MOE amount that would have been the target in each year from 2003 to 2009 if the MOE amount had been adjusted for inflation.

In November, 2009, the Department of Legislative Services set forth the increases above MOE for each county from 2003-2009 (attached). Please use those amounts in your calculations.

Please also provide the documents from Moody's placing Montgomery County on a watch list, and the March, 2010 letter from the Comptroller concerning the reduction of income tax revenue.

Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read "Anthony L. South".

Anthony L. South  
Executive Director  
Maryland State Board of Education

Attachment

c: James H. DeGraffenreidt, Jr.  
Charlene Dukes  
Joseph F. Beach

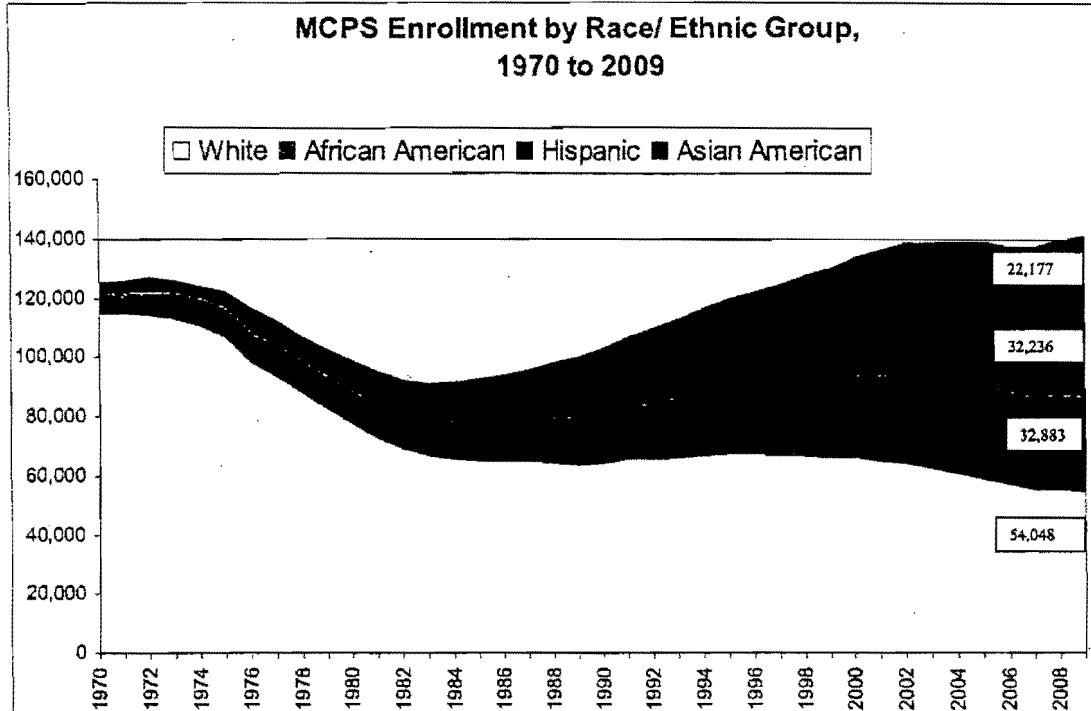
# Increases Above MOE

## Fiscal 2003-2009

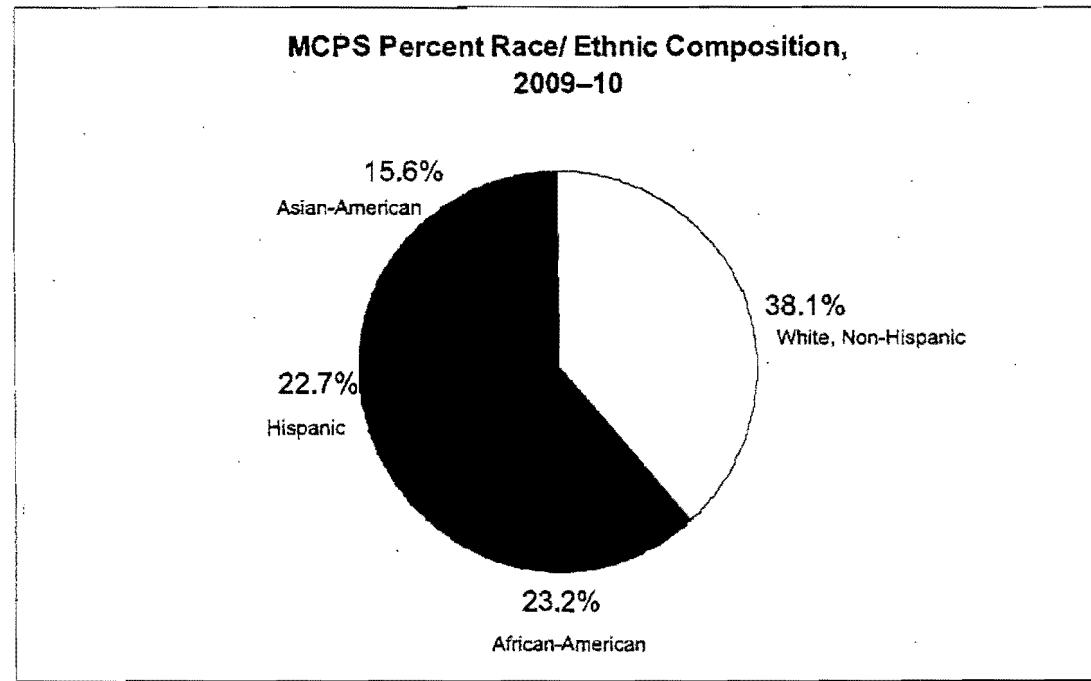
County	(\$ In Thousands)							Total FY 02-09
	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	
Allegany	\$1,188	\$356	\$149	\$1,245	\$971	\$1,474	\$345	\$5,727
Anne Arundel	13,416	5,963	22,742	36,481	36,848	24,135	37,415	177,001
Baltimore City	4,068	1,403	3,964	6,175	5,545	6,168	8,348	35,672
