

ED COMMITTEE #1, 2, & 3
April 29, 2015
Worksession

MEMORANDUM

April 27, 2015

TO: Education Committee

FROM: Essie McGuire, Senior Legislative Analyst 

SUBJECT: **Worksession:**

- **FY16 Operating Budget, Montgomery County Public Schools, *continued*, and**
- **Special Appropriation, FY15 Operating Budget, MCPS, \$633,145 for Comprehensive Assessment Systems Solution Project (MSDE Grant) *and***
- **Special Appropriation, FY15 Operating Budget, MCPS, \$4,787,121 for the Quality Teacher Incentive Program (MSDE Grant)**

Today the Education Committee will continue its review of the FY16 Operating Budget for the Montgomery County Public Schools (MCPS); review a Special Appropriation to the MCPS FY15 Operating Budget, \$633,145 for the Comprehensive Assessment Systems Solution Project; and review a Special Appropriation to the MCPS FY15 Operating Budget, \$4,787,121 for the Quality Teacher Incentive Program. The source of funds for both of the special appropriations is a grant from the Maryland State Department of Education (MSDE).

The following individuals are expected to participate in today's worksession:

- Patricia O'Neill, President, Board of Education
- Michael Durso, Vice President, Board of Education
- Larry Bowers, Interim Superintendent
- Andrew Zuckerman, Acting Chief Operating Officer, MCPS
- Sherwin Collette, Chief Technology Officer, MCPS
- Thomas Klausung, Director of Management, Budget, and Planning, MCPS

The Education Committee began its review of the FY16 Operating Budget for MCPS on April 20. The Committee discussed major budget elements of the Board of Education's request and the County Executive's recommendation; revenue issues, including fund balance and State Aid; and staffing allocations for FY16 and in recent fiscal years.

Today the Committee will focus on compensation and employee health and retirement benefits; review the technology modernization project; and make its final FY16 funding recommendations. This packet contains the following sections: I. Technology Modernization; II. Compensation and Benefits; and III. Summary of Fiscal Assumptions for the MCPS FY16 Operating Budget.

I. TECHNOLOGY MODERNIZATION

MSDE Grant for the Comprehensive Assessment System Solutions Project

On February 10, the Board of Education requested an appropriation of \$633,145 for a grant from MSDE (transmittal attached on circles 3-6). The Council introduced an appropriation resolution (attached on circles 1-2) on April 14, and held a public hearing on April 21. There were no speakers at the hearing.

The grant funds are from the Race to the Top program for a Comprehensive Assessment System Solutions Project (CASSP). As the Board's transmittal memorandum states, MCPS currently uses two technology platforms for digital curriculum and formative assessment data. The *myMCPS* portal allows school and office based staff to access curriculum resources and assessments for use in classrooms. The school system also uses Scantron's Achievement Series, although this format cannot administer all assessments.

The grant will allow MCPS to develop one comprehensive assessment solution with one integrated online platform. This effort will also increase data collection and assessment capacity and is intended to expand stakeholder access to the school system's digital curriculum. Funds are for consultant services. **Council staff recommends approval of the special appropriation for MSDE grant funds as requested.**

Technology Modernization CIP Project

During the full review of the FY15-20 CIP last year, the Board of Education requested an increase in the Technology Modernization project of approximately \$4 million each year in FY15 and FY16. The Executive recommended level funding across the six-year period. E-rate Federal reimbursement funding is another resource for the Technology Modernization project that is appropriated each year by the Council as a supplemental appropriation once the funding amount is more certain.

The Council approved an increase of \$2 million in FY15 and programmed an increase of \$1 million in FY16. The Council also recommended that the E-rate funds be added to the approved level to get closer to the Board's requested funding level. The Council specified that its intent for the additive E-rate approach was for FY15-16 only, and would be re-evaluated in the FY17-22 CIP discussion. The current approved PDF is on circle 7.

On April 27, the Board of Education is scheduled to request an appropriation for the FY15 E-rate reimbursement funds. MCPS reports that the FY15 reimbursement amount will be \$1.9 million. This appropriation request will be added to the Council's calendar for introduction and public hearing when it is received.

The FY16 approved CIP funding level is \$23.538 million. MCPS projects that \$1.9 million of E-rate reimbursement funds will be available in FY16; this amount would bring the total FY16 resources

to \$25.4 million, which is \$920,000 less than the Board's original request for FY16. **Council staff recommends that the Council appropriate the approved level of FY16 funding and continue the assumption to add the FY16 E-rate funds to the approved funding level.** Again, this additive approach will be reconsidered when the full FY17-22 CIP is reviewed next year. **Council staff also recommends that the Council approve the FY15 E-rate supplemental when it is received** and add the amount to the current year funding in Technology Modernization, again consistent with the Council's policy intent last spring.

II. EMPLOYEE COMPENSATION AND BENEFITS

MSDE Grant for the Quality Teacher Incentive Program

On March 30, the Board of Education requested a special appropriation for \$4,787,121 for a grant from MSDE. This grant supports the Quality Teacher Incentive Program. The Board’s transmittal begins at circle 10, and a draft appropriation resolution is attached at circles 8-9. The Council introduced this appropriation on April 28, and is scheduled to hold a public hearing on May 12.

This program provides stipends to teachers in two categories: 1) teachers who hold National Board for Professional Teaching Standards (NBPTS) certification; and 2) teachers who hold an Advanced Professional Certificate (APC) and are teaching in a “comprehensive needs” school.

MCPS has received funds from this State program since 2000. While the funds for this program have increased each year, the FY15 amount of \$4.8 million is a significant increase from the FY14 amount of \$1.6 million. The increase is due to a larger number of teachers being eligible to receive stipends following the State’s revised methodology for identifying a “comprehensive needs” school. **Council staff recommends approval of the special appropriation for the grant funds as requested.**

Compensation

A total net increase of \$59.5 million in the Board’s FY16 budget request is attributed to continuing and negotiated salaries for current employees. Last year, the Board of Education entered into three-year agreements with its employee bargaining units to provide general wage adjustments and service increments in School Years 2015 through 2017. The table below shows the major pay adjustments approved by the Board for FY16.

Employee Group	General Wage Adjustment (effective 10/3/15)	Service Increment (effective 10/3/15)	Other
MCEA	2.0%	1.5%-3.7%	<ul style="list-style-type: none"> • Longevity increments for eligible employees.
MCAAP		2.9%	
SEIU		1.6%-5.2%	

The FY16 cost of the GWA is approximately \$28.4 million, and the FY16 cost of the service and longevity increases is approximately \$26.9 million.

Pension Fund

MCPS makes an annual contribution to its pension fund to pay for the cost of: (1) the “core” pension benefit offered employees who do not participate in the State-run pension plan; and (2) the “supplemental” benefit for all permanent employees. The amount of the annual contribution is determined by the Board based on an actuarial assessment of plan assets and liabilities.

For FY16, the Board budgeted a total of \$86.7 million for this annual contribution, a \$3.8 million (or 4.2%) increase above the FY15 contribution. Approximately 65% of this cost (\$56.2 million) is attributed to the supplemental pension benefit for all employees. These contributions to the local pension fund are in addition to the contribution the County must make to the State's pension fund, \$44.4 million in FY16.

Rating agencies consider a pension fund's "funded ratio" (among other factors) in determining the bond ratings for local governments. The term "funded ratio" refers to the percentage of the plan's liabilities covered by the current actuarial value of the plan's assets. At the start of FY03, the MCPS pension fund held assets that were greater than its liabilities, that is, the funding ratio exceeded 100%. By FY10, the MCPS pension funded ratio had dropped to below 70%. Two primary factors contributed to the sharp decline. First, in 2006, the Board of Education approved two pension plan enhancements that significantly raised the plan's unfunded liability. Second, the MCPS pension fund incurred a combined investment loss of more than \$265 million during FY08 and FY09.

