

ED COMMITTEE #1&2
April 22, 2014
Worksession

MEMORANDUM

April 18, 2013

TO: Education Committee

FROM: Essie McGuire, Senior Legislative Analyst 

SUBJECT: **Worksession – FY15 Operating Budget, Montgomery County Public Schools and Review of the MCPS Monthly Financial Report**

Today the Education Committee will begin its review of the FY15 Operating Budget for the Montgomery County Public Schools (MCPS) and review the most recent MCPS monthly financial report. The following individuals are expected to participate in today's worksession:

- Philip Kauffman, President, Board of Education
- Patricia O'Neill, Vice President, Board of Education
- Joshua Starr, Superintendent
- Larry Bowers, Chief Operating Officer, MCPS
- Thomas Klausung, Director of Management, Budget, and Planning, MCPS

This is the first of three scheduled Education Committee budget worksessions. Today the Committee will review the major components of the Board of Education's FY15 Operating Budget request and on April 28 the Committee is scheduled to complete its work on the Board's FY15-20 Capital Improvements Program (CIP) request. On May 1 the Committee is scheduled to return to follow-up issues on both the operating and capital budgets.

This packet is presented in 5 parts:

- I. Overview:** Board of Education's request, County Executive's recommendation, public testimony
- II. Future Fiscal Impact:** State teacher pension shift, maintenance of effort
- III. Revenues:** local funding, MCPS fund balance, State Aid, Federal Aid
- IV. Expenditures:** funding by category, positions by category, and staff allocation trends
- V. Compensation and Benefits:** FY15 negotiated agreements, health and pension fund information

I. OVERVIEW OF RECOMMENDED BUDGET

BOARD OF EDUCATION'S REQUEST

The Board of Education requested a total of \$2,317,295,116 for the FY15 MCPS Operating Budget. This amount represents an increase of \$91,874,064 or 4.1 percent over the current FY14 level. The FY15 tax supported budget request is \$2,178,600,533. The tax supported budget request is \$94,262,165 over the approved FY14 tax-supported amount, an increase of 4.5 percent.

A summary table showing the major elements of the Board's request is attached on circle 6. Significant highlights include the following:

- The Board requested a **local contribution of \$51.7 million above the Maintenance of Effort (MOE) level** required for FY15. The required MOE for FY15 of \$1.439 billion is an increase of \$25.3 million in County funds over the FY14 approved level, due to enrollment increases.
- The Board's request includes a **total of \$37.8 million in County funds for as the local contribution to State retirement for teachers**, as required by the General Assembly in 2012. This FY15 amount is an increase of \$3.3 million over the FY14 contribution amount.
- The Board's request includes **an additional 336.2 FTE** over the approved FY14 level, for a total of 21,579.9 FTE requested in FY15. These increases are primarily in teachers and instructional aides.
- The Board projects a **total enrollment of 154,178 for FY15**. This is an increase of 2,889 over the actual FY14 enrollment. Comparing enrollment projections (which affect the budget changes year to year), the FY15 budget projection is an increase of 2,824 over the projected (and budgeted) FY14 level (circle 11). The actual FY14 enrollment is a very slight decrease (65 students) from the projected and budgeted FY14 level.
- Enrollment of students with **Limited English Proficiency** is projected to increase by 150, for a total of 20,300 students for FY15. Enrollment of students eligible for **Free and Reduced Meals (FARMS)** continues to rise, with a total of 51,842 students in the current year, 34.3 percent of the total student population.
- The budget includes a net increase of **\$35.78 million for salary increases in FY15 for employees**. On March 11 the Board approved agreements with its employee associations that in FY15 provide a step or longevity increase for eligible employees and a 1.5 percent general wage adjustment. These increases would take effect in November 2014. The three-year agreements include a step increase for eligible employees each year and a general wage adjustment of 2 percent in FY16 and FY17.
- The negotiated agreements also increase the employee contribution amount for health insurance by 7 percent over the next two years.

- The Board’s FY15 request includes an increase of \$17.3 million related to benefits and insurance for existing employees and retirees.
- The Board’s budget identifies a total **increase of 91.1 FTE and \$12.6 million for strategic program restorations and enhancements**. These identified program additions are listed in Table 1A on circle 6, and more fully described on circles 14-25.

Some of the areas targeted as priorities for restorations and enhancements this year include:

- ***Improving student support services:*** Additional counselor, psychologist, and pupil personnel worker positions are requested to reduce caseloads and implement Coordinated Student Services Teams in high needs schools. The increase of \$1.25 million and 16.5 FTE in FY15 is intended to be the start of a multi-year effort.
- ***Leadership and planning resources for teachers:*** The budget adds positions and increases planning time for teachers at all school levels. Some positions will support specific curriculum concerns, some restore or increase staff development resources, and others allow teachers more time for strategic planning and team coordination and leadership. Additional funds are also requested to provide incentives for teachers taking on additional responsibility in high need schools and to expand Innovation Schools and the Intervention Schools Network.
- ***Partnerships and Community Engagement:*** The Office of Community Engagement is proposed to receive additional parent coordinator positions as well as positions to increase private partnerships. The budget proposes to expand the Kennedy Cluster project to the Watkins Mill Cluster and add transportation for students attending Excel Beyond the Bell programs.

COUNTY EXECUTIVE’S RECOMMENDATION

The County Executive recommended a total of \$2,302,834,589 for the MCPS FY15 Operating Budget. This recommendation is \$14,460,527 or 0.7 percent less than the Board’s request. The Executive recommends a County contribution of \$1.465 billion, which is \$26 million above the MOE requirement of \$1.439 billion. The Executive’s tax-supported budget of \$2,164,140,006 assumes \$11.2 million of fund balance above the Board’s assumed level and assumes the same level of State Aid as the Board. The fund balance issue is discussed more fully in the Overview of Revenues section below.

The County Executive typically recommends only aggregate totals for the MCPS operating budget and does not identify category allocations. State law requires both the County Executive and the Council to specify changes in category recommendations. However, for many years only the Council has followed this requirement in its final appropriation.

The County Executive’s budget includes a summary chart of additional County support for MCPS in his recommended FY15 budget. The Council began tracking this related funding in recent years, to have fuller context of all the County dollars that directly benefit the school system in addition to the MCPS agency appropriation. As these funds are not appropriated to the school system, they do not count toward the MOE requirement.

The chart below shows a recommended FY15 total of \$269.3 million above the MCPS local appropriation in additional County support for the school system. This amount is comparable to the largest County departments, including the FY15 recommended budget for the Department of Police (\$273.6 million), the Department of Health and Human Services (\$277.7 million), and the Fire and Rescue Service (\$225.2 million).

Additional County support for MCPS FY15		
Debt service on school construction		\$133.2 million
Pre-funding retiree health benefits		\$58.3 million
Technology Modernization		\$22.8 million
Support Services: includes		\$55.0 million
School Health	\$24.3 million	
School Security	\$6.5 million	
Other educational supports	\$24.2 million	
Total		\$269.3 million

PUBLIC TESTIMONY

The Council held five public hearings to receive testimony on the FY15 recommended operating budgets for all County agencies. MCPS was well represented in the testimony, as the Council heard from many PTA Cluster representatives as well as the Board of Education, the employee associations, and individual MCPS parents and employees.

The PTA Cluster representatives overall spoke in support of full funding of the Board’s request, as did the employee associations, and highlighted some of the programmatic elements of the budget that were of particular concern. The Council received testimony from many speakers in support of the student service position increases and emphasizing the importance of the language translation and outreach services in the school system.

Board President Kauffman provided an overview of the key focus areas of the Board’s request, and acknowledged the Council’s priority support for education through funds both within and outside of the MCPS budget.

Some speakers, such as the Greater Bethesda-Chevy Chase Chamber of Commerce, the Taxpayers’ League, and the League of Women Voters, raised concerns about funding above the Maintenance of Effort level. The Montgomery County Commission on Child Care suggested taking a portion of the funding recommended above MOE to support child care subsidies for quality child care.