Baltimore	11,284	4,496	5,289	18,442	15,049	13,415	33,893	101,869
Calvert	2,344	205	2,540	4,066	4,975	3,833	6,018	23,981
Caroline	139	31	280	274	171	330	25	1,250
Carroll	4,205	158	1,494	7,129	8,274	6,486	12,632	40,378
Cecil	2,686	709	969	3,007	2,613	444	5,229	15,656
Charles	2,464	0	2,954	7,784	10,185	9,616	9,216	42,218
Dorchester	893	0	0	358	1,145	139	895	3,431
Frederick	4,596	3,249	5,073	9,015	12,742	12,974	11,570	59,219
Garrett	760	2,062	923	612	1,121	2,346	1,703	9,528
Harford	5,949	0	4,835	20,017	13,030	12,911	13,714	70,456
Howard	9,744	10,490	13,307	22,994	26,101	26,951	23,440	133,028
Kent	975	50	779	818	1,249	1,638	1,497	7,005
Montgomery	26,039	34,005	75,743	41,759	98,844	75,442	68,531	420,362
Prince George's	6,773	275	5,932	22,163	37,751	7,402	184	80,480
Queen Anne's	1,439	1,094	1,237	646	1,170	3,488	3,120	12,193
St. Mary's	74	0	1,154	2,222	4,528	3,472	2,546	13,995
Somerset	1	17	0	0	47	0	103	169
Talbot	1,615	0	499	1,197	1,952	2,163	2,263	9,689
Washington	2,580	2,814	2,308	42	4	0	2,927	10,676
Wicomico	567	562	0	445	639	997	707	3,917
Worcester	2,978	660	4,810	3,461	5,612	4,472	7,420	29,413
Total State	\$106,774	\$68,601	\$156,980	\$210,365	\$290,567	\$220,295	\$253,742	\$1,307,314