The MCPS pension fund experienced slow improvement in recent years. As of the July 1, 2014, the pension fund had a funded ratio of 75.6%, compared to the 69.0% funded ratio of the previous year.¹ As with most pension funds, the recent improvement in the MCPS funded ratio is a function of recent strong investment returns. At present, the MCPS pension fund holds 75.6 cents of assets for every dollar of liability. Notwithstanding the recent improvement, the current MCPS pension funded ratio is significantly lower than that of any other County or bi-County agency. For example, the current funded ratio for the County Government pension is 84.2%.²

In January 2014, the Board approved a resolution to set the annual contribution to the pension fund at a level consistent with achieving an 80% funded ratio³ by the end of FY18. The Board's FY16 budgeted contribution of \$86.7 million to its pension fund is consistent with this policy decision.

In a March 31 letter to the Council President (circles 13-22), Board President O'Neill characterized the January 2014 pension funding policy as "prudent to ensure the funding of the plan is adequate to provide for the plan's liabilities." The letter further states that – as a result of favorable

¹ The funded ratios cited in this section are calculated based on the "actuarial value of assets (AVA)." The AVA method is a mathematical calculation that measures asset value by considering the long-term performance of fund investments to smooth out annual variations. Beginning with pension plan valuations conducted last year, new accounting standards are in effect regarding the measurement of fund assets and liabilities. Governmental Accounting Standards Board (GASB) Statements #67 and #68 calls for reporting of assets by on the "market value of assets (MVA)." The MVA method values a fund's assets based on the amount of money the fund would receive if it sold all its investments. Given recent rapid growth in stock and other investment values, current MVA-based funded ratio calculations exceed those resulting from an AVA-based calculation. However, the MVA method produces funded ratios that are highly sensitive to fluctuations in the investment market. A downturn in investment rates of return would cause greater declines in MVA-based funded ratios than in AVA-based calculations.

² The current County Government pension funded ratio based on the MVA method is 92.3% compared to the MCPS MVA-based funded ratio of 81.5%.

³ The Board policy references the AVA method of valuing assets.

investment returns – the MCPS pension fund is on pace to achieve the 80% funded ratio goal in FY16. **The Board President notes that the improved status of the pension fund coupled with concerns about overall MCPS funding levels may prompt the Board to reduce the FY16 pension contribution by \$10 million.** As stated by Ms. O’Neill (circle 14):

“The decision to continue to build the pension fund to 80 percent was made with the expectation and hope that the economic situation in the county, and therefore budget funding, would improve. However, if significant reductions to our budget are necessary as a result of Council’s need to reduce the budget below what has been requested by the Board, I would expect that the Board would reduce the contribution amount in FY2016 to the amount required by the actuarial study. This would result in a budgetary savings of \$10 million and would delay the achievement of the 80 percent funding goal.”

Given the tight fiscal constraints of this year’s budget, Council staff understands the Board’s motivation to reduce this pension fund contribution rather than programmatic elements. However, this approach is at best a one-time option as the Board soon will need to close the gap between pension fund assets and liabilities. Reduction of the budgeted contribution in FY16 will increase future year costs and will absorb future resources that otherwise could go to expanding programmatic and instructional priorities.

Adequate funding of pension obligations is necessary for the sake of protecting the County’s credit-worthiness as well as to assure that sufficient resources have been set aside to pay current and retired MCPS employees for a benefit they have already earned. **At this juncture it may be important to examine how structural benefit changes could reduce future year pension contributions. The Committee may want to ask the Office of Legislative Oversight (OLO) to review the structural issues of the MCPS pension fund and benefits and identify options to make the retirement benefit more fiscally sustainable.**

Health Benefits for Active and Retired Employees, and Other Post Employment Benefits (OPEB)

MCPS maintains separate fund accounts for active and retired employees.

For active employees:

- MCPS ended FY14 with a \$15.0 million fund balance in its group insurance fund for active employees; this amount is 5.3% of expenditures.
- MCPS currently projects an FY15 year-end fund balance deficit of \$1.2 million due to higher than anticipated claims expenditures.
- MCPS’ approved FY15 budget reduced the employer contribution to the fund by \$3.5 million in order to draw down the fund balance.
- The Board’s FY16 budget request reflects the second year of a negotiated change in group insurance cost share for active employees phased in over FY15 and FY16. Effective January 1, 2016 all MCPS employees will pay an additional 4% of the group insurance premium cost. For HMO medical plans, employees will pay 12% of the premium (up from 8% in FY15 and 5% in FY14), and for POS medical plans, prescription plans, dental plans, and vision plans employees

will pay 17% of the premium (up from 13% in FY15 and 10% in FY14). Also effective on January 1, 2016, MCPS employees will be able to earn cost share credits of 1% each for completing Health Risk Assessments and having required Biometric Screenings, and employees (or their covered spouses) who are smokers will pay an additional 3%.

- In total, MCPS estimates \$13.5 million in savings from the cost share changes in FY16 – an increase over the estimated \$5 million in savings in FY15.

For retired employees:

- MCPS ended FY14 with a \$14.1 million fund balance in its group insurance fund for retired employees; this amount is 16.2% of expenditures.
- MCPS currently projects an FY15 year-end fund balance deficit of \$2.2 million due to higher than anticipated claims expenditures.
- In FY15, the Council reduced MCPS’ tax-supported retiree health pay-as-you go funding by \$27.2 million, MCPS used its internal OPEB Trust to fund that portion of pay-as-you-go expenditures, and the Council added \$27.2 million to MCPS’ portion of the Consolidated OPEB Trust. The Council and MCPS also agreed to use \$13.3 million in retiree group insurance fund balance to pay for FY15 costs.
- The FY16 budget recommendations for MCPS retiree pay-as-you-go group insurance costs and OPEB pre-funding are described below:

MCPS pay-as-you-go: In FY16, the Board of Education proposes \$54.8 million in total retiree pay-as-you-go funding through a combination of drawing down the remaining balance in the MCPS internal OPEB Trust, tax-supported County funding, and using funds from MCPS’ portion of the Consolidated OPEB Trust as shown in the table below. The Executive’s budget does not include any tax-supported County funding for MCPS pay-as-you-go expenditures in FY16, and instead recommends using \$27.2 million from the Consolidated OPEB Trust. Under the Executive’s proposal MCPS would have \$51.2 million in total retiree pay-as-you-go funding, with the entire amount from the MCPS internal OPEB Trust and the Consolidated OPEB Trust. Unlike the Council’s action in FY15, the Executive’s proposed budget does not replace the expenditures from either Trust.

MCPS FY16 Retiree Pay-As-You-Go Funding: Board Request and CE Recommendation

Board of Education’s Request		Under CE’s Proposal	
• MCPS OPEB Trust	\$24.0 million	• BOE rec. MCPS OPEB Trust	\$24.0 million
• County funding	\$27.3 million	• CE rec. County funding	\$0
• Consolidated OPEB Trust	\$3.5 million	• CE rec. Consolidated OPEB Trust	\$27.2 million
Total Pay-As-You-Go Funding:	\$54.8 million	Total Pay-As-You-go Funding:	\$51.2 million

MCPS OPEB Pre-Funding: While the Executive’s recommended budget proposes to fully fund MCPS’ OPEB pre-funding requirement of \$61.7 million, it also proposes to use \$51.2 million in OPEB Trust assets (\$24.0 million from MCPS’ internal OPEB Trust and \$27.2 million from MCPS’ portion of the Consolidated OPEB Trust) to pay current year claims. As a result, the net effect of the Executive’s proposal is to increase MCPS’ OPEB Trust balance (excluding any investment earnings) by \$10.5 million in FY16 instead of \$61.7 million.

The Council's actuarial adviser, Bolton Partners, notes that other jurisdictions have taken this approach – for example, Baltimore, Calvert, and Howard Counties in Maryland – but that it should be used sparingly. Bolton Partners also notes that this action will likely: 1) decrease MCPS' projected FY16 OPEB funded ratio; and 2) increase MCPS' required pre-funding amount in FY17 and beyond to make up for the net reduction in FY16 contributions.