II. FUTURE FISCAL IMPACT

LOCAL CONTRIBUTION FOR STATE RETIREMENT

In its 2012 session, the General Assembly required that counties begin contributing local funds toward the cost of the State pension plan for teachers (and other school employees eligible to participate in the State pension system). The law establishes a set phase-in schedule of contributions for each local jurisdiction from FY13-16. Montgomery County's requirement is below:

FY13	FY14	FY15	FY16
\$27.2 million	\$34.5 million	\$37.8 million	\$44.4 million

For FY13-16 these amounts are required in addition to a county's MOE requirement. The law specifies that the FY16 payment be included in the base budget appropriation calculation for determining the per pupil amount for the FY17 MOE level. At this juncture, entering the third year of a four-year schedule, Council staff notes that there are some implementation questions beyond FY16 that are not fully answered.

When the legislature enacted this requirement in 2012, the projected normal cost that MCPS would be required to contribute to the State was \$49.7 million in FY17. The Department of Legislative Services (DLS) recently reassessed its cost projections based on plan assumption changes made by the State, and increased its projection of the FY17 cost to MCPS to \$66.6 million. It is unclear at this point what amount the State will expect from local jurisdictions in FY17, or when or how the assessment will be made.

In FY15 and FY16, there is already a gap, albeit much smaller, between the amount MCPS is required to reimburse the State and the amount required in the law for the County to contribute to MCPS for this purpose. MCPS staff reports that the Maryland State Department of Education (MSDE) guidance was to make up this difference by charging outside grants for the normal cost of the pensions. However, MCPS also reports that when grant positions are charged at the allowed rate, there is still a shortage of approximately \$1 million in FY15. It is also unclear at this point how this discrepancy is to be resolved going forward.

MAINTENANCE OF EFFORT

Any increase to the County contribution of new dollars above MOE adds to the base calculation for the next year and cannot be reduced in future years (absent a waiver).

The table below shows the projected MOE through the State required phase-in period for the pension payments, using the current per pupil amount to calculate MOE in FY15 as well as showing the MOE per pupil amount that would result under both the County Executive's recommended \$26 million increase to MOE and the Board's requested MOE increase of \$51.7 million. The higher per pupil amounts shown in FY16 and FY17 reflect the required inclusion of

the final year of the pension payment into the MOE base calculation for FY17. This table uses the MCPS enrollment projections published October 2013.

	FY13	FY14	FY15	FY16	FY17
Enrollment	144,869	147,462	149,942	151,736	153,359
Per Pupil Amount	9,759	9,759	9,759	10,055	10,055
MOE	1,392,286,148	1,413,738,905	1,439,045,758	1,463,283,978	1,525,679,121
Pension	27,227,553	34,511,689	37,809,551	44,356,785	
Total County Contr.	1,419,513,701	1,448,250,594	1,476,855,309	1,507,640,763	
County Contribution if FY15 MOE increases by \$26 million as CE recommended					
Per Pupil Amount		9,759	9,935	10,231	10,231
MOE		1,413,738,905	1,465,045,758	1,489,684,739	1,552,395,758
Pension	27,227,553	34,511,689	37,809,551	44,356,785	
Total County Contr.			1,502,855,309	1,534,041,524	
County Contribution if FY15 MOE increases by \$51.7 million as BOE requested					
Per Pupil Amount		9,759	10,110	10,405	10,405
MOE		1,413,738,905	1,490,776,890	1,515,848,615	1,578,872,674
Pension	27,227,553	34,511,689	37,809,551	44,356,785	
Total County Contr.			1,528,586,441	1,560,205,400	

Under current projections, MOE will increase each year for MCPS due to enrollment alone aside from any base funding increases. This growth combined with the required contributions to State pension costs results in a required increase in the annual County contribution to MCPS of over \$106 million from FY13 to FY17.

If the Board's full request was funded in FY15, the \$51.7 million increase in FY15 would grow to a \$53.2 million difference in MOE by FY17. The Executive's recommendation grows at a slower rate, increasing from \$26 million above MOE in FY15 to a \$26.7 million difference in MOE by FY17.

This table assumes that the only increase above MOE in this time period is either the Executive recommended \$26 million or the Board requested \$51.7 million in FY15; in fact, any increases above MOE in future years would continue to add to the base going forward.

Once the pension contribution is added to the MOE calculation, the per pupil amount increases by nearly \$300 per student. Again, this increase will continue into the future under current law. If the FY15 MOE is increased by \$26 million, the resulting FY17 per pupil calculation for MOE will be \$472 higher than the current per pupil amount. If the FY15 MOE is increased by \$51.7 million, the resulting FY17 per pupil calculation for MOE will be \$646 higher than the current per pupil amount.

III. OVERVIEW OF REVENUES

Table 1 below shows the MCPS operating budgets by revenue source for the FY13 approved level, the FY14 approved level, the FY15 Board of Education Request, and the FY15 County Executive recommendation.

Source	FY13 Approved		FY14 Approved		FY15 BOE Request		FY15 CE Rec	
	\$	% of total						
County	1,392,286,148	64.5%	1,413,738,905	63.5%	1,490,776,890	64.3%	1,465,045,758	63.6%
for St pensions	27,227,553	1.3%	34,511,689	1.6%	37,809,551	1.6%	37,809,551	1.6%
Fund Balance	17,000,000	0.8%	26,972,451	1.2%	26,972,451	1.2%	38,243,056	1.7%
State	588,331,986	27.2%	604,989,615	27.2%	618,765,933	26.7%	618,765,933	26.9%
Federal	64,522,375	3.0%	72,680,788	3.3%	69,855,580	3.0%	69,855,580	3.0%
Other Sources	13,174,062	0.6%	12,174,062	0.5%	12,324,062	0.5%	12,324,062	0.5%
Enterprise	56,029,880	2.6%	58,876,281	2.6%	59,195,025	2.6%	59,195,025	2.6%
Special Funds	1,457,591	0.1%	1,477,261	0.1%	1,595,624	0.1%	1,595,624	0.1%
Tax-sptd Total	2,028,871,395		2,084,338,368		2,178,600,533		2,164,140,006	
Grand Total	2,160,029,595		2,225,421,052		2,317,295,116		2,302,834,589	

Local Contribution

- The FY15 MOE contribution requirement is \$1.439 billion, based on a per pupil amount of \$9,759. This is an increase of \$25.3 million due to increased enrollment.
- The Board of Education requested \$51.7 million more than MOE; the County Executive recommended a local contribution \$26 million above the MOE level.
- Local funding is further increased by \$3.3 million for the required pension contribution, which totals \$37.8 million in FY15 and is 1.6 percent of the overall budget.

Fund Balance

The Board requested that \$27 million of fund balance be reappropriated for the FY15 budget, the same amount as was appropriated for the FY14 budget. The County Executive recommended increasing the fund balance assumption by \$11.2 million, for a total fund balance appropriation of \$38.2 million.

The fund balance reflects savings achieved by the school system and funds not spent in a given fiscal year. **These funds cannot be spent by MCPS until they are appropriated by the Council.** Typically, the Council reappropriates fund balance as a resource for the following year's budget as part of the annual appropriation resolution. The fund balance appropriation is not part of MOE, in that it does not affect the per pupil amount nor can it be counted toward the County's MOE contribution.

MCPS' fund balance consists of unspent appropriation. MCPS is prohibited by State law from ending the year in deficit; as a result, MCPS ends each year with some surplus. The unusually large carry over amounts of recent years are due in large part to several consecutive

years of savings plans, hiring and expenditure restrictions, and budget uncertainty that MCPS has experienced along with all County agencies.

Fund balance history: MCPS ended FY11 with a cumulative fund balance of \$29.0 million. The Council appropriated \$17 million of that amount for the FY12 budget, leaving a balance of \$11.9 million. MCPS then ended FY12 with a fund balance of \$28.6 million; added to the FY11 carry over amount this resulted in a total cumulative fund balance of \$40.5 million. The Council appropriated \$17 million of that amount for the FY13 budget, leaving an unappropriated fund balance of \$23.5 million. MCPS ended FY13 with a total surplus of \$25.6 million; added to the previous balance this resulted in a cumulative total of \$49.1 million. From this total the Council appropriated \$27 million for the FY14 budget, and the total unappropriated fund balance available after the end of FY13 was \$22.1 million.