Source: Department of Legislative Services

## Student Diversity Drives Enrollment Growth

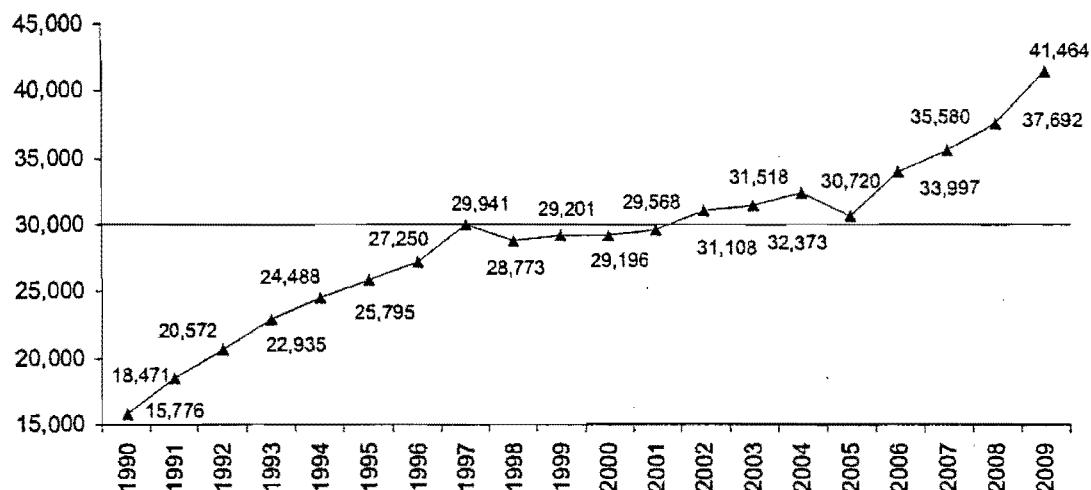


## Race/ Ethnic Trends



## 29.3% of MCPS Students Participate in FARMS Program in 2009–10

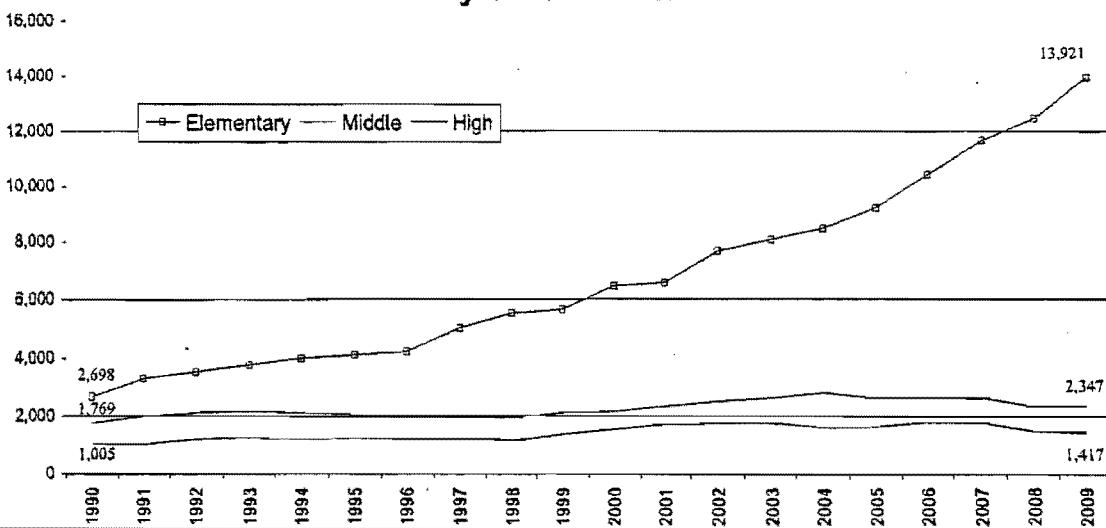
**MCPS Free and Reduced-Price Meals System (FARMS)  
Number Participating**