Employee Benefit Funds and Supplemental Appropriation Request

As noted above, the school system currently projects an FY15 deficit in the Employee Benefits Fund of \$3.4 million, of which \$1.2 million is associated with claims for active employees and \$2.2 million is associated with claims for retired employees.

On March 30, the Board of Education approved a request for an FY15 supplemental appropriation of \$3.5 million in new County dollars to pay health benefit expenditures in FY15, offsetting the projected deficit and leaving a small reserve balance of \$100,000. The Board's transmittal memorandum is attached on circles 23-25.

MCPS identifies an increase in health claims, including a number of particularly large claims, as the primary reason for this projected deficit. MCPS has been experiencing increased health claims costs since last year, when the actual FY14 year-end fund balance ended lower than had been projected during FY15 budget discussions. Council staff understands that County Government has experienced similar increases in health claims. In addition, the Council's FY15 action to draw down the FY14 fund balance further than the Board's budget had anticipated (as detailed above) left a lower balance in the fund to cover these unanticipated cost increases.

Council staff does not recommend approval of an FY15 supplemental appropriation of new County dollars to address this deficit. The school system has at this time a projected FY15 year-end fund balance of \$35 million and thus has sufficient appropriation in the current fiscal year to allocate to this purpose if the Board so directs. Council staff recommends this approach over new County dollars for two reasons. First, there are other anticipated needs for current year supplemental funding that will be before the Council shortly, most notably the supplemental for snow and other emergency weather expenses that exceeded budget levels. Second, any new County dollars appropriated to the school system would increase the Maintenance of Effort level in FY15 and the calculation for FY16. This is unnecessary given the fund balance available to the school system in FY15.

How the Board ultimately addresses the employee benefit fund deficit may affect available funding in FY16, however. For example, if \$3.5 million of the current fund balance projection was allocated to the Employee Benefit Fund in FY15, there would be less fund balance available to assume as a resource for FY16.

In the FY16 budget, the Board budgeted \$243.4 million for the annual contribution to the active employees benefit fund (this amount includes \$4.1 million identified by MCPS as needed for a small reserve in FY16). The Executive's recommendation would make \$51.2 million available from OPEB

pre-funding to contribute for annual costs in the retiree benefit fund. Together, the Employee Benefit Funds will have available \$294.6 million beginning in FY16 to address current year costs.

At this time the MCPS year-end projection for the general fund balance is \$1.8 million above the amount that the Board and Executive have assumed for the FY16 appropriation. The school system typically ends the fiscal year with general fund balance above the spring projections. Last year, for example, when the Council appropriated all of the fund balance that was projected in March (\$38.2 million), the school system ended FY15 with \$1.2 million to carry over.

Council staff recommends the following:

- Assume the same level of general fund balance as a resource for FY16 as the Board and Executive (\$33.2 million);
- The Board would have the ability (through year-end categorical transfers if necessary) to allocate any remaining FY15 fund balance above this appropriation amount to the Employee Benefit Funds; and
- Going forward into FY16 the Board will need to build an approach to growing the employee benefit fund balance into its revenue and rate assumptions for active and retiree health benefits.

III. SUMMARY OF FISCAL ASSUMPTIONS FOR MCPS BUDGET

There is an \$84.7 million gap between the Board of Education's FY16 request and the County Executive's recommendation. Council staff outlines below the primary resource recommendations for the FY16 MCPS Operating Budget. Some of these assumptions provide additional resources for the school system to allocate toward instructional purposes and therefore reduce the amount of the Board's request that is not addressed.

- **County contribution at MOE:** Council staff concurs with the Executive's recommended funding level for new County dollars at the MOE level of \$1.463 billion.
- **Fund balance:** Council staff recommends the Council appropriate \$33.2 million in fund balance for FY16, the same level as the Board and Executive assumed. Council staff recommends that the appropriation resolution repeat the language included last year clarifying that the fund balance appropriation is up to the limits of the fund balance capped at \$33.2 million.
- **State Aid:** The Council can assume an additional \$7,764,591 in the Foundation component of State Aid above the Board and Executive assumptions. This appropriation element can be changed if additional information is available on the GCEI funding before Council action.
- **OPEB funding:** The Executive's recommendation to use \$27.2 million of OPEB trust funding for FY16 retiree health costs allows MCPS to reallocate up to this amount from Category 12 to other instructional purposes.
- **Pension Fund contribution:** If the Board takes the action indicated in Mrs. O'Neill's March 31 letter to reduce the pension fund contribution by \$10 million from the budgeted level, this would allow MCPS to reallocate \$10 million from Category 12 to other instructional purposes.

In total, these actions provide MCPS with up to \$45.0 million in spending ability to allocate towards the Board's original request. These actions leave approximately \$39.7 million below the requested funding level that the Board will have to address.

Resolution No.: _____
Introduced: _____
Adopted: _____

**COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND**

By: County Council

SUBJECT: Special Appropriation to the FY15 Operating Budget,
Montgomery County Public Schools,
Comprehensive Assessment System Solutions Project, \$633,145
Source of Funds: Maryland State Department of Education

Background

1. Section 5-105 (d) of the Education Article of the Annotated Code of Maryland provides for the expenditure of non-local funds by the County Board of Education after adoption of the budget, only with the approval of the County fiscal authority.
2. Section 308 of the County Charter provides that a special appropriation is an appropriation which states that it is necessary to meet an unforeseen disaster or other emergency, or to act without delay in the public interest. Each special appropriation shall be approved by not less than six Councilmembers. The Council may approve a special appropriation at any time after public notice by news release. Each special appropriation shall specify the source of funds to finance it.
3. On February 10, the Board of Education requested a special appropriation for the Montgomery County Public Schools' FY16 Operating Budget as follows:

<u>Amount</u>	<u>Category</u>	<u>Source of Funds</u>
\$633,145	Cat 1, Administration	MSDE grant

4. The Maryland State Department of Education (MSDE) awarded Montgomery County Public Schools this grant for the Race to the Top Comprehensive Assessment System Solutions Project. This project will enable MCPS to create a single assessment platform and integrate the two platforms currently used to create, store, disseminate, administer, collect, and display formative assessment items and data. It will also facilitate the transition to an online assessment platform for use by all relevant stakeholders.
5. Notice of public hearing was given and public hearing was held.

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

Action

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

A special appropriation for the FY15 Operating Budget of the Montgomery County Public Schools is approved as follows:

<u>Amount</u>	<u>Category</u>	<u>Source of Funds</u>
\$633,145	Cat 1, Administration	MSDE grant

This is a correct copy of Council action.

Linda M. Lauer, Clerk of the Council

ACTION

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

February 10, 2015

MEMORANDUM

To: Members of the Board of Education

From: Joshna P. Starr, Superintendent of Schools 

Subject: Recommended Fiscal Year 2015 Supplemental Appropriation for the Comprehensive Assessment System Solutions Project

Recommendation in Brief

Authorization is requested to receive and expend, subject to County Council approval, a Fiscal Year 2015 supplemental appropriation of \$633,145 from the Maryland State Department of Education (MSDE) for the Comprehensive Assessment System Solutions Project (CASSP).

Background

MSDE has awarded Montgomery County Public Schools (MCPS) \$633,145 for the Race to the Top CASSP project. Currently, MCPS uses two platforms to create, store, disseminate, administer, collect, and display formative assessment items and data. These platforms are the MCPS developed portal, *myMCPS*, and Scantron's *Achievement Series*. The *myMCPS* portal houses our online digital curriculum and analytical system that provides key data reports for teachers, principals, and central office administrators. Both school-based and central office staff use the *myMCPS* portal to access curriculum, instructional resources, learning activities, and assessment items to be used in classrooms. The next phase of work extends the portal for use by students and parents. Despite its robust framework and reporting capabilities, not all assessments are administered using the scanning-based format through *Achievement Series*.