FY	Year End	Used for next FY	Rem. Balance
FY11	\$29.0 m	\$17.0 m	\$11.9 m
FY12	\$28.6 m	\$17.0 m	\$23.5 m
FY13	\$25.6 m	\$27.0 m	\$22.1 m
FY14 (CE Rec)	\$16.1 m (proj)	\$38.2 m	0

Large carry over amounts are a relatively recent occurrence. MCPS ended FY07 with a net surplus of \$12.3 million, of which \$7.3 million was appropriated for the FY08 budget. FY08 ended with a \$17.9 million surplus, all of which was used for the FY09 budget. State Aid calculation errors and mid-year savings plans resulted in large surpluses for FY09 (\$20.7 million plus \$24.2 million from the State to correct underfunded State Aid) and FY10 (\$31.2 million).

Council staff notes that prudent budgeting and appropriate expenditure practices will result in yearly surplus, and acknowledges that MCPS has contributed significant savings to support its budget in these difficult years. At the same time, MCPS is not required by law or policy to maintain any amount of fund balance year to year, other than not ending the year in deficit.

While the year-end balances are large dollar amounts, it is important to remember their relationship to the entire tax supported appropriation. The FY12 year-end balance of \$28.6 million is 1.5 percent of the approved tax supported FY12 appropriation.

Monthly financial report: The February monthly financial report reflected conditions as of December and projected a \$38.2 million year end surplus; this amount is reflected in the County Executive's recommendation. However, the school system has experienced several costly events since that time, including the unusually cold winter temperatures, significant snowfall, and the addition of two days to the school year.

The most recent financial report reflects conditions as of January 31, 2014, and was issued to the Board of Education on March 11. It projects a year-end surplus of \$15.1 million, for a total fund balance of \$37.2 million, which is \$1 million below the County Executive's assumption. (The report is attached at circles 26-34).

Historically, the fund balance has grown through the year and the projection each spring has been less than the ultimate year-end actual fund balance. It is likely that the school system, based on recent experience, will see larger surpluses in many instructional categories than currently projected. However, the most recent financial report includes some but not all of the costs of the harsh winter. It reflects higher utility costs, but does not yet reflect all of the overtime and contractual costs incurred for snow removal. It also does not appear to include the costs of adding two days to the school year. These costs will likely produce larger deficits than currently projected in these operational categories.

The Board is scheduled to receive its next financial report on April 29. The Education Committee will have the benefit of that updated information at its May 1 budget worksession in determining how much fund balance to appropriate for the FY15 budget.

One option would be for the Council to appropriate the Executive's recommended fund balance level and include language in the operating budget resolution clarifying that the appropriation is up to the limits of the year-end surplus, capped at \$38.2 million. Another option would be to use the updated fund balance projection from the April 29 report as the maximum for the appropriation, and again include language to clarify the appropriation amount should the fund balance decrease further. As a practical matter, the school system would need to adjust its expenditures to reflect actual revenues, as it does for grants and other outside revenues.

State Aid

- State Aid continues to increase, with a total increase of \$13.8 million over the FY14 approved level. For FY15, State Aid comprises a slightly lower share of the overall budget as in FY14, at 26.9 percent.
- The State Aid increase is driven by the County's continued enrollment growth overall. Montgomery County is experiencing by far the most enrollment growth in Maryland in absolute numbers and is first in percentage growth as well, with 1.8% growth from FY14-FY15. Montgomery County's enrollment increase constituted 40% of the overall State enrollment increase. Nine of the 24 Maryland jurisdictions saw declining enrollment from FY14-FY15.
- The component of State Aid related to students from families with low incomes increased by \$6.8 million to a total of \$128.6 million in FY15, reflecting increased enrollment in this demographic area.
- The amount of State Aid related to students with Limited English Proficiency decreased by \$2.2 million to \$55.6 million in FY15. MCPS reports that this decrease is the result of the number of students eligible for LEP funding under the State's definition. However, many students that do not qualify under the State's criteria still require ESOL services. MCPS counts the total number of ESOL students (projected to increase slightly in FY15) that receive services whether or not they are eligible for this State funding.

Federal Aid

- Federal Aid is a decrease of \$2.8 million from the FY14 level. This is largely the continuation of sequestration reductions.

IV. OVERVIEW OF EXPENDITURES

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

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

REQUESTED EXPENDITURES BY STATE CATEGORY

Table 2 on the next page shows the expenditures for each State category and their respective shares of the total budget from the approved FY11 level through the FY15 request. Highlights include:

- Instruction, defined in the State's financial reports as the sum of categories 2-6, accounts for 59.9 percent of the requested budget. This is roughly the same percentage of the total throughout the four-year period, down slightly from the high point of 61.4 percent of the FY11 approved level. The total dollars in these categories is significantly higher year to year since FY12.
- Funding for each category in the Instructional subgroup increased in these four years except for Category 5, Other Instructional Costs.
- School and Student Services, defined as categories 7-11, comprises 11.9 percent of the budget in FY15, roughly the same throughout the four year period. Funding increased most for Category 9, Student Transportation, and Category 11, Maintenance of Plant.
- The category with the largest and most consistent growth is Category 12, Fixed Charges. This category increased \$84.9 million since FY11, and in FY15 takes up 1.7 percent more of the budget than in FY11 at 23.7 percent of the total. This category includes primarily employee benefit (health and pension) expenditures.
- In total, Table 2 shows that the FY15 request continues to raise the total MCPS budget well above the difficult economic years of FY10-12. The FY14 request is \$213.1 million above the FY11 appropriation.

Table 2: Expenditure by State Budget Category

Category	FY11 Approved	FY11 %of total	FY12 Approved	FY12 %of total	FY13 Approved	FY13 %of total	FY14 Approved	FY14 %of total	FY15 Requested	FY15 %of total
Instruction										
2-Mid-Level Administration	138,804,115	6.6%	136,245,378	6.5%	138,311,388	6.4%	137,952,420	6.2%	140,764,439	6.1%
3-Instructional Salaries	834,965,124	39.7%	820,070,900	39.3%	840,255,615	38.9%	876,937,726	39.4%	899,156,715	38.8%
4-Textbooks and Instr Supplies	24,901,955	1.2%	24,948,820	1.2%	25,106,168	1.2%	24,513,760	1.1%	28,872,149	1.2%
5-Other Instr Costs	14,373,591	0.7%	13,855,214	0.7%	13,449,902	0.6%	12,854,252	0.6%	11,524,011	0.5%
6-Special Education	279,165,638	13.3%	272,431,548	13.1%	278,758,723	12.9%	291,649,641	13.1%	308,387,538	13.3%
Subtotal: Instruction	1,292,210,423	61.4%	1,267,551,860	60.7%	1,295,881,796	60.0%	1,343,907,799	60.4%	1,388,704,852	59.9%
School and Student Services										
7-Student Personnel Services	11,201,334	0.5%	11,041,328	0.5%	11,008,660	0.5%	10,961,860	0.5%	11,654,174	0.5%
8-Health Services	44,590	0.0%	54,670	0.0%	37,402	0.0%	37,402	0.0%	19,590	0.0%
9-Student Transportation	93,946,059	4.5%	93,197,127	4.5%	95,686,527	4.4%	97,692,625	4.4%	101,323,043	4.4%
10-Operation of Plant and Equip	115,000,527	5.5%	115,657,090	5.5%	113,480,416	5.3%	114,729,026	5.2%	128,760,341	5.6%
11-Maintenance of Plant	33,015,967	1.6%	32,396,397	1.6%	33,780,373	1.6%	34,060,918	1.5%	33,388,100	1.4%
Subtotal: Sch and St Services	253,208,477	12.0%	252,346,612	12.1%	253,993,378	11.8%	257,481,831	11.6%	275,145,248	11.9%
Other										
12-Fixed Charges	463,288,825	22.0%	471,779,702	22.6%	514,125,636	23.8%	524,786,162	23.6%	548,173,051	23.7%
1-Administration	39,151,145	1.9%	38,366,202	1.8%	38,332,819	1.8%	38,433,223	1.7%	43,957,821	1.9%
14-Community Services	208,495	0.0%	208,495	0.0%	208,495	0.0%	458,495	0.0%	523,495	0.0%
Subtotal: Other	502,648,465	23.9%	510,354,399	24.5%	552,666,950	25.6%	563,677,880	25.3%	592,654,367	25.6%
Non-Categorized Expenditure: Debt Service										
37-Special Revenue Fund	1,490,510	0.1%	1,425,000	0.1%	1,457,591	0.1%	1,477,261	0.1%	1,595,624	0.1%
51-Real Estate Fund	3,071,095	0.1%	3,266,430	0.2%	3,520,603	0.2%	2,920,399	0.1%	3,166,047	0.1%
61-Food Service Fund	47,040,254	2.2%	46,897,045	2.2%	47,476,295	2.2%	51,189,670	2.3%	51,222,406	2.2%
71-Field Trip Fund	2,354,716	0.1%	2,122,819	0.1%	2,026,046	0.1%	1,917,672	0.1%	1,895,960	0.1%
81-Entrepreneurial Activities	2,164,100	0.1%	2,822,448	0.1%	3,006,936	0.1%	2,848,540	0.1%	2,910,612	0.1%
Subtotal: Special/Ent Funds	56,120,675	2.7%	56,533,742	2.7%	57,487,471	2.7%	60,353,542	2.7%	60,790,649	2.6%
Grand Total	2,104,188,040	100.0%	2,086,786,613	100.0%	2,160,029,595	100.0%	2,225,421,052	100.0%	2,317,295,116	100.0%