12.5% of MCPS Students in ESOL Program in 2009–10

160 Countries and 140 Languages Represented

**MCPS ESOL Enrollment Trends  
by School Level**



## Total MCPS Enrollment:

2008–09 to 2009–10

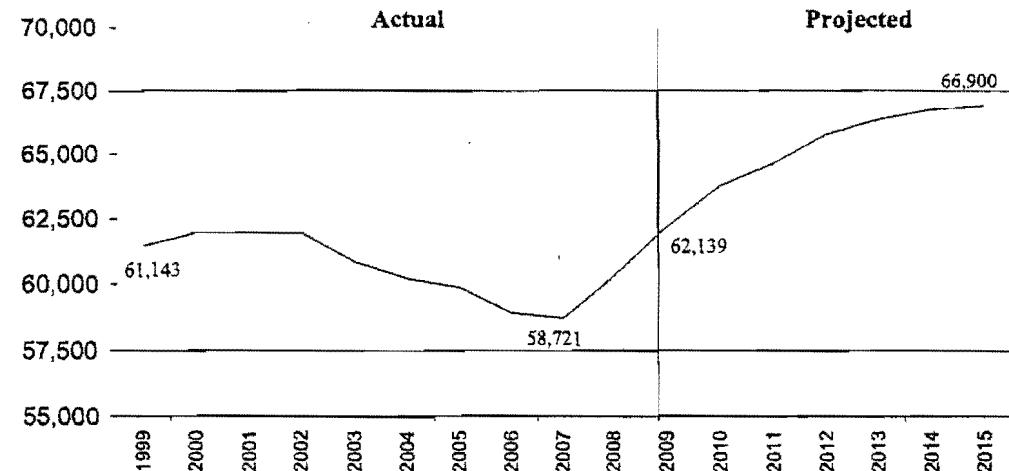
Grade	Official 2008–09 Enrollment	Official 2009–10 Enrollment	Change
K	10,276	10,626	350
1	10,295	10,744	449
2	9,832	10,473	641
3	10,095	10,046	-49
4	9,803	10,265	462
5	9,970	9,986	15
6	10,070	10,099	29
7	10,400	10,283	-117
8	10,516	10,615	99
9	11,776	11,855	79
10	11,159	11,321	162
11	11,052	10,971	-81
12	10,868	11,032	174
<b>K-5</b>	<b>60,271</b>	<b>62,139</b>	<b>1,868</b>
<b>6-8</b>	<b>30,986</b>	<b>30,997</b>	<b>11</b>
<b>9-12</b>	<b>44,845</b>	<b>45,179</b>	<b>334</b>
<b>K-12</b>	<b>136,102</b>	<b>138,315</b>	<b>2,213</b>
<b>H.S./PreK</b>	<b>2,496</b>	<b>2,591</b>	<b>95</b>
<b>PreK Sp.Ed</b>	<b>678</b>	<b>871</b>	<b>193</b>
<b>TOTAL</b>	<b>139,276</b>	<b>141,777</b>	<b>2,501</b>

49,830

## MCPS Grades K-5 Enrollment

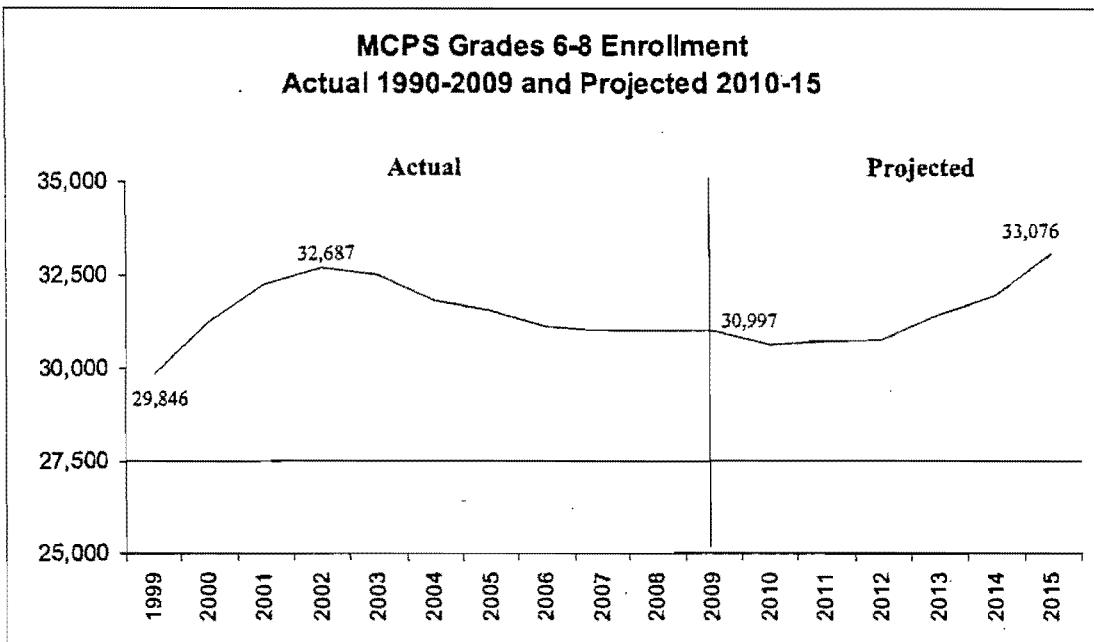
Actual 1999 to 2009, and Projected 2010 to 2015