This project will enable MCPS to create a comprehensive assessment solution. This single, coherent assessment platform will facilitate the transition to an online assessment platform by seamlessly integrating the web-based version of the *Achievement Series* platform.

Support of Board of Education Mission

The focus of this project is concentrated on six areas: (1) integration of systems; (2) import/export of items; (3) expansion of item types; (4) improved data capture and online scoring of item types;

(5) the import/export of data on items to other systems; and (6) expanded reporting of item data. A brief description of each follows.

1. *Integration of Systems:* MCPS has been developing and expanding the functionality of the *myMCPS* portal, an online community forum that serves as a “one-stop-shop” for staff. As part of this project, the formative assessment platforms will be integrated with this portal to provide a seamless experience for parents, students, and teachers to create, access, take, and review data on formative assessment items tied to the curriculum, and modeled after Partnership for Assessment of Readiness for College and Careers (PARCC)-like experiences.
2. *Import/Export of Items:* Currently, MCPS has two large applications that house item banks and assessment resources: *myMCPS* and *Achievement Series*. Through this project, these platforms will be integrated to allow for the seamless transfer of items from one system to another. Further, as MSDE continues to grow item banks through projects like Formative Assessment for Maryland Educators, MCPS will be positioned to share and receive items to and from other resource applications, like MSDEs Blackboard site. One product of this project will be an expansive meta-data taxonomy for cataloging assessment items that can be shared with MSDE and other local education agencies, as well as help with the transfer of items across districts and with the state.
3. *Expansion of Item Types:* The Scantron *Achievement Series* platform currently offers item types including: true/false, multiple choice, multiple response, short response, gridded response, and extended response items. With the implementation of PARCC assessments, additional item types that assess depth of student understanding in a variety of ways is imperative. Therefore, an outcome of this project is to expand the kinds of items teachers are able to create in *Achievement Series*. These item types will reflect PARCC-like tasks, including drag and drop, matching, hot-spots, multi-part interactive graphing, data manipulation, or student responses. The ability to create and administer more complex item types is critical to the ongoing teaching and learning program, and will help teachers align instruction and formative assessment practices to state standards as expected in the Common Core State Standards (CCSS) and tested through the PARCC assessments.
4. *Improved Data Capture and Online Scoring of Item Types:* As MCPS moves to more online instruction and assessment, the ability to capture student work and score that work is critical. In addition, as item type complexity increases, the ability to capture student work and the artifacts created in completing complex tasks is essential to assess student understanding. For example, when we ask students to compare perimeter and area relationships, it is helpful to see the different diagrams they may draw on paper. One important goal of this project is to develop the capacity to scan, upload, or capture the student artifacts and work related to a given task. This could be the drawings, written responses, or written algorithms and diagrams for any given item. The ability to see the student work related to a given learning goal will help teachers score that work online,

and will also allow us to create an item bank of student responses linked to a given indicator. This bank of responses will become available to teachers so they may work on standard setting, common scoring practices, interpretation of student work, and benchmarking practices across teachers in the district and beyond.

5. *Import/Export of Data on Items to Other Systems:* MCPS currently exports data out of *Achievement Series* and into the data warehouse. However, with additional item types being incorporated, the current data transfer and handling infrastructure will need to be enhanced. New automated data extraction, transformation, and loading processes and data tables will need to be created. In addition, with increased power of assessment in *Achievement Series*, work will be undertaken to design and integrate the data bridge to the teacher's grade book, Pinnacle, to both integrate and provide a direct view of overall student performance from the grade book. Recognizing that teachers will want to select which assessment data transfers to the grade book and which data sets are for formative purposes only, the integration with the teacher grade book must allow for teachers to choose what is transferred to student grades and what is not. This import/export integration is an outcome of this project.
6. *Expanded Reporting of Item Data:* This project will create direct automated interfacing between *Achievement Series* and the *myMCPS* portal and expand the reporting capabilities to include more dynamic views of student progress and performance. Expanded views include student growth over time on a given indicator or standard; districtwide summaries of students' performance at the district, school, individual, and teacher level; comparison reports that allow for benchmarking across schools and with the district; and other views that will be identified as we work with different stakeholder groups this coming school year. These interactive, data dashboards will be user-friendly, available to appropriate audiences (honoring permissions to see or not see student level data), and will update nightly to provide timely information in order to inform instructional decision-making.

Relationship to Ongoing Program

MCPS' expanding digital CCSS curriculum and our dynamic computing infrastructure are enabling timely access to content and instructional activities that require students to think critically, solve complex problems, work collaboratively, and communicate effectively. This project will provide for the development of an integrated, online assessment platform that is aligned with the district's ongoing work to operationalize the Strategic Technology Plan. The plan was first presented to the Board of Education on May 30, 2013. The technology plan's action steps facilitate greater access to the school system's expanding digital curriculum and envision a supportive, online automated assessment platform. This platform will enable our instructional staff to more efficiently assess student learning and customize learning options for students. The integrated assessment platform and evolving mobile learning environments strengthen teachers' efforts to provide differentiated learning and flexible formative and performance-based assessments.

Evaluation

The evaluation of the integrated online assessment platform will consist of a multi-layered evaluation of usability, assessment team analysis, and accessibility. This will include partnering with Gartner (a leading technology research firm) to design a usability survey to gather user feedback on the ease of assessment administration and scoring, the effectiveness of automated interfaces, and the quality of reporting. In addition, research staff in the Office of Shared Accountability will support the development of frameworks for evaluating the rigor and alignment of the assessment tasks with the MCPS curriculum. This analysis will be used with central services staff, teachers, and administrators to study formative assessment items in our growing repository. All feedback and evaluation results will be used to inform the success of the project and future enhancements.

Use of Funds

Funds will be used to provide for consultant services to assist with developing a methodology for importing assessment content into the grade book, to develop the integrations with MCPS systems, assessment types, reports, and federated services, to develop the assessment taxonomy and the content repository for MCPS assessments, and for the development of the Federated services to bring in content from outside sources.

Recommended Resolution

Resolved, That the superintendent of schools be authorized to receive and expend, subject to County Council approval, a Fiscal Year 2015 supplemental appropriation of \$633,145 for the Comprehensive Assessment System Solutions Project; and be it further

<u>Category</u>	<u>Amount</u>
1 Administration	\$ 633,145
<u>Total</u>	<u>\$ 633,145</u>

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

Resolved, That the county executive be requested to recommend approval of this resolution to the County Council.

JPS:LAB:TPK:jp

Technology Modernization (P036510)

Category	Montgomery County Public Schools	Date Last Modified	4/21/14
Sub Category	Countywide	Required Adequate Public Facility	No
Administering Agency	Public Schools (AAGE18)	Relocation Impact	None
Planning Area	Countywide	Status	Ongoing

	Total	Thru FY13	Est FY14	Total 6 Years	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	Beyond 6 Yrs
EXPENDITURE SCHEDULE (\$000s)											
Planning, Design and Supervision	294,215	138,949	22,088	133,178	24,758	23,538	21,358	21,998	20,728	20,798	0
Land	0	0	0	0	0	0	0	0	0	0	0
Site Improvements and Utilities	0	0	0	0	0	0	0	0	0	0	0
Construction	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0
Total	294,215	138,949	22,088	133,178	24,758	23,538	21,358	21,998	20,728	20,798	0

	Total	Thru FY13	Est FY14	Total 6 Years	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	Beyond 6 Yrs
FUNDING SCHEDULE (\$000s)											
Current Revenue: General	160,227	37,004	11,920	111,303	9,664	20,959	20,278	20,918	19,789	19,695	0
Current Revenue: Recordation Tax	123,280	91,237	10,168	21,875	15,094	2,579	1,080	1,080	939	1,103	0
Federal Aid	10,708	10,708	0	0	0	0	0	0	0	0	0
Total	294,215	138,949	22,088	133,178	24,758	23,538	21,358	21,998	20,728	20,798	0

APPROPRIATION AND EXPENDITURE DATA (000s)

Appropriation Request	FY 15	24,758
Appropriation Request Est.	FY 16	23,538
Supplemental Appropriation Request		0
Transfer		0
Cumulative Appropriation		164,421
Expenditure / Encumbrances		138,949
Unencumbered Balance		25,472

Date First Appropriation	FY 03
First Cost Estimate	
Current Scope	0
Last FY's Cost Estimate	216,755

Description

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

The funding source for the initiative is anticipated to be Federal e-rate funds. The Federal e-rate funds programmed in this PDF consist of available unspent e-rate balance: \$1.8M in FY 2010, \$1.8M in FY 2011, and \$327K in FY 2012. In addition, MCPS projects future e-rate funding of \$1.6M each year (FY 2010-2012) that may be used to support the payment obligation pending receipt and appropriation. No county funds may be spent for the initiative payment obligation in FY 2010-2012 without prior Council approval.