REQUESTED POSITIONS BY STATE CATEGORY

Table 3 on the next page shows the positions for each State category and their respective shares of all positions in the budget from the approved FY11 level through the FY15 request. Highlights include:

- The overall distribution of positions has not changed very much since FY11. The five categories in the Instruction subgroup contain 77.9 percent of all positions in the FY15 request; in FY11 they contained 77.9 percent. The School and Student Services subgroup has stayed essentially level at just over 17 percent.
- Of the eight major categories that have positions (not including enterprise funds),
 - Five categories increased positions from FY11-15: Category 1, Administration; Category 3, Instructional Salaries; Category 6, Special Education; Category 7, Student Personnel Services; and Category 10, Operation of Plant and Equipment.
 - Only one category has decreased by more than 20 FTE since FY11: Category 11, Maintenance of Plant.
- Positions in Category 3, Instructional Salaries, comprise 52.0 percent of all positions in the budget. This share of the total has remained fairly constant in this time period.
- In total, the FY15 request is an increase of 336.3 FTE over the FY14 approved and an increase of 836.2 FTE over the FY11 approved level. Again, the FY15 request continues to move well above the difficult economic years of FY10-12.

Table 3: Positions by State Budget Category

Category	FY11 Approved	FY11 %of total	FY12 Approved	FY12 %of total	FY13 Approved	FY13 %of total	FY14 Approved	FY14 %of total	FY15 Requested	FY15 %of total
Instruction										
2-Mid-Level Administration	1,682.875	8.1%	1,669.325	8.1%	1,672.675	8.0%	1,675.000	8.0%	1,675.925	8.0%
3-Instructional Salaries	10,804.200	52.1%	10,684.088	51.8%	10,838.413	52.0%	11,102.070	52.0%	11,205.394	52.0%
4-Textbooks and Instr Supplies	0.000	0.0%	0.000	0.0%	0.000	0.0%	0.000	0.0%	0.000	0.0%
5-Other Instr Costs	0.000	0.0%	0.000	0.0%	0.000	0.0%	0.000	0.0%	0.000	0.0%
6-Special Education	3,661.255	17.6%	3,661.735	17.8%	3,733.703	17.9%	3,829.055	17.9%	3,904.092	17.9%
Subtotal: Instruction	16,148.330	77.8%	16,015.148	77.7%	16,244.791	77.9%	16,606.125	77.9%	16,785.411	77.9%
School and Student Services										
7-Student Personnel Services	110.305	0.5%	108.705	0.5%	106.505	0.5%	107.900	0.5%	114.140	0.5%
8-Health Services	0.000	0.0%	0.000	0.0%	0.000	0.0%	0.000	0.0%	0.000	0.0%
9-Student Transportation	1,742.250	8.4%	1,733.150	8.4%	1,733.150	8.3%	1,733.090	8.3%	1,733.090	8.3%
10-Operation of Plant and Equip	1,406.700	6.8%	1,429.700	6.9%	1,431.200	6.9%	1,457.575	6.9%	1,615.700	6.9%
11-Maintenance of Plant	380.000	1.8%	380.000	1.8%	380.000	1.8%	386.000	1.8%	360.000	1.8%
Subtotal: Sch and St Services	3,639.255	17.5%	3,651.555	17.7%	3,650.855	17.5%	3,684.565	17.5%	3,822.930	17.5%
Other										
12-Fixed Charges	0.000	0.0%	0.000	0.0%	0.000	0.0%	0.000	0.0%	0.000	0.0%
1-Administration	338.650	1.6%	327.050	1.6%	327.550	1.6%	333.380	1.6%	348.500	1.6%
14-Community Services	0.000	0.0%	0.000	0.0%	0.000	0.0%	0.000	0.0%	0.000	0.0%
Subtotal: Other	338.650	1.6%	327.050	1.6%	327.550	1.6%	333.380	1.6%	348.500	1.6%
37-Special Revenue Fund	14.000	0.1%	12.500	0.1%	12.500	0.1%	12.500	0.1%	13.500	0.1%
41-Adult Education Fund	0.000	0.0%	0.000	0.0%	0.000	0.0%	0.000	0.0%	0.000	0.0%
51-Real Estate Fund	6.500	0.0%	6.500	0.0%	7.000	0.0%	7.000	0.0%	7.000	0.0%
61-Food Service Fund	583.448	2.8%	583.448	2.8%	582.948	2.8%	582.948	2.8%	585.448	2.8%
71-Field Trip Fund	4.500	0.0%	4.500	0.0%	4.500	0.0%	4.500	0.0%	4.500	0.0%
81-Entrepreneurial Activities	9.000	0.0%	9.000	0.0%	13.000	0.1%	12.600	0.1%	12.600	0.1%
Subtotal: Special/Ent Funds	617.448	3.0%	615.948	3.0%	619.948	3.0%	619.548	3.0%	623.048	3.0%
Grand Total	20,743.683	100.0%	20,609.701	100.0%	20,843.144	100.0%	21,243.618	100.0%	21,579.889	100.0%

ALLOCATION OF STAFFING

Table 5 in the Board's budget shows the allocation of staffing by type of position (circle 12). The table presents this information for FY10-15; Council staff has calculated the relative share of the total for each classification in FY10 and FY15 and the differences between FY10 and FY15 on the following page.

- The positions with the largest numerical increase from FY10-15 are teachers, special education specialists, and building service workers. These positions are closely associated with increased enrollment.
- Student support services positions such as counselors, psychologists, social workers, pupil personnel workers, and instructional aides and assistants declined or stayed very level between FY10 and FY14. This indicates increasing caseloads for these positions or reduced service levels, given the rising enrollment during this time period.

These student support service positions are recommended to increase somewhat in the Board's FY15 request, which reflects an effort to improve the student support model and implement Coordinated Student Services Teams in schools. The budget states that this will be a multi-year effort to lower caseloads and target schools with the highest needs.