**MCPS Grades K-5 Enrollment**  
**Actual 1990-2009 and Projected 2010-15**



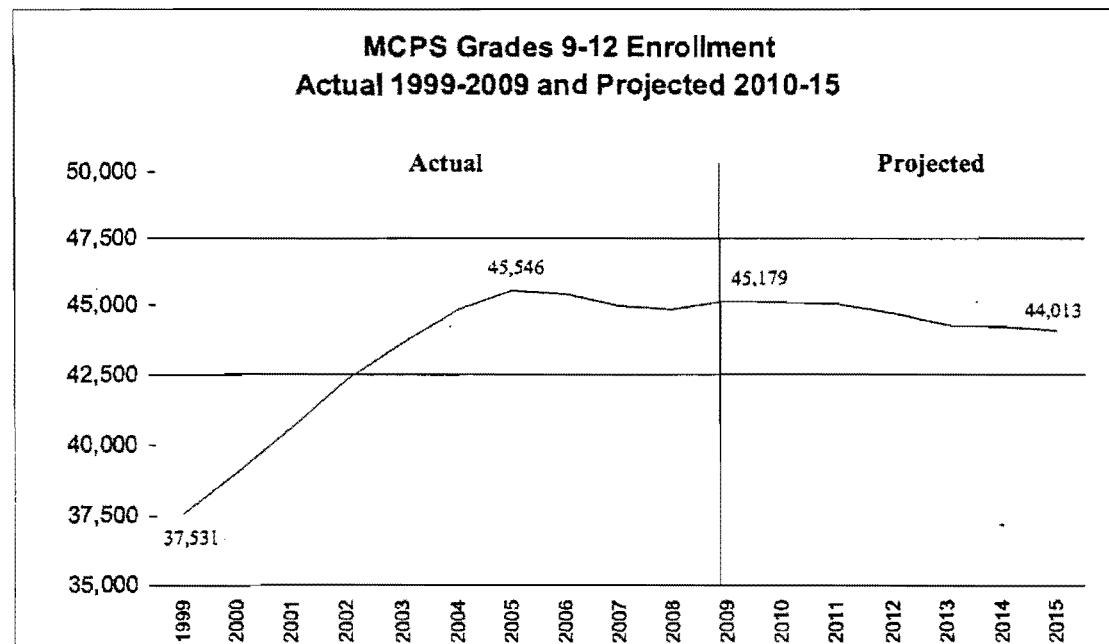
## MCPS Grades 6-8 Enrollment

Actual 1999 to 2009, and Projected 2010 to 2015



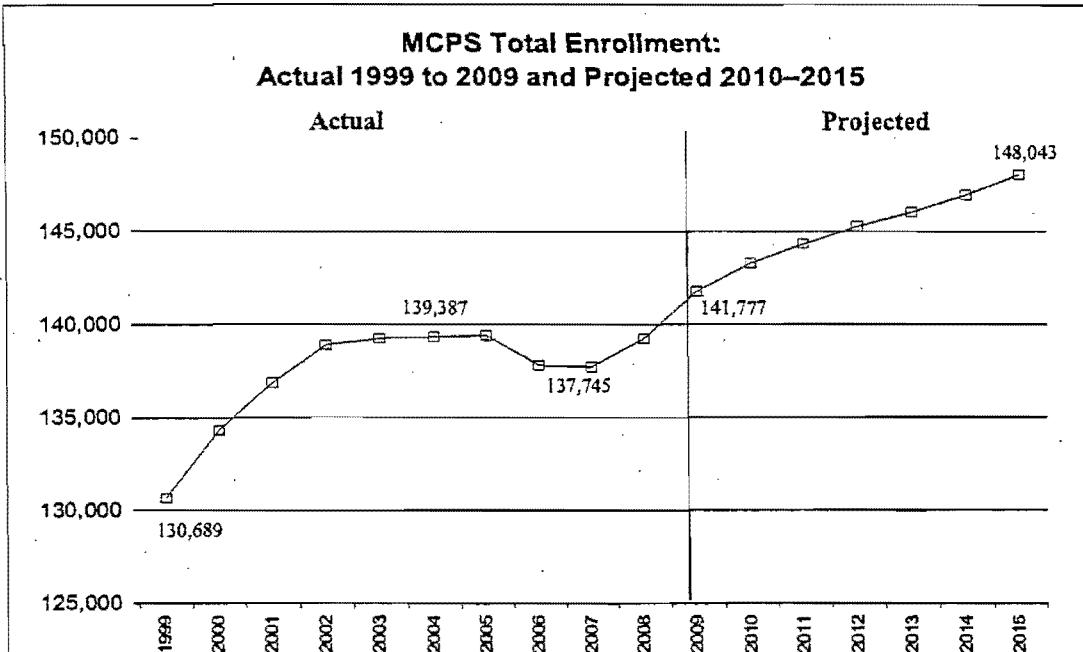
## MCPS Grades 9-12 Enrollment

Actual 1999 to 2009, and Projected 2010 to 2015



# MCPS Total Enrollment

Actual 1999 to 2009, and Projected 2010 to 2015





## MONTGOMERY COUNTY BOARD OF EDUCATION

850 Hungerford Drive • Rockville, Maryland 20850

May 10, 2010

Mr. James H. DeGraffenreidt, Jr.  
President  
Maryland State Board of Education  
200 West Baltimore Street  
Baltimore, Maryland 21201

Dear Mr. DeGraffenreidt:

This letter is the Montgomery County Board of Education's response to the Maintenance of Effort (MOE) waiver request that was submitted to you on May 3, 2010, by Montgomery County Executive Isiah Leggett and Montgomery County Council President Nancy Floreen. The basis for their request is that the county's fiscal condition prevents it from funding the MOE requirement related to Montgomery County Public Schools (MCPS) without seriously impairing other county services.

Montgomery County has informed the Board of Education that it faces a Fiscal Year 2011 budget shortfall of more than \$950 million because of the serious and ongoing economic recession. MCPS staff has received information about the county economy and revenue projections, as outlined in the county's waiver request, and has worked closely with county staff to review economic and revenue data.

On March 22, 2010, the Montgomery County Board of Education adopted a resolution in support of the county's request. The resolution states in part:

WHEREAS, Montgomery County intends to request a waiver of the Maintenance of Effort requirement to permit a local contribution for FY 2011 of \$1,415,085,344, pursuant to Section 5-202 (d) (7) of the Annotated Code of Maryland, Education Article, because the county's fiscal condition prevents it from funding the Maintenance of Effort requirement without seriously impairing other county services; [now therefore be it]

Resolved, That the Board of Education supports the Montgomery County request for a waiver of the Maintenance of Effort requirements for FY 2011, if the following conditions are agreed to by the county executive and the County Council and are included in the action of the Maryland State Board of Education:

1. The operating budget amount of \$1,940,540,941 in tax-supported resources (excluding grants and enterprise funds) recommended by the county executive on March 15, 2010, is fully funded by the County Council. This amount necessitates \$137.7 million in nonrecommended reductions in the Board of Education's Operating Budget Request.

2. The FY 2011 appropriation does not include any transfers of functions or expenditures from the County Government budget to the Board of Education budget unless the amount of the transfer is added to the amount recommended by the county executive.