During the County Council's reconciliation of the amended FY 2011-2016 CIP, the Board of Education's requested FY 2012 appropriation was reduced by \$3.023 million due to a shortfall in Recordation Tax revenue. An FY 2012 supplemental appropriation of \$1.339 million in federal e-rate funds was approved; however, during the County Council action, \$1.339 million in current revenue was removed from this project resulting in no additional dollars for this project in FY 2012. An FY 2013 appropriation was requested to continue the technology modernization project and return to a four-year replacement cycle starting in FY 2013; however, the County Council, in the adopted FY 2013-2018 CIP reduced the request and therefore, the replacement cycle will remain on a five-year schedule. An FY 2013 supplemental appropriation in the amount of \$2.042 million was approved in federal e-rate funds to roll out Promethean interactive technology across all elementary schools and to implement wireless networks across all schools.

An FY 2014 appropriation was approved to continue this project. An FY 2015 appropriation was approved to continue the technology modernization program which will enable MCPS to provide mobile (laptop and tablet) devices in the classrooms. The County Council adopted FY 2015-2020 CIP is approximately \$21 million less than the Board's request over the six year period. However, e-rate funding anticipated for FY 2015 and FY 2016 will bring expenditures in those two years up to the Board's request to begin the new initiative to provide mobile devices for students and teachers in the classroom.

Fiscal Note

A FY2014 supplemental appropriation of \$3,384 million in federal e-rate funds was approved by Council in June 2014.

Coordination

(\$000)	FY 15	FYs 16-20
Salaries and Wages:	1893	9465
Fringe Benefits:	807	4035
Workyears:	20.5	102.5

Resolution No.: _____
Introduced: _____
Adopted: _____

**COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND**

By: County Council

SUBJECT: Special Appropriation to the FY15 Operating Budget,
Montgomery County Public Schools,
Quality Teacher Incentive Program, \$4,787,121
Source of Funds: Maryland State Department of Education

Background

1. Section 5-105 (d) of the Education Article of the Annotated Code of Maryland provides for the expenditure of non-local funds by the County Board of Education after adoption of the budget, only with the approval of the County fiscal authority.
2. Section 308 of the County Charter provides that a special appropriation is an appropriation which states that it is necessary to meet an unforeseen disaster or other emergency, or to act without delay in the public interest. Each special appropriation shall be approved by not less than six Councilmembers. The Council may approve a special appropriation at any time after public notice by news release. Each special appropriation shall specify the source of funds to finance it.
3. On March 30, the Board of Education requested a special appropriation for the Montgomery County Public Schools' FY15 Operating Budget as follows:

<u>Amount</u>	<u>Category</u>	<u>Source of Funds</u>
\$4,787,121	Cat 3, Instructional Salaries	MSDE grant

4. This program provides stipends to teachers in two categories: 1) teachers who hold National Board for Professional Teaching Standards (NBPTS) certification; and 2) teachers who hold an Advanced Professional Certificate (APC) and are teaching in a "comprehensive needs" school. MCPS has received funds from this State program since 2000. There is a significant increase in funding in FY15 due to a larger number of teachers being eligible to receive stipends following the State's revised methodology for identifying a "comprehensive needs" school.
5. Notice of public hearing was given and public hearing was held.

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

Action

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

A special appropriation for the FY15 Operating Budget of the Montgomery County Public Schools is approved as follows:

<u>Amount</u>	<u>Category</u>	<u>Source of Funds</u>
\$4,787,121	Cat 3, Instructional Salaries	MSDE grant

This is a correct copy of Council action.

Linda M. Lauer, Clerk of the Council

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

March 30, 2015

MEMORANDUM

To: Members of the Board of Education

From: Larry A. Bowers, Interim Superintendent of Schools 

Subject: Recommended Fiscal Year 2015 Supplemental Appropriation for the Quality Teacher Incentive Program

Recommendation in Brief

Authorization is requested to receive and expend, subject to County Council approval, a Fiscal Year (FY) 2015 supplemental appropriation of \$4,787,121 from the Maryland State Department of Education (MSDE) for the Quality Teacher Incentive Program.

Background

MSDE has provided \$4,787,121 to Montgomery County Public Schools (MCPS) for the Quality Teacher Incentive Program. The funds will provide stipends to 655 teachers who hold National Board for Professional Teaching Standards (NBPTS) certification and 2,637 Advanced Professional Certificate (APC) holders who currently are teaching in a “comprehensive needs” school.

The grant stipulates that a \$1,000 stipend be provided to educators who hold NBPTS certification. Teachers who received their certification prior to July 1, 2013, will receive \$1,000 while teachers who received their certification after this date will receive a prorated amount depending on the date that certification was issued. Educators with NBPTS certification will receive \$2,000 if they taught at an MSDE-identified “comprehensive needs” school during the 2014–2015 school year. Of the 655 NBPTS teachers, the Office of Human Resources and Development (OHRD) has identified 431 teachers who are eligible to receive a \$1,000 (or prorated amount) stipend, and 224 teachers who are eligible receive a \$2,000 stipend.

In addition, APC holders who currently are teaching in a “comprehensive needs” school are eligible to receive a \$1,500 stipend. Last year, 580 teachers received this stipend. The number of APC teachers receiving stipends this year has increased significantly due to the state’s revised

methodology for identifying “comprehensive needs” schools. Prior to this year, schools were considered by the state to be “comprehensive needs” schools if they were not meeting Adequate Yearly Progress. Under the new methodology, each school receives a School Progress Index (SPI) measured by several indicators—achievement, student growth, and college and career readiness. Depending on its SPI (using data from the 2013–2014 school year), a school then is placed into one of five “strands.” Schools in the lowest two strands (Strand 4 and Strand 5) are considered as not progressing as expected; therefore, they are identified as “comprehensive needs” schools. As a result, the number of MCPS “comprehensive needs” schools has increased from 23 in FY 2014 to 84 in FY 2015.

Support of Board of Education Mission

The *Maryland Quality Teacher Incentive Act* of 1999 contains provisions that were enacted to attract and retain quality teachers. The funding from MSDE and the stipends that will be provided to MCPS educators support the MCPS core value of Excellence as stated in the Strategic Planning Framework, *Building our Future Together*. Workforce excellence achieved by recruiting and retaining the highest quality workforce is fundamental to providing the greatest public education to each and every student.

Relationship to Ongoing Program

MCPS has received funding from MSDE for the Quality Teacher Incentive Program beginning in FY 2000. While MCPS has received increased awards annually, the FY 2015 grant amount of \$4,787,121 has increased significantly from the FY 2014 amount of \$1,648,378. The state’s revised methodology for identifying “comprehensive needs” schools has resulted in more teachers being eligible to receive stipends.

Use of Funds

Funds will be used to provide stipends to 655 MCPS teachers who hold NBPTS certification, and to 2,637 APC holders who currently are teaching in MCPS “comprehensive needs” schools.