- The significant decrease in teachers between FY10-11 largely reflects the Board's decision to increase class size by 1 in FY11. The number of teachers increases in each succeeding fiscal year, reflecting increases in enrollment.
- The positions with the largest decreases since FY10 are administrative, secretarial and clerical support, other professional, and other support personnel.
- **The relative share of each type of position remains essentially the same from FY10 to FY15.** For example, in FY15 teachers comprise 49.7% of all FTE; executive and administrative staff 1.0%; instructional aides and assistants 12.3%; and transportation personnel 7.8%. These percentages are very close to or the same as the FY10 percentages of total FTE.

**TABLE 5
ALLOCATION OF STAFFING**

POSITIONS	FY 2010	FY 2011	FY 2012	FY 2013	FY2014	Rec FY2015	Diff FY15-14	Diff FY15-10	FY10 % of total	FY15 % of total
Executive	19.000	17.000	17.000	19.000	19.000	21.000	2.000	2.000	0.1%	0.1%
Administrative	213.000	200.200	199.000	195.000	196.701	197.900	1.199	-15.100	1.0%	0.9%
Business/Operations Administrator	94.000	94.000	92.000	92.000	91.629	89.650	-1.979	-4.350	0.4%	0.4%
Other Professional	210.800	198.500	186.900	182.300	184.500	191.500	7.000	-19.300	1.0%	0.9%
Principal/Assistant Principal	485.000	484.000	484.000	486.000	489.500	494.000	4.500	9.000	2.3%	2.3%
Teacher	10,408.500	10,239.670	10,281.220	10,475.070	10,753.120	10,995.460	242.340	586.960	49.7%	51.0%
Special Education Specialist	469.500	479.600	482.400	495.200	506.750	508.958	2.208	39.458	2.2%	2.4%
Media Specialist	201.500	197.500	189.200	190.200	192.200	195.500	3.300	-6.000	1.0%	0.9%
Counselor	467.000	461.000	451.300	453.300	456.300	468.500	12.200	1.500	2.2%	2.2%
Psychologist	97.100	96.205	94.805	94.905	100.000	106.034	6.034	8.934	0.5%	0.5%
Social Worker	14.100	14.805	13.905	14.405	14.800	14.830	0.030	0.730	0.1%	0.1%
Pupil Personnel Worker	47.000	45.000	45.000	45.000	45.000	51.000	6.000	4.000	0.2%	0.2%
Instructional Aide and Assistant	2,614.880	2,627.980	2,519.048	2,560.253	2,603.605	2,644.494	40.889	29.614	12.5%	12.3%
Secretarial/Clerical Support	1,020.837	1,000.025	997.250	988.100	987.125	983.250	-3.875	-37.587	4.9%	4.6%
IT Systems Specialist	144.500	143.000	131.000	131.000	131.000	132.500	1.500	-12.000	0.7%	0.6%
Security	229.000	227.000	227.000	227.000	227.000	228.000	1.000	-1.000	1.1%	1.1%
Cafeteria	557.448	557.488	556.448	557.948	558.948	561.448	2.500	4.000	2.7%	2.6%
Building Services	1,309.700	1,319.200	1,335.200	1,342.700	1,364.700	1,376.700	12.000	67.000	6.3%	6.4%
Facilities Management/Maintenance	349.000	347.000	344.500	345.000	353.000	354.000	1.000	5.000	1.7%	1.6%
Supply/Property Management	54.500	53.500	53.000	47.000	50.000	50.500	0.500	-4.000	0.3%	0.2%
Transportation	1,694.750	1,695.750	1,687.650	1,685.650	1,685.590	1,685.590	0.000	-9.160	8.1%	7.8%
Other Support Personnel	248.800	245.260	224.400	234.575	231.375	229.075	-2.300	-19.725	1.2%	1.1%

V. COMPENSATION AND BENEFITS

NEGOTIATED AGREEMENTS

On March 11, the Board of Education approved three-year negotiated agreements with its employee associations. The highlights of the compensation elements are as follows:

FY15

- 1.5% general wage adjustment for all employees (effective November 2014)
- Step or longevity increase for eligible employees (effective November 2014)
- 3.0% increase in employee contribution to health care premiums

FY16-FY17

- 2.0% general wage adjustment for all employees (effective October 2015 and September 2016)
- Step or longevity increase for eligible employees (effective October 2015 and September 2016)
- “Make-up” step for employees eligible for a step in 2012 and still eligible in FY17
- 4.0% increase in employee contribution to health care premiums (FY16 only)

For FY15, MCPS states that the net budget impact is an increase of \$35.8 million. This is the result of an increase of \$37.4 million for the general wage and step adjustments; additional economic items that increase the budget \$3.4 million; and a decrease to the budget of \$5 million related to the increased employee contributions to health care.

On average, step increases are about 3.5% for eligible employees. The specific breakdown by bargaining unit is as follows:

MCEA:	1.5%-3.9%
MCAAP:	3.0%
SEIU:	1.9%-5.5%

Context: The compensation increases proposed for all County agency employees in FY15 come in the context of several very difficult budget years for all County agencies. Unprecedented budget constraints in recent years required compensation sacrifices of all County agency employees, with no general wage adjustments for any agencies and no step increases for most. Relatively speaking, MCPS was able to insulate its employees more than other agencies were during this time. MCPS employees did not take furloughs in FY11, when other agencies did; MCPS employees received two step increases in FY13 when other agencies received lump sum awards only; and MCPS did not increase its employee health care contributions when other agencies did.

While this agreement does increase employee contributions for health care, the MCPS employee cost share remains significantly lower than that of the County and other agencies (8%-13% for MCPS). MCPS expects significant savings as a result of this effort and will also implement premium cost share credits and penalties.

Future fiscal impact: Since MCPS has two-thirds of all County employees and since compensation accounts for 90% of the MCPS budget, compensation adjustments have major fiscal impact going forward.

Council staff calculated the approximate rate of growth for the salary increases in the negotiated agreements, including the offsetting savings projected to be realized by the health benefit cost share increase. **The negotiated agreements, if fully implemented, will increase the MCPS operating budget by more than 9.5% between FY14 and FY17, with an annual rate of growth between 3.0 -3.5%.** The growth rate reflects solely the cost of pay adjustments for the current workforce and does not account for the addition of new employees hired to accommodate new initiatives or enrollment growth.

It is important to note this growth element in the budget compared to the other known budget factors going forward. The rate of growth expected under MOE is approximately 1.1%. The Executive's recommendation is approximately 1.8% over MOE, for a total growth rate of 2.9%. The Board's request is a growth rate of 3.6% over MOE, for a total of 4.7%. **Comparing these to the rough growth rate of compensation at 3.0-3.5% shows that the negotiated agreements for the existing workforce will consume a very significant portion of any funding course over the next few years.**

REPORT ON FUNDS BUDGETED IN CATEGORY 12, FIXED CHARGES

As recommended in the November 2011 Office of Legislative Oversight (OLO) report "A Review of Montgomery County Public Schools' Budget Category 12", the Council requested that the Board of Education provide a semi-annual report on key revenue and expenditure trends in Category 12, Fixed Charges, related to the school system's employee benefit trust funds. Board President Kauffman transmitted the most recent report to the Council on March 21 (circles 35-43).

Below Council staff highlights certain key aspects of this report. **In sum, MCPS anticipates a low funded ratio for its pension fund and high fund balances in its group insurance funds. The Committee will want to understand from Board members and MCPS staff how these trends will affect budgeted and anticipated Category 12 expenditures in FY14 and FY15.**

1. Pension Fund

MCPS makes an annual contribution to its pension fund to pay for 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. **For FY15, MCPS must contribute \$83.3 million to meet its pension fund obligation, a \$3.8 million (or 4.8%) increase above the FY14 amount. This amount is projected to increase to \$87.9 million in FY16.** The cost of future pension fund contributions will depend on multiple factors, including Board of Education decisions regarding employee pay increases and workforce size.