3. The Maintenance of Effort requirement for FY 2012 will be based on the FY 2010 level of \$11,249 per student, unless subsequent action of the General Assembly changes the amount of the FY 2012 requirement by law.

A complete copy of the Board of Education action is enclosed.

Pursuant to this resolution, the superintendent of schools identified a list of reductions necessary to cut \$137.7 million from the Board of Education's Operating Budget Request. These are painful reductions, but the Board is prepared to approve reductions of this amount to allow the county to fund other vital services. The reductions recommended by the superintendent of schools include the following:

1. State aid - \$37.1 million – MCPS will effectively contribute increased state aid under the Foundation program and other state grants to reduce the required local contribution. The net increase in state aid is estimated at \$37.1 million. This amount was added by the Board of Education to its budget request in order to maintain compliance with MOE requirements, but without any identified expenditures.
2. Class Size Increase - \$16.2 million – The reduction of class size has been one of the most important academic improvement initiatives over the last ten years. Class size reductions have been concentrated in primary grades and in schools with the highest proportion of low-income students. In order to reduce expenditures, the superintendent has reduced initial staffing allocations by 252 positions at a savings of \$16.2 million. This is expected to result in an increase in class size by an average of one student at each grade level. This reduction removes nearly half of all improvements in class size over the last ten years.
3. Central Services reductions - \$6.5 million – Announced budget reductions include major cuts in central office staffing, including major reorganizations to abolish 49.4 central office positions and concentrate responsibilities among remaining positions. In the past two years, MCPS reduced 120 central office positions and saved nearly \$18 million, nearly 20 percent of all central office expenditures. Based on the Board of Education's Budget Request, spending for Category 1, Administration, is reduced to 1.9 percent of the operating budget. This is the lowest percentage ever for this district and one of the lowest percentages in the state.
4. Continuing Salaries - \$25.9 million – MCPS has always budgeted for contractually mandated salary schedule increments. These increments are provided to employees based on years of experience. Employees eligible for increments receive a salary increase of an average of approximately 3 percent annually. Continuing salaries also

include longevity increases and other adjustments based on contractual obligations. The county executive has recommended that for fiscal reasons no county employees should receive salary increments in FY 2011. MCPS is prepared to comply with that requirement pending completion of collective bargaining negotiations and remove the planned amount from the budget.