Recommended Resolution

WHEREAS, Montgomery County Public Schools has received notification from the Maryland State Department of Education that it will receive \$4,787,121 for the Quality Teacher Incentive Program; and

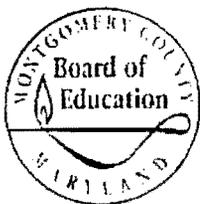
WHEREAS, The Office of Human Resources and Development has identified 655 teachers who hold National Board for Professional Teaching Standards certification, and 2,637 Advanced Professional Certificate holders who currently are teaching in Montgomery County Public Schools “comprehensive needs” schools who will receive stipends; now therefore be it

Resolved, That the interim superintendent of schools be authorized to receive and expend, subject to County Council approval, a Fiscal Year 2015 supplemental appropriation of \$4,787,121 from the Maryland State Department of Education for the Quality Teacher Incentive Program in Category 3, Instructional Salaries; and be it further

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

Resolved, That the county executive be requested to recommend approval of this resolution to the County Council.

LAB:AMZ:TPK:jp



MONTGOMERY COUNTY BOARD OF EDUCATION

850 Hungerford Drive • Rockville, Maryland 20850

March 31, 2015

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

Dear Mr. Leventhal:

As requested in then-Council President Roger Berliner’s memorandum of January 18, 2012, this letter provides the information regarding State Expenditure Category 12. The Board of Education Fiscal Management Committee closely monitors the expenditures in this category as we do with all expenditures. I look forward to working with you, councilmembers, Board of Education members, and the interim superintendent of schools to continue to address the fiscal challenges we face.

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

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

	<u>Amount</u>	<u>Current Percentages</u>	<u>Reported March 2014</u>
FY 2015	\$83.2 million	5.73	5.73
FY 2016	\$86.7 million	5.73	5.73
FY 2017	\$91.2 million	5.73	5.73
FY 2018	\$76.5 million	4.65	5.73
FY 2019	\$76.3 million	4.52	4.72
FY 2020	\$78.0 million	4.51	4.62
FY 2021	\$81.1 million	4.62	

On January 14, 2014, the Board of Education authorized that the contribution rate to the pension fund would not be reduced below Fiscal Year (FY) 2015 levels until the funded status of the plan reached 80 percent on an actuarial value method. This action was prudent to ensure the funding of the plan is adequate to provide for the plan’s liabilities. It also has a positive impact on future contribution rates once the 80 percent funding level is attained as the investment returns provide future budget relief. The impact of the recent investment returns

are reflected in the improvement from the rates projected by the actuaries in 2014. The 80 percent funded goal is projected to be achieved in FY 2016 so that the contribution rate decreases in FY 2018, a year earlier than previously projected.

The decision to continue to build the pension fund to 80 percent funding was made with the expectation and hope that the economic situation in the county, and therefore budget funding, would improve. However, if significant reductions to our budget are necessary as a result of Council's need to reduce the budget below what has been requested by the Board, I would expect that the Board would reduce the contribution amount in FY 2016 to the amount required by the actuarial study. This would result in a budgetary savings of \$10 million and would delay the achievement of the 80 percent funding goal.

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

The calculation of the annual employer contribution is based on actuarial work performed by the Montgomery County Public Schools (MCPS) actuary, AON Hewitt, and submitted to Mrs. Susanne G. DeGraba, chief financial officer, on March 10, 2015 (Enclosure A). The estimate is based on the updated market value of the plan as of January 31, 2015. The actuary's estimate of the percentage of salary that is required to be contributed each year is applied to the anticipated salaries to be paid from the MCPS operating budget. The percentage contribution is based on actuarial assumptions as follows:

- **Salary adjustments:** Aggregate salaries for continuing employees will increase two percent overall during the next three years.
- **Changes in workforce size:** The number of employees will increase by one percent each year, with salaries adjusted to 0.57 percent to reflect the lower salaries paid to new employees.
- **Investment Performance:** MCPS will achieve its actuarial assumed rate of return on its pension fund of 7.5 percent in all future years. Pension fund investment performance is included through January 31, 2015.
- **Plan Modifications:** The pension plan changes effective July 1, 2011, are amortized over a 30-year closed period, the same method used to incorporate the impact of the July 1, 2006, changes.

- **Actuarial Assumptions:** Current assumptions of mortality, age at retirement, marital status, and payment option selected will remain the same. MCPS has asked our actuary to undertake an experience study during 2015, so these assumptions will be reviewed and updated as necessary. MCPS has updated experience studies every three to five years. The last study was completed in 2010.
3. **A written summary of the Board's current strategy to achieve a desired pension funding level ("funded ratio") and the short- and long-term effects of this strategy on the Category 12 budget.**

As described in the letter of April 4, 2012, to then-Council President Roger Berliner from then- Board of Education President Shirley Brandman, and in the letter of March 26, 2013, to then-Council President Nancy Navarro from then-Board of Education President Christopher S. Barclay, the Board of Education Fiscal Management Committee discussed strategies to improve the fund's status in light of the current fiscal environment. A decision was made that it would be appropriate to recommend maintaining the contribution percentage to achieve an 80 percent funding level beginning with the FY 2016 budget. This action was approved by the Board of Education on January 14, 2014.

This strategy will have long-term positive budgetary impacts as the funds contributed in the next few years will continue to contribute investment earnings into the future. These investment earnings will help maintain the funding level of the pension fund and reduce the need to add funds from the operating budget, thereby keeping contribution rates lower.

The investment performance of the fund during the past three years has helped to improve the funded status. I am pleased to report that the improved positioning of the portfolio into index funds, along with an allocation to alternative strategies, the impact of the cash overlay strategy, and the accompanying reduction of investment costs from the passive strategy has enabled investment returns to contribute to improvement of the fund's status.

During FY 2014, the pension fund gained 15.2 percent to end the year at \$1.361 billion. During FY 2015, through January 31, 2015, the financial markets have been volatile and the total fund has struggled to meet its actuarial rate of return. To date, it has not achieved the 7.5 percent. The value of the pension fund is \$1.386 billion as of January 31, 2015.

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

The comparison is enclosed for active employees and retirees (Enclosures B and C, respectively).

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

These figures are based on revenues and expenses as of January 31, 2015.

Active employees

Beginning fund balance	\$14.6 million
Anticipated change to fund balance	<u>(15.8) million</u>
Projected ending fund balance	\$(1.2) million

Retirees

Beginning fund balance	\$14.1 million
Anticipated change to fund balance	<u>(16.3) million</u>
Projected ending fund balance	\$(2.2) million

The active employee fund balance is projected to become negative late in FY 2015 due to increased claims, primarily for prescriptions. The increase in claims, combined with the planned fund balance decrease of \$11.9 million, necessary during difficult budget times, has created a situation where there is no remaining reserve to absorb any unanticipated increases in expenses or decreases in revenue. While a negative fund balance is not prohibited, it does create the potential for a need to request further appropriation authority to ensure claims may be paid by the plan in the last weeks of the fiscal year.

In the current year, prescription costs have exceeded budget, reflecting significant growth in specialty prescription use and cost as well as large prescription drug claims. In particular, plans have seen a large increase in recently released specialty drugs, such as those used for treating hepatitis C, rheumatoid arthritis, and other biologics.

Effective January 1, 2015, employees experienced an increase in their premiums from the previous 5 percent (HMO plans only) and 10 percent (POS, prescription, dental, vision) to 8 percent (HMO) and 13 percent (all other). Effective January 1, 2016, the employee cost share will increase to 12 percent (HMO) and 17 percent (all other) with an ability to reduce this by up to 2 percent by participating in wellness incentives beginning in FY 2016. We also are introducing smoker rates for employees (FY 2015) and their spouses (FY 2016). Smokers will pay an additional 3 percent of the cost of their health care.

The retiree fund balance is projected to decrease by \$16.3 million, causing the fund to become negative by \$2.2 million. Similar to the active employee fund balance, this leaves no margin for unanticipated increases in expenses or decreases in revenues. Retiree prescription coverage was moved to Medicare Part D with a wraparound program for retirees on January 1, 2015. Savings from this program will build during the coming year as the final processing of prescriptions refilled prior to the move to Medicare is completed.

