

ED COMMITTEE #1  
May 12, 2014  
**Worksession**

**MEMORANDUM**

May 9, 2014

TO: Education Committee

FROM: Essie McGuire, Senior Legislative Analyst 

SUBJECT: **FY15 Operating Budget for the Montgomery County Public Schools, and Technology Modernization, *continued***

Today the Education Committee will continue its review of the FY15 Operating Budget of the Montgomery County Public Schools (MCPS) and the FY15 capital budget and FY15-20 Capital Improvements Program (CIP) project for Technology Modernization.

The Committee met on April 22 and April 28 to review the operating budget and the Technology Modernization project. The Committee did not make a final recommendation at that time.

**This packet presents Education Committee Chair and Council President Craig Rice's recommended funding option for the MCPS FY15 Operating Budget and the Technology Modernization project. This funding option has three main aspects:**

- 1. Provide resources for the full amount of the Board's requested FY15 Operating Budget;**
- 2. Appropriate local resources to reflect the State's Maintenance of Effort (MOE) requirement, the State's pension shift requirement, and the full amount of the MCPS general fund balance; and**
- 3. Fund the Board's requested increase for the Technology Modernization project in FY15 and FY16 through a combination of local funds and Federal E-rate funds.**

These objectives are achieved primarily through a combination of new local dollars; drawing down the large fund balance in the Retiree Group Insurance Fund and the Other Post Employment Fund (OPEB) trust; and reallocating funds within the MCPS budget request from Category 12, Fixed Charges, to educational priorities.

**Council President Rice's goal is to achieve a positive and collaborative outcome for the Council and the Board in fully funding the Board's requested educational priorities while at the same time making efficient use of County funds and all available resources.**

The table below summarizes the major elements of this recommendation, and shows them in comparison to the Board's request and the Executive's March 17 budget submission.

### Comparison of FY15 MCPS Budget Funding Options

<b>Operating Budget</b>			
	<b>BOE Request</b>	<b>CE Rec</b>	<b>CP Rec</b>
County funds above the State requirements	\$51.7 m	\$26.0m	0
Use additional MCPS general fund balance	0	\$11.2 m	\$11.2 m
Draw down excess MCPS Retired Employees Group Insurance Fund balance	0	0	\$13.3 m
Apply funds from MCPS OPEB Trust to retired employees pay-as-you-go group insurance costs	0	0	\$27.2 m
<b>Total to meet the BOE request</b>	<b>\$51.7 m</b>	<b>\$37.2 m</b>	<b>\$51.7 m</b>
Difference from BOE request	0	(\$14.5 m)	0
<i>Add County funds to MCPS OPEB Trust NDA in County Government to hold overall MCPS OPEB funding harmless (includes \$1.2 million from Reconciliation List)</i>	0	0	\$27.2 m
<b>Technology Modernization</b>			
	<b>BOE Request</b>	<b>CE Rec</b>	<b>CP Rec</b>
Additional County funds in FY15 <i>(includes \$2.0 million from Reconciliation List)</i>	\$4.0 m	0	\$2.0 m
Assume E-rate funds in FY15 and FY16 will be appropriated above the programmed amount	0	0	\$2.0 m

*The technical steps required to achieve the objectives for the FY15 Operating Budget are detailed below.*

**It is important to note the following about this approach:**

- This recommendation provides MCPS the same level of County support as the level recommended by the County Executive in March, plus a total of \$3.2 million from the Reconciliation List (\$1.2 million for the OPEB NDA and \$2.0 million for the Technology Modernization project).

- To reflect the **continuation of County funds** to support current and future MCPS retiree health benefits (OPEB), the Council's approved FY15-20 Fiscal Plan will reflect the addition of \$27.2 million in OPEB funding on MCPS' behalf for FY16 and beyond.
- This recommendation relies on **fund balances** from both the MCPS general fund balance and from excess retiree health benefits reserves. Both the Board of Education and the County Executive also relied on the general fund balance in their budgets. This recommendation only increases the Board's assumption by \$11.2 million for the general fund balance (also recommended by the County Executive), and by \$13.3 million related to the retiree health benefit fund reserve. As the above table illustrates, the only fund balance resource that this recommendation adds to the County Executive's submission is the \$13.3 million savings achieved in retiree health benefit reserves.
- **The Board's future annual needs** to address enrollment growth, negotiated agreements, and new strategic investments will need to be addressed, as they always are, through the regular budget process. This plan neither anticipates nor precludes that future consideration.