The "funded ratio" of a pension plan is a term that describes the percentage of the plan's liabilities covered by the current actuarial value of the plan's assets. As of the July 1, 2013, the

MCPS pension fund had a funded ratio of 69%. In other words, the MCPS pension fund holds 69 cents of assets for every dollar of liability. Among the three County-funded agencies with pension funds, MCPS currently has the lowest funded pension ratio, with the County Government the next lowest at 79%. Rating agencies consider the pension funding status (among other factors) in determining the bond ratings for local governments.

The MCPS pension funded ratio experienced a significant decline over the past decade. While many public sector pension plans also experienced large funded ratio declines, the drop in the MCPS pension funding ratio was particularly steep. 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 funding ratio dropped to below 70% and has yet to recover. Two primary factors contributed to the sharp decline: plan enhancements and investment performance.

- Plan Enhancements. In 2006 the Board of Education approved two pension plan enhancements that significantly raised the plan's unfunded liability with a resulting decrease in the funding ratio. MCPS changed the core pension multiplier (for participants in the locally-funded plan) from 1.4% to 1.8% of final earnings for each year of credited service, retroactive to July 1, 1998. At the same time, the Board increased the multiplier for the locally-funded pension supplement for all employees (including participants in the State-run plan) from 0.08% to 0.20% for each year of credited service, retroactive to July 1, 1998. These plan enhancements increased MCPS' liability to pay future pension benefits. As a result, the pension fund's funded ratio declined since MCPS had not previously contributed assets to cover this additional liability.
- Investment Performance. The MCPS pension fund incurred a combined investment loss of more than \$265 million during FY08 and FY09. While investment gains in subsequent years offset most of the losses, the funded ratio has still continued to decline, in part because the average annual investment return (over the past five years) has fallen below the assumed rate of return.

In January the Board approved a resolution to set the annual contribution to the pension fund at a level consistent with achieving an 80% funded ratio by the end of FY18. MCPS' actuaries estimate that this level of funding would raise the funded ratio to 73% within one year and to 76% within two years. **The Committee may want to discuss with Board members and MCPS whether the Board would re-evaluate its pension funding plan if the pension funded ratio does not improve as projected in the next year.**

2. Active and Retiree Group Insurance Funds

MCPS maintains separate fund accounts for active and retired employees.

For active employees:

- MCPS ended FY13 with a \$32.3 million fund balance in its group insurance fund for active employees; this amount is 12.2% of expenditures.
- MCPS currently projects an FY14 year-end fund balance of \$17.9 million or 6.4%, a decrease of \$14.4 million from FY13.

- MCPS' approved FY14 budget reduced the employer contribution to the fund in order to draw down the fund balance. In addition to the planned draw down, MCPS notes that expenditures are slightly exceeding projections due to a number of high cost individual medical claims and increased enrollment and one-time costs related to the transition from UnitedHealthcare to Cigna as a plan provider.
- The Board's FY15 request plans to draw down the fund balance further by reducing the employer contribution to the Fund by \$3.5 million.
- The Board's FY15 budget request reflects the first year of a negotiated change in group insurance cost share for active employees that will be phased in over FY15 and FY16. Effective January 1, 2015 all MCPS employees will pay an additional 3% of the group insurance premium cost. For HMO medical plans, employees will pay 8% of the premium (up from 5%), and for POS medical plans, prescription plans, dental plans, and vision plans employees will pay 13% of the premium (up from 10%). MCPS estimates that the 3% cost share shift will reduce agency group insurance expenditures by \$5 million in FY15. On January 1, 2016 MCPS employees will pay an additional 4% of the group insurance premium costs, while at the same time MCPS will implement premium cost share credits and penalties. Employees will be able to earn cost share credits of 1% each for completing Health Risk Assessments and having required Biometric Screenings, and employees who are smokers will have to pay an additional 3%. MCPS estimates that the total agency savings from these actions in FY16 will grow to \$13.5 million.

For retired employees:

- MCPS ended FY13 with a \$17.1 million fund balance in its group insurance fund for retired employees; this amount is 21% of expenditures.
- MCPS currently projects an FY14 year-end fund balance of \$18.5 million or 22.6%, an increase of \$1.4 million from FY13.
- MCPS reports that retiree claims are tracking close to projected amounts, with improved performance from the changes effected during FY13.
- For FY15, similar to the other tax supported agencies, MCPS plans to transition to a Medicare Part D Employer Group Waiver Plan (EGWP) plus Wrap prescription drug program for all Medicare-eligible retirees. The retiree medical plans will not be impacted by this change, and the non-Medicare eligible retirees (those younger than 65) will continue with their current prescription drug coverage. By switching to an EGWP + Wrap, the agencies anticipate preserving current plan design and covered drugs so that there is minimal or no benefit disruption for retirees while gaining: 1) greater annual reimbursements from the federal government; 2) access to a 50% manufacturer's discount on brand-name pharmaceuticals enacted as part of the Affordable Care Act; and 3) the ability to substantially reduce OPEB accrued liability. On March 27 the joint Health and Human Services and Government Operations Committees received a briefing on the move to Medicare Part D prescription coverage. At that session, Aon Consulting, MCPS' health benefits actuarial consultant, estimated annual savings to MCPS under the EGWP through increased federal subsidies of approximately \$2.3 million per year. Additionally, the EGWP change combined with updated retiree claims and premiums and lower healthcare trend rates decreased the required FY15 OPEB pre-funding contribution for MCPS to \$58.3 million, a \$52 million decrease from what was projected last June.



MONTGOMERY COUNTY BOARD OF EDUCATION

250 Hungerford Drive • Rockville, Maryland 20850

February 28, 2014

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

Dear Mr. Leggett, Mr. Rice, and Councilmembers:

I am pleased to submit the Montgomery County Board of Education's Fiscal Year (FY) 2015 Operating Budget Request for Montgomery County Public Schools (MCPS).

The Board of Education (Board) is requesting a budget of \$2,317,295,116 for MCPS in FY 2015. This represents an increase of \$91,874,064, or 4.1 percent, more than the current FY 2014 budget. This budget is \$51,731,132 more than the \$1,476,855,309 that the county is required to provide under Maintenance of Effort.

There are four major areas of focus in the Board's FY 2015 Operating Budget. They include: (1) managing the district's continued growth and investing in the future; (2) providing district-wide investments; (3) focusing on important needs in our elementary, middle, and high schools; and (4) building community partnerships and engagement.

Managing Growth, Investing in the Future

Enrollment in MCPS in the 2013–2014 school year is 151,289, an increase of 2,510 students compared with the last school year and nearly 11,000 more students than five years ago. Enrollment growth is expected to increase by 2,889 more students in FY 2015, for a total of 154,178 students. By 2020, MCPS is projected to have 162,255 students enrolled, 10,966 more than the current fiscal year. At the same time, a greater number of these students need specific supports and services to ensure their success. More than one-third of MCPS students now receive Free and Reduced-price Meals System services, a number that has grown by 37.5 percent in the past five years. We also are seeing an increase in the number of students receiving English for Speakers of Other Languages (ESOL) services. Currently, 13.3 percent of our students receive ESOL services; however, in our elementary schools, that number nearly doubles.

The Board's FY 2015 Operating Budget includes funding for 157 elementary and secondary teachers to serve additional students; 8 positions to serve additional ESOL students; 75 positions for increased services for special education students; and 27.6 positions for transportation, food

services, and building services employees for the additional students and space being added in FY 2015. The budget also includes \$6.8 million for continuing salary costs (not including the newly negotiated compensation increases) and \$17.3 million for the increased costs of benefits for current and retired employees.

The FY 2015 Operating Budget also supports strategic enhancements that are part of a multiyear strategy aligned to the district's Strategic Planning Framework—*Building our Future Together: Students, Staff, and Community*. The Framework identifies three competencies students will need to thrive in their future: academic excellence, creative problem solving, and social emotional learning.