The members of the Board of Education, the interim superintendent of schools, and MCPS staff are prepared to work with the County Council and Council staff to provide additional clarifications as needed.

Sincerely,


Patricia B. O'Neill
President

PBO:lsh

Enclosures

Copy to:

- Members of the Montgomery County Council
- Members of the Board of Education
- Mr. Bowers
- Dr. Zuckerman
- Mrs. DeGraba
- Mr. Ikheloa
- Mr. Klausning



March 10, 2015

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

Re: Six-Year Projection of Board Contributions to MCPS's Pension Plans – Projected Unit Credit

Dear Sue:

We estimated Board contributions to the Montgomery County Public Schools Employees' Retirement and Pension Systems (the "Plan") for the next six years under the investment return/contribution assumptions used for the July 1, 2014 valuation. As a reminder, this assumes the January 31, 2015 assets will earn annually 7.5% gross (before investment expenses are subtracted). The actual contribution percentage will vary and may vary significantly from the results of this projection due to actuarial gains/losses and demographic changes.

The results are summarized in the table below assuming a minimum contribution rate of 5.73% until the plan becomes 80% funded under an actuarial value basis.

Valuation Date	Fiscal Year (FY) Ending	Board Contribution as % of Payroll	% Funded AVA Basis	% Funded MVA Basis
July 1, 2014	June 30, 2016	5.73%	75.63%	81.53%
July 1, 2015	June 30, 2017	5.73%	79.30%	79.54%
July 1, 2016	June 30, 2018	4.65%	81.19%	81.46%
July 1, 2017	June 30, 2019	4.52%	83.85%	83.32%
July 1, 2018	June 30, 2020	4.51%	85.09%	84.38%
July 1, 2019	June 30, 2021	4.62%	85.30%	85.30%
July 1, 2020	June 30, 2022	4.65%	86.22%	86.22%

The district has put in a policy to fund at 5.73% of payroll until the plan is 80% funded. The decrease in the contribution rate as a percentage of payroll after FY 17 through FY 2020 is due to the projection that the plan reaches the 80% funding level on July 1, 2016. In addition to the contribution decreasing due to recognizing prior asset gains, the contribution savings are increasing over time as more and more participants are covered by the new plan features for new hires described in the July 1, 2014 actuarial valuation report.

Note that the above projections do not account for the longevity improvements indicated in the 2014 Society of Actuaries reports. Incorporating those improvements will decrease the funded ratios below 80%.



Ms. Susanne DeGraba
 March 10, 2015
 Page 2

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

Valuation Date	Fiscal Year Ending	Board Contribution as % of Payroll
July 1, 1994	June 30, 1996	2.92
July 1, 1995	June 30, 1997	3.30
July 1, 1996	June 30, 1998	2.83
July 1, 1997	June 30, 1999	2.53
July 1, 1998	June 30, 2000	2.11
July 1, 1999	June 30, 2001	1.98
July 1, 2000	June 30, 2002	1.89
July 1, 2001	June 30, 2003	1.86
July 1, 2002	June 30, 2004	2.06
July 1, 2003	June 30, 2005	2.74
July 1, 2004	June 30, 2006	3.30
July 1, 2005	June 30, 2007	4.85
July 1, 2006	June 30, 2008	4.59
July 1, 2007	June 30, 2009	4.53
July 1, 2008	June 30, 2010	4.53 *
July 1, 2009	June 30, 2011	4.67
July 1, 2010	June 30, 2012	5.12 *
July 1, 2011	June 30, 2013	5.42
July 1, 2012	June 30, 2014	5.74
July 1, 2013	June 30, 2015	5.73
July 1, 2014	June 30, 2016	5.73 **

- * The valuation resulted in a 4.37% Board contribution rate in 2008, but MCPS continued with the same contribution rate as the previous valuation to avoid a larger increase from fiscal year 2010 to fiscal year 2011
- + Beginning with the July 1, 2010 valuation report, the contribution was increased with interest from July 1 to October 1 based on expected timing of the actual contribution. The FY 2012 Board contribution was later revised to 5.12%, as described in Mercer's May 13, 2011 letter, to reflect the Plan changes effective July 1, 2011. Prior to reflecting the Plan changes, the Board contribution would have been 5.57% of pay.
- ** The valuation resulted in a 5.01% board contribution rate in 2014. However, the board set a policy to maintain the previous funding rate of 5.73% until the plan became 80% funded

The last half of the 1990s was characterized by high asset returns, allowing a drop in the Board contributions. The challenging market environment during 2001–2003 caused Board contributions to increase. The Plan amendment associated with House Bill 1737 caused the spike in Board contribution for the fiscal year ending June 30, 2007. All increases in cost sharing from the amendment (i.e. phased increase in employee contributions) were reflected fully in the contribution for the fiscal year ending June 30, 2009. MCPS's favorable returns on assets during 2004–2007 helped to lower contributions in FY 2008 & 2009. It is expected that there will be approximately 13 million of unrecognized asset gains as of July 1, 2015. The district has put in a policy to fund at 5.73% of payroll until the plan is 80% funded. The 80% funding level is projected to be achieved on July 1, 2016 causing a onetime decline in contribution levels.

There has been a great deal of volatility in the contribution rate in the past, and the causes of this volatility will continue into the future. One of the main causes of this volatility is the asset returns the fund generates. To calculate contributions, MCPS uses an actuarial value of assets which smoothes market returns over a 5-year period, but even with this smoothing technique, contributions and funded ratios can be volatile. The following table illustrates a distribution of financial outcomes over the course of a one-year time period including the potential change in the Plan's funded status and the



Ms. Susanne DeGraba
March 10, 2015
Page 3

corresponding impact on the contribution required for the fiscal year ending in 2016 assuming that all actuarial assumptions are met. Please note, the average expected return below is base on average market returns using the board's investment policy, which is lower than the boards long term rate of 7.50% investment return.

Fiscal Year (FY) Ending	Percentile	Expected Return	Board Contribution as % of Payroll	% Funded AVA Basis	% Funded MVA Basis
June 30, 2017	5 th	(1.7%)	5.73%	78.72%	76.64%
June 30, 2017	35 th	4.4%	5.73%	79.10%	78.57%
June 30, 2017	50 th	6.3%	5.73%	79.22%	79.17%
June 30, 2017	65 th	8.2%	5.73%	79.34%	79.77%
June 30, 2017	95 th	14.9%	5.73%	79.74%	81.78%

The following statement can be used to interpret the first row of this chart: there is a 5% chance (or 1 chance in 20) that asset returns will be bad enough to result in a funded status of 78.72% or lower, and a Board contribution of 5.73% of payroll or higher. Similarly, there is a possibility that higher than expected returns will actually decrease the future board contributions needed to fund the Plan. These percentages assume a normal distribution of returns around the mean. There is a school of thought that a normal distribution understates the portion of returns in the tails (i.e. below 10% of above 90%) of the curve. In determining the returns, we did not take into consideration the positive return from July 1, 2014 to the present. The normal distribution of return is based on a short term period of 1 year.

In order to complete this 6 year projection, we used the following methods and assumptions:

- All exits are replaced by new employees based on average new hire demographic information in the July 1, 2014 valuation data.
- The funding method of Projected Unit Credit.
- Total expenses are assumed to be 0.60% of beginning of year market value of assets.
- We amortize unrecognized gains and losses over an open 15-year period.
- For the contribution volatility exhibit, we have relied on portfolio volatility based on Hewitt Ennis Knupp's one-year time horizon projection.
- Unless otherwise noted, we used the same assumptions and Plan provisions as for the 2014 valuation. We assumed there will be no changes to the valuation assumptions or provisions in the future.

Please give us a call if you have any questions.

Sincerely,

Michael Schooley, A.S.A., E.A.