### **Technology Modernization**

For the FY15-16 funding in the Technology Modernization project, Council President Rice recommends that the Council follow the same approach that it did in the FY13-18 CIP, when the Board had requested an increase to Tech Mod and the Executive had recommended level funding. The Council added new funding above the approved level toward the Board's request and also assumed that for FY13 and FY14, the E-rate funding could be added to the approved level to get closer to the Board's requested funding level.

**Council President Rice recommends that \$2.0 million be placed on the Reconciliation List for FY15 in the Technology Modernization project, and that FY16 also reflect an increase of \$2.0 million.** For E-rate funding, MCPS currently projects that \$2.0 million will be available in FY15 and \$1.9 million each year in FY16-20. **Combining new County dollars with the projected E-rate funds in FY15-16 fully addresses the Board's requested increase for this project.**

As before, the additive E-rate approach will be recommended for FY15-16 only at this time, and can be re-evaluated in the FY17-22 CIP discussion.

**In sum, Council President Rice's recommendation fully funds both the Board of Education's Operating Budget request and its Technology Modernization request in FY15. The recommendation also adds \$27.2 million in ongoing support on MCPS' behalf in the FY15-20 Fiscal Plan. By making judicious use of both new County resources and available reserves, this funding approach achieves multiple goals.**

**The following steps, taken together, will achieve Council President Rice's recommendation for the FY15 MCPS Operating Budget:**

- 1. Reduce the Board's FY15 proposed allocation to MCPS' Retired Employees Group Insurance Fund by \$13.3 million and instead draw down the fund balance by that amount.** This is possible because the fund balance is projected to be \$18.5 million (22.6%) at the end of FY14. By contrast, MCPS' Active Employees Group Insurance Fund balance is projected to be \$17.9 million (6.4%) at the end of FY14.<sup>1</sup> Drawing down the fund balance of the Retired Employees Group Insurance Fund by \$13.3 million would still leave a fund balance of 6.4% at the start of FY15, maintaining an ample buffer for unanticipated expenditures during the year. (The Council's recommended target for agency group insurance fund balances is 5%.)
- 2. Use \$27.2 million from the MCPS OPEB Trust to fund a portion of MCPS' projected FY15 contribution to pay-as-you-go retiree health costs (\$48.9 million).<sup>2</sup>** The combined impact of steps 1 and 2 would be to reduce MCPS' Category 12 appropriation by \$40.5 million. MCPS can reallocate this amount to other categories for educational purposes.
- 3. Increase the FY15 County contribution to the MCPS Consolidated Retiree Health Benefit Trust NDA (\$58.3 million) by \$27.2 million to hold overall MCPS OPEB funding harmless.** Since this funding is in County Government, not MCPS, it does not affect MOE. This action requires shifting to the NDA the \$26.0 million that the Executive allocated to MCPS above MOE and an additional \$1.2 million from the Council's Reconciliation List. The FY15-20 Fiscal Plan will reflect the continuation of County funding on MCPS' behalf for retiree health benefits by including an additional \$27.2 million in MCPS OPEB funding for FY16 and beyond.

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<sup>1</sup> In FY14 the Board drew down the Active Employees Group Insurance fund balance by approximately \$12 million to cover MCPS budget needs. For FY15 the Board plans to draw down \$3.5 million more from this fund's balance.

<sup>2</sup> The MCPS OPEB Trust had \$43.0 million as of June 30, 2013. It received funding until FY12, when the Council placed MCPS OPEB pre-funding instead in the new MCPS Consolidated Retiree Health Benefits Trust Non-Departmental Account (NDA) in County Government. This NDA had \$80.0 million in County contributions as of June 30, 2013. The FY14 County contribution is an additional \$83.7 million. The FY15 County contribution is scheduled to add \$58.3 million more.