Districtwide Investments

Funding is included in the Board's FY 2015 Operating Budget aimed at fostering innovation and improving instruction and support for students in all grade levels. This includes funding for the Career Lattice, which will work to encourage veteran, exemplary teachers to transfer to, or remain in, high-needs schools. Supplements will be provided for as many as 250 teachers who will provide instruction and leadership in these schools. The funding also includes grants for schools, with the funds to be used for strategies to improve teaching and learning. In addition, funding is included for the purchase of technology, primarily tablets, to enhance instruction and properly deliver new state assessments in the schools. To improve the student services model throughout MCPS, 5.5 elementary school counselor, 5 school psychologist, and 6 pupil personnel worker positions are added in order to reduce caseloads with the intent to increase positions in future years.

Elementary Schools

For our youngest students, funding is included to create additional team leader positions in some elementary schools that serve high special education and ESOL populations. Also, eight positions are added for elementary schools that previously had position reductions in staff development teacher, reading specialist, media specialist, and counselor positions in the past. To support students enrolled in the compacted Grade 5/6 mathematics curriculum in FY 2015, seven additional teacher positions are needed.

Middle Schools

Some of the significant achievement gaps in MCPS are in our middle schools. The current FY 2014 Operating Budget provides 30 middle school focus teachers to lower student-teacher ratios in mathematics and English classes in schools where there are significant gaps in achievement between White and Asian students and African American and Latino students. The FY 2015 Operating Budget adds 10.5 teacher positions to address the performance of English language learners to ensure that these students attain and progress in English competency and score proficient in reading and mathematics. Other enhancements include additional teacher positions to continue the implementation of separate team leaders and content leaders for departments in our middle schools.

High Schools

In order to support improvement in our high schools, the Board's FY 2015 Operating Budget provides for 15 high school focus teacher positions that, in combination with 23.5 existing positions, will reduce English and mathematics class sizes in our most impacted high schools. Also, a total of 15 teacher positions are included to increase release periods for high school resource teachers and to restore a .2 position to all 25 high schools for staff development teachers who provide focused support and assistance to school teams and individual teachers.

Building Community Partnerships and Engagement

The Board's FY 2015 Operating Budget invests in the expansion of community partnerships that support student success. Five positions are added in the Office of Community Engagement and Partnerships as part of a multiyear effort to develop business and community connections and provide support to our parents. Additional funding also is included to expand the Kennedy Cluster Project, a multiagency partnership, into the Watkins Mill Cluster, and to expand transportation for students in the Excel Beyond the Bell program.

Negotiations with Employee Associations

Tentative agreements have been reached with the three employee associations—the Montgomery County Education Association, the Montgomery County Association of Administrators and Principals, and the Service Employees International Union Local 500—and as a result, funds are included in the FY 2015 Operating Budget for the economic items that were agreed to. This includes a general wage adjustment of 1.5 percent for employees, as well as a step and longevity increase for eligible employees on November 29, 2014. The cost of these adjustments in FY 2015 is \$37,382,073. Additional economic items were negotiated that increase the budget by \$3,400,000. There also are negotiated changes in employee benefits that will result in savings of \$5,000,000 in FY 2015. As a result, the net increase in expenditures for the Board's FY 2015 Operating Budget is \$35,782,073.

Budget Reductions

Each year, MCPS reviews the base budget to determine where reductions and efficiencies may be made. The FY 2015 Operating Budget includes \$3,289,070 and 22.6 positions in budget reductions as a result of the annual effort to identify reductions, known as the Program Efficiency, Abandonment, and Redirection process. These reductions include \$2,225,712 and 9.5 positions from Central Services.

Development of the FY 2015 Operating Budget

The FY 2015 Operating Budget request was developed through continued collaboration with MCPS employees, parents, students, and community members. The budget development process was modified this year to achieve even broader stakeholder involvement. In spring 2013, staff met with focus groups of teachers, support staff, administrators, parents, students, and

community members to gather input on the priorities that should guide the MCPS operating budget in future years. Also, small teams were formed to discuss the work of elementary, middle, and high schools to identify structures, resources, and processes that should be in place for MCPS to continue to provide our students with a world-class education. Through this modified process, we received input from more than 200 individuals, many of whom may not otherwise have participated in the budget process.

The development of the FY 2015 Operating Budget continued in September 2013 when the Board's budget interests were formulated with Dr. Joshua P. Starr, superintendent of schools. On December 12, 2013, Dr. Starr presented the Superintendent's Recommended FY 2015 Operating Budget, which was developed in partnership with the three employee associations, as well as the Montgomery County Council of Parent-Teacher Associations.

The Board held public hearings on Dr. Starr's recommendation on January 9 and 16, 2014, and then held two work sessions on the budget on January 23 and 28, 2014. Board members spent numerous hours analyzing the budget and posing questions to staff, which eventually led to the amended Superintendent's Recommended FY 2015 Operating Budget. The Board adopted its final budget request on February 11, 2014.

Our work together in support of the students of Montgomery County continues to show positive results. Overall, graduation rates in Montgomery County rose to 88.3 percent for the Class of 2013. This reflects an increase of 1 percent overall compared with the previous class. Our graduation rate also is 3.3 percent higher than that for the state of Maryland. It is important to note that the graduation rate for African American students increased by 1.6 percent, and the graduation rate for Hispanic students increased by 0.8 percent. Moreover, two-year graduation rates for these two groups demonstrated even greater increases. While these graduation rates show progress in narrowing the achievement gap, we must continue our concerted effort to support academic success for all our students with this FY 2015 Operating Budget.

The Board thanks you for your continued commitment to the students and citizens of this county.

Sincerely,



Philip Kauffman
President

PK:lh

TABLE 1
SUMMARY OF RESOURCES
BY OBJECT OF EXPENDITURE

OBJECT OF EXPENDITURE	FY 2013 ACTUAL	FY 2014 BUDGET	FY 2014 CURRENT	FY 2015 BUDGET	FY 2015 CHANGE
POSITIONS					
Administrative	700,000	709,201	709,200	712,900	3,700
Business/Operations Admin.	92,000	91,629	91,650	89,650	(2,000)
Professional	11,950,380	12,250,970	12,257,970	12,531,782	273,812
Supporting Services	8,119,226	8,191,818	8,184,918	8,245,557	60,639
TOTAL POSITIONS	20,861,606	21,243,618	21,243,738	21,579,889	336,151
01 SALARIES & WAGES					
Administrative	\$87,751,894	\$90,283,393	\$90,143,875	\$93,349,018	\$3,205,143
Business/Operations Admin.	8,345,471	8,962,361	8,962,361	8,853,688	(108,673)
Professional	914,211,694	958,593,114	958,923,325	998,495,883	39,572,558
Supporting Services	334,616,345	347,459,323	347,190,630	361,519,866	14,329,236
TOTAL POSITION DOLLARS	1,344,925,404	1,405,298,191	1,405,220,191	1,462,218,455	56,998,264
OTHER SALARIES					
Administrative	406,417	382,576	382,576	397,576	15,000
Professional	49,699,491	57,633,096	57,597,186	58,557,190	960,004
Supporting Services	22,319,844	24,039,019	24,071,107	25,004,030	932,923
TOTAL OTHER SALARIES	72,425,752	82,054,691	82,050,869	83,958,796	1,907,927
TOTAL SALARIES AND WAGES	1,417,351,156	1,487,352,882	1,487,271,060	1,546,177,251	58,906,191
02 CONTRACTUAL SERVICES	27,710,293	25,299,082	25,444,404	26,488,687	1,044,283
03 SUPPLIES & MATERIALS	69,565,430	68,654,922	68,588,282	73,167,071	4,578,789
04 OTHER					
Local/Other Travel	2,156,282	2,999,620	3,000,760	2,881,082	(119,678)
Insur & Employee Benefits	526,714,624	536,798,214	536,798,214	560,083,613	23,285,399
Utilities	38,866,350	39,799,058	39,799,058	38,633,435	(1,165,623)
Miscellaneous	46,890,072	50,971,034	50,973,034	54,107,987	3,134,953
TOTAL OTHER	614,627,328	630,567,926	630,571,066	655,706,117	25,135,051
05 EQUIPMENT	14,359,360	13,546,240	13,546,240	15,755,990	2,209,750
GRAND TOTAL AMOUNTS	\$2,143,613,567	\$2,225,421,052	\$2,225,421,052	\$2,317,295,116	\$91,874,064