MJS/edr
Enclosure

cc: Thomas G. Vicente

MCPS Employee Benefit Trust Fund
 Schedule of FY 2014 Budgetary Expenditures for the Active Employee Trust Account
 As of June 30, 2015 (Actual Through January 1, 2016)

	FY15 Budget/Projection	YTD actual	Projected Remaining	Total	Variance Fav - (Unfav)
Revenue Receipts:					
County Appropriation	226,247,529	154,213,084	72,034,465	226,247,529	0
Enterprise Funds	9,282,780	4,421,223	4,866,592	9,227,805	-54,975
Capital Projects	1,145,000	477,048	557,297	1,034,343	-110,657
Supported Programs	8,662,213	3,995,886	4,517,378	8,509,264	-152,949
Employee Payments	30,492,397	13,209,202	16,683,360	29,892,562	-599,835
Optional Life	635,000	288,569	321,510	610,079	-24,921
Investment Earnings	21,000	3,292	11,052	14,344	-6,656
Rebate/ Recoveries/Other	5,499,000	2,781,684	2,596,621	5,378,505	-120,495
Total Revenue	281,984,919	179,391,165	101,523,265	280,914,431	(1,070,487)
Expenditures:					
Premiums:					
Prudential Life	3,717,000	2,414,686	1,313,500	3,728,466	(11,486)
Aetna Dental	1,909,800	1,106,405	745,000	1,851,405	58,395
Kaiser Permanent Health Plan	43,120,200	24,000,305	18,589,500	42,589,805	530,395
All Other	7,838,400	4,296,524	3,069,000	7,365,524	472,876
Claims:					
Dental	13,633,800	7,805,239	5,925,100	13,730,339	(96,539)
Health	166,164,200	95,023,057	71,861,100	166,885,057	(720,857)
Prescription	53,353,700	32,954,589	24,136,100	57,090,689	(3,736,989)
Vision	201,700	70,811	119,400	180,211	11,489
Administrative Expenses:	3,030,524	872,759	2,415,165	3,287,923	642,601
Total Expenditures	283,889,324	188,545,574	128,173,055	286,719,439	(2,850,115)
	(11,884,405)	10,845,591	(26,650,599)	(15,805,008)	(3,920,602)

MCPS Employee Benefit Trust Fund
Schedule of FY 2014 Budgetary Expenditures for the Retired Employee Trust Account
As of June 30, 2015 (Actual Through January 31, 2015)

	FY15 Budget/Projection	YTD actual	Projected Remaining	Total	Variance Fav - (Unfav)
Revenue Receipts:					
County Appropriation	8,380,899	8,202,300	178,599	8,380,899	0
Retiree Payments	32,284,482	18,163,626	13,638,587	31,802,213	-482,269
Investment Earnings	-	774	400	1,174	1,174
Rebates/ Recoveries/Other	3,731,600	1,606,801	1,861,103	3,467,904	-263,696
Medicare Part D Reimbursements	7,746,000	3,258,028	3,134,524	6,392,550	-1,353,450
OPEB Shift to Trust Fund	27,200,000	27,200,000	-	27,200,000	0
Total Revenue	79,342,981	58,431,527	18,813,213	77,244,740	(2,098,241)
Expenditures:					
Premiums:					
Prudential Life	3,250,800	1,087,781	1,352,500	3,240,281	10,519
Aetna	418,200	250,419	171,000	421,419	(3,219)
Kaiser Permanente Health Plan	7,538,400	4,553,607	3,169,500	7,723,107	(184,707)
All Other	3,599,400	1,728,077	1,712,500	3,440,577	158,823
Claims:					
Dental	5,299,800	2,926,734	2,241,600	5,168,334	131,466
Health	38,215,400	20,361,218	15,219,800	35,581,018	2,634,382
Prescription	33,735,400	23,080,537	14,583,300	37,863,837	(3,928,437)
Vision	60,200	33,657	24,900	58,557	1,643
Administrative Expenses:					
	421,459	83,518	124,034	207,552	213,907
Total Expenditures	92,539,059	54,905,547	38,599,134	93,504,681	(965,622)
	(13,196,078)	3,525,980	(19,785,922)	(16,259,941)	(3,063,863)

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

March 30, 2015

MEMORANDUM

To: Members of the Board of Education

From: Larry A. Bowers, Interim Superintendent of Schools *Larry A. Bowers*

Subject: Recommended Fiscal Year 2015 Supplemental Appropriation for Montgomery County Public Schools Employees Group Insurance Fund

Recommendation in Brief

Authorization is requested to receive and expend, subject to County Council approval, a Fiscal Year (FY) 2015 supplemental appropriation of \$3,500,000 for employee and retiree health benefits costs in the Montgomery County Public Schools (MCPS) Employees Group Insurance Fund.

Background Information

MCPS provides health benefits to its employees and retirees through the MCPS Employees Group Insurance Fund. Qualifying employees and retirees contribute toward these benefits, which include medical, prescription, dental, and vision coverages.

The MCPS FY 2015 Operating Budget approved by the Montgomery County Council in May 2014 reduced the appropriation for State Category 12, Fixed Charges, by \$13.3 million. Specifically, the County Council reduced the Board's proposed allocation to the MCPS Retired Employees Group Insurance Fund from the MCPS FY 2015 Operating Budget by \$13.3 million and lowered the fund balance by the same amount. The County Council action was based on a projected ending fund balance of \$18.5 million for MCPS retirees based on actual expenditures through January 31, 2014, and expenditures projected through the end of the fiscal year. This information was reported in a letter from Board President Philip Kauffman to Council President Craig Rice dated March 21, 2014.

At the same time, the ending fund balance for active employees in the MCPS Employees Group Insurance Fund was projected to be \$17.9 million for a combined ending fund balance for active and retired employees totaling \$36.4 million. However, based on actual claims experience from

February 2014 through June 2014, the total MCPS Employees Group Insurance Fund ended FY 2014 with a fund balance of \$28.7 million for active employees and retirees, or \$7.7 million less than the amount anticipated in the March 21, 2014, letter to the County Council.

With the actual fund balance of \$28.7 million carried forward into FY 2015, combined with the \$13.3 million of fund balance used to fund FY 2015 current retiree health benefit expenditures, we projected early in FY 2015 a small fund balance, \$2.6 million, for the MCPS Employees Group Insurance Fund by the end of FY 2015. Based on actual claims experience through January 31, 2015, the ending FY 2015 fund balance for the MCPS Employees Group Insurance Fund now is projected to have a deficit of \$3.3 million. Factors contributing to the change in the projected ending fund balance for FY 2015 include a number of particularly large claims, as well as increasing prescription costs for specialty drugs, resulting in higher claims expenditures than previously anticipated.

As a result, supplemental funding is required this fiscal year in Category 12, Fixed Charges, to offset the \$3.3 million deficit projected for the MCPS Employees Group Insurance Fund at the end of FY 2015.

Use of Funds

Funds will be used to pay health benefit expenditures for MCPS active employees and retirees, while also providing for a small reserve level of approximately \$200,000 in fund balance. This reserve amounts to only 0.05 percent of the MCPS Employees Group Insurance Fund.

Recommended Resolution

WHEREAS, The Montgomery County Council reduced the Fiscal Year 2015 appropriation for Category 12, Fixed Charges, by \$13.3 million based on a projected ending fund balance of \$18.5 million for the retired employees portion of the Employees Group Insurance Fund; and

WHEREAS, The ending Fiscal Year 2014 fund balance for the Employees Group Insurance Fund for both active employees and retirees was \$28.7 million, or \$7.7 million less than anticipated earlier in Fiscal Year 2014; and

WHEREAS, The combination of the ending fund balance for Fiscal Year 2014, the reduction of \$13.3 million, and actual claims experience in Fiscal Year 2015 through January 31, 2015, result in a projected deficit of \$3.3 million at the end of Fiscal Year 2015 for the Employees Group Insurance Fund; now therefore be it

Resolved, That the interim superintendent of schools be authorized to receive and expend, subject to County Council approval, a Fiscal Year 2015 supplemental appropriation of \$3,500,000 for Category 12 Fixed Charges, and be it further

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

Resolved, That the county executive be requested to recommend approval of this resolution to the County Council.

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