5. Other Post-Employment Benefits (OPEB) – \$42.9 million – MCPS will eliminate its planned contribution to the Retiree Health Trust Fund. MCPS has accepted the County Council plan to phase in pre-funding of retiree health benefits over an eight-year period as directed by the Government Accounting Standards Board. According to this plan, MCPS is to contribute \$42.9 million in FY 2011 to a trust fund established for this purpose. The county executive has recommended that for fiscal reasons no contributions can be made in FY 2011 for any county agency. MCPS will comply with this policy, but remains concerned that pre-funding must be resumed promptly in order to guarantee future health care benefits to retirees.
6. Other Reductions - \$9.2 million – The superintendent also is preparing to make recommendations for other reductions in existing services, including classroom services and support services. These reductions are designed to make necessary savings while minimizing the impact on classroom instruction. In order to permit community input on these and other potential reductions, the superintendent issued an unprecedented list of possible reductions totaling \$43 million as part of his Recommended Operating Budget. A copy of this list is enclosed. The Board of Education has received considerable feedback from parents and other residents regarding these reductions, but the Board recognizes it will likely have to implement many of the potential reductions as part of its contribution to resolving the fiscal crisis in Montgomery County.

In addition to the budget reductions noted above, MCPS has expressed willingness to identify resources to make possible the retention of other vital county services. For example, MCPS will identify \$2 million to permit retention of 17 Educational Facilities Officers (EFO) in the Montgomery County Police Department. These officers provide valuable support to schools and students. The county has decided to abolish 16 of the EFO positions. The MCPS offer will make it possible to preserve approximately half of the existing program resources. MCPS also will identify resources to pay an expected \$4.4 million over FY 2010 and FY 2011 for a proposed 100 percent increase in the county's Fuel Energy excise tax. In the past, the county has added appropriations to the MCPS budget to enable the system to make energy tax payments, but this year MCPS will identify existing resources to make the payments if the County Council approves the tax increase proposed by the county executive.

Montgomery County Public Schools has been a consistent fiscal partner of the County Government. The Board of Education understands that the welfare of the school system depends on the fiscal health of the county as a whole. Therefore, the Board of Education endorsed and testified in favor of the county's MOE waiver request in 2009. During the past two years, MCPS has saved \$223 million in its operating budget to assist in balancing the county budget. In FY 2010, our employees agreed to forego their cost-of-living increases, which saved the school

system \$89 million. In FY 2009, the Board of Education made \$50 million in budget reductions and saved another \$20 million as a result of a position freeze and comprehensive expenditure restrictions. In FY 2010, the Board of Education made another \$31 million in budget reductions and we have saved another \$30 million through a continued position freeze and expenditure restrictions. These savings will be available to fund next year's budget.

Having made all of these significant reductions in our operating budget, and being prepared to accept another \$137.7 million in reductions and to assist the county in maintaining other county services, it is not possible to make further cuts to our educational programs or to our employees next year without doing irreparable harm to our school system. Any further reductions would have a serious impact on the children in our schools. If the County Council makes reductions to the MCPS operating budget in addition to those already recommended by County Executive Leggett and accepted by the Board of Education as part of the county's MOE waiver request, it will create irreparable harm to our educational programs. Additional reductions will come from programs directly affecting classroom instruction and support for students. These reductions will mean additional class size increases at all grade levels, additional reductions of programs designed to help our most vulnerable students in need of additional support and extended school time, and vital support services, such as reductions in building service operations.

One of the most important factors persuading the Board of Education to support the waiver request is its concern for the FY 2012 financial situation. FY 2012 is likely to be an even more difficult year for states and localities than FY 2011. Current projections show little revenue growth next year. Significant federal aid through the *American Recovery and Reinvestment Act of 2009* (ARRA) stimulus legislation expires at the end of FY 2011. For MCPS, that may mean a reduction of more than \$53 million in direct aid. In Maryland, moreover, Governor Martin O'Malley has chosen to use a significant amount of ARRA aid to support state payments of increased teacher pension costs on behalf of local school districts. When that aid expires, the state is expected to require localities to assume responsibility for much of the increase in payments. This will pose an enormously heavy burden on Montgomery County. If the county's waiver request is not approved at this time, the county will have even more difficulty assuming expected FY 2012 cost increases.

Over two years, MCPS has received more than \$100 million in federal aid through ARRA. This aid includes \$12 million for the Title I program for our most impacted schools and \$33 million for special education students through the *Individuals with Disabilities Education Act* (IDEA). In addition to these categorical grants, MCPS has received \$59 million in unrestricted aid through the State Fiscal Stabilization Fund (SFSF). These programs are expected to terminate in FY 2012. Because of the absence of other state or local resources, the services made possible by the federal grants will have to be discontinued, at great cost to the school system, and especially to some of our most vulnerable students.

In FY 2012, Montgomery County will have to consider resuming its eight-year phase-in plan for prefunding retiree health benefits. For MCPS, the eight year plan will require a contribution of approximately \$55 million in FY 2012. In addition, it will be necessary to make up for payments totaling \$73 million not made during FY 2010 and FY 2011. If the county decides for fiscal

reasons that it is unable to resume or complete the funding plan, it will raise doubts among employees and creditors about the county's ability or willingness to meet this important obligation.

As part of closing the fiscal gap for FY 2011, County Executive Leggett recommended \$15 million in savings through employee furloughs. The County Council has resolved that additional furlough savings will be needed and has requested all county agencies to institute furloughs. If such one-time furloughs are implemented, salary savings must be restored in FY 2012.

In addition to these fiscal burdens, MCPS also faces increased student enrollment in FY 2012. Current projections are for approximately 1,500 more students for the 2011-2012 school year. Many of these students are expected to be low-income students or students who are English language learners.

As MCPS develops an operating budget for FY 2012, we also will need to identify alternate resources to replace the \$30 million saved in FY 2011 as end-of-year fund balance. It is very unlikely that sufficient savings can be made in FY 2011 to replace any of this fund balance. For all these reasons, the FY 2012 and succeeding operating budgets will involve unprecedented fiscal challenges. If the county is obligated to fund the FY 2011 budget at a level higher than recommended by the county executive, it will be even more difficult to make needed reductions in FY 2012.

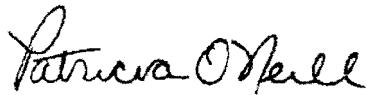
The county's waiver request, combined with other available revenues, will allow the County Council to appropriate the same amount of tax-supported resources (\$1.940 billion) as was provided for educational programs in the FY 2010 Approved Operating Budget. Even with same amount of tax-supported resources, the Board of Education will have to make \$137.7 million in reductions. We cannot cut any further without severely damaging the school system and our successful reform programs.

Finally, it is critical that this waiver be for one year only and that the base for calculating maintenance of effort in FY 2012 is not the amount requested for the local contribution in FY 2011. MCPS, like other school systems in Maryland, has made tremendous progress during the past seven years as a result of the additional state aid provided through Bridge to Excellence funding. Although we are fully aware of the difficult financial situation that we face because of the economic downturn, we cannot afford to lose the progress that we have made. That is why our support of this waiver is contingent on the waiver being for one year only and the level of appropriation for FY 2012 being based on the local appropriation for FY 2010, \$11,249 per student.

It should be emphasized that acceptance of the waiver is not a precedent for future waivers. The current economic crisis and the federal stimulus funds that have been provided as a result represent a unique combination of events that is unlikely to recur. The Board of Education believes that the maintenance of effort requirement is an important foundation for local support for education. We are pleased that the county leaders have reaffirmed the high priority of education for Montgomery County.

We support the county's request for approval by the State Board of Education of a waiver of the Maintenance of Effort requirement for Montgomery County so long as the conditions described above are included in the action of the Maryland State Board of Education. Please let us know if you have questions or need additional information.

Sincerely,



Patricia O'Neill  
President



Christopher Barclay  
Vice President



Jerry D. Weast, Ed.D.  
Superintendent of Schools  
Secretary, Montgomery County Board of Education

PON:sz

Enclosure

Copy to:

Members of the Board of Education  
Members of the Montgomery County Delegation  
Ms. Floreen and Members of the Montgomery County Council  
Honorable Isiah Leggett

(79)