TABLE 1A
SUMMARY OF BUDGET CHANGES FY 2014 - FY 2015
(\$ in millions)

ITEM	FTE	AMOUNT
FY 2014 CURRENT OPERATING BUDGET	21,243.738	\$2,225.4
ENROLLMENT CHANGES		
Elementary/Secondary	146.625	9.9
Special Education	74.911	6.6
ESOL	7.700	0.5
Transportation/Food Services/School Plant Operations	15.626	1.0
Subtotal	244.862	\$18.0
NEW SCHOOLS/ADDITIONAL SPACE	21.750	\$2.9
EMPLOYEE SALARIES - CONTINUING SALARIES FOR CURRENT EMPLOYEES (including benefits)		
		\$6.8
EMPLOYEE SALARIES - NEGOTIATED (including benefits)		
		\$40.8
EMPLOYEE BENEFITS AND INSURANCE		
Employee Benefits Plan (active) - Including Negotiated Changes		5.2
Employee Benefits Plan (retired)		1.7
Retirement		(0.4)
FICA/Self-Insurance/Workers' Compensation, Fire Insurance		1.8
Tuition Reimbursement		0.7
Pension Shift from State of Maryland		3.3
Subtotal		\$12.3
INFLATION AND OTHER		
Textbooks, Instructional Materials, Building/Maintenance Supplies		0.7
Utilities		(2.0)
Special Education	0.700	1.3
Transportation		1.3
Facilities Management		1.5
Technology		0.9
Grants and Enterprise Funds	(3.700)	(2.7)
Other	4.118	0.7
Subtotal	1.118	\$1.7
EFFICIENCIES & REDUCTIONS		
Central Services	(9.500)	(2.2)
Support Operations (Buses/Bus Operators, Bus Supplies)	(13.125)	(1.0)
School-Based	-	-
Subtotal	(22.625)	(\$3.2)

(1) The increase in the required local contribution is \$28,604,715 (\$25,306,853 for MOE and \$3,297,862 for the pension shift from the state)

ITEM	FTE	AMOUNT
STRATEGIC PRIORITY ENHANCEMENTS		
Psychologists, Pupil Personnel Workers, Elementary Counselors	16.500	1.2
Provide Support to English Language Learners in Middle Schools	10.500	1.5
Middle School Leadership - Content Specialists and Team Leaders	8.200	0.7
Middle School Improvement		0.1
Support for High Needs High Schools - English & Math Focus Teachers	15.000	1.0
Increase Allocation of High School Staff Development Teachers	5.000	0.3
Provide Support for Project-Based Learning at Wheaton High School		0.1
Expand the High School Minority Achievement Initiative		0.1
Release High School Resource Teachers One Additional Period Per Day	10.000	0.7
Alternative Programs Redesign	1.200	0.1
Expand the Office of Community Engagement and Partnerships	5.000	0.5
Expand the Kennedy Cluster Project	1.300	0.1
Provide Transportation for Students Attending Excel Beyond the Bell		0.1
Elementary Team Leaders		0.3
Grade 5/6 Compacted Math Teachers	7.000	0.5
Restore Key Positions in Small Elementary Schools -Staff Development Teachers, Reading Specialists, Counselors, Media Specialists	8.000	0.5
Implement the Career Lattice to Improve Student Achievement		0.8
Expansion of Innovation Schools		0.1
Increase Support for the Interventions Network	1.000	0.2
Expand the Use of Technology for Teaching, Learning, and PARCC		3.0
Review Special, Choice, and Signature Programs		0.2
Two Additional PreKindergarten Classes	2.346	0.1
Professional Development - Cultural Competency		0.1
Provide a STEM-Related Club for High School Students		0.1
Special Education Programs and Services Review		0.2
Subtotal	91.046	12.6
FY 2015 OPERATING BUDGET	21,579.889	2,317.3
FY 2014 - FY 2015 CHANGE	336.151	\$91.9
Less Enterprise funds	3.500	(60.8)
Less Grants	(25.200)	(77.9)
SPENDING AFFORDABILITY BUDGET	21,558.189	\$2,178.6
REVENUE INCREASE BY SOURCE		
Local (1)		80.4
State		13.8
Federal		(2.8)
Other		0.1
Fund Balance		-
Enterprise/Special Revenue Fund		0.4
TOTAL REVENUE INCREASE		\$91.9

9

**TABLE 2
BUDGET REVENUE BY SOURCE**

SOURCE	FY 2013 ACTUAL	FY 2014 BUDGET	FY 2014 CURRENT	FY 2015 ESTIMATED
CURRENT FUND				
From the County:	\$1,392,286,148	\$1,413,738,905	\$1,413,738,905	\$1,490,776,890
Local Contribution for State Retirement	\$27,227,553	34,511,689	34,511,689	37,809,551
Total from the County	1,419,513,701	1,448,250,594	1,448,250,594	1,528,586,441
From the State:				
Bridge to Excellence				
Foundation Grant	302,187,876	305,782,989	305,782,989	310,456,913
Geographic Cost of Education Index	32,796,296	33,636,554	33,636,554	34,394,095
Limited English Proficient	55,107,686	57,776,368	57,776,368	55,602,029
Compensatory Education	115,208,321	121,839,206	121,839,206	128,619,158
Students with Disabilities - Formula	34,967,841	35,214,250	35,214,250	35,854,834
Students with Disabilities - Reimbursement	14,905,288	13,354,565	13,354,565	15,347,937
Transportation	36,100,856	36,985,683	36,985,683	38,090,967
Miscellaneous	281,377	400,000	400,000	400,000
Programs financed through State Grants	2,859,930			
Total from the State	594,415,471	604,989,615	604,989,615	618,765,933
From the Federal Government:				
Impact Aid	504,490	400,000	400,000	400,000
Programs financed through Federal Grants	72,775,609	72,280,788	72,280,788	69,455,580
Total from the Federal Government	73,280,099	72,680,788	72,680,788	69,855,580
From Other Sources:				
Tuition and Fees				
D.C. Welfare	219,115	200,000	200,000	200,000
Nonresident Pupils	792,291	725,000	725,000	780,000
Summer School	1,506,343	1,305,000	1,305,000	1,400,000
Outdoor Education	487,564	525,000	525,000	525,000
Student Activities Fee	727,276	725,000	725,000	725,000
Miscellaneous	451,955	245,708	245,708	245,708
Programs financed through Private Grants	901,113	8,448,354	8,448,354	8,448,354
Total from Other Sources	5,085,657	12,174,062	12,174,062	12,324,062
Fund Balance	17,000,000	26,972,451	26,972,451	26,972,451
Total Current Fund	2,109,294,928	2,165,067,510	2,165,067,510	2,256,504,467
ENTERPRISE & SPECIAL FUNDS				
School Food Service Fund:				
State	1,097,324	2,236,607	2,236,607	2,236,607
National School Lunch, Special Milk and Free Lunch Programs	30,354,187	28,797,309	28,797,309	28,821,508
Child Care Food Program	1,393,322	1,334,335	1,334,335	1,334,335
Sale of Meals and other	17,942,534	18,821,419	18,821,419	18,829,956
Total School Food Service Fund	50,787,367	51,189,670	51,189,670	51,222,406
Real Estate Management Fund:				
Rental fees	3,026,997	2,920,399	2,920,399	3,166,047
Total Real Estate Management Fund	3,026,997	2,920,399	2,920,399	3,166,047

**TABLE 2
BUDGET REVENUE BY SOURCE**

SOURCE	FY 2013 ACTUAL	FY 2014 BUDGET	FY 2014 CURRENT	FY 2015 ESTIMATED
Field Trip Fund:				
Fees	1,735,962	1,917,672	1,917,672	1,895,960
Total Field Trip Fund	1,735,962	1,917,672	1,917,672	1,895,960
Entrepreneurial Activities Fund:				
Fees	2,235,250	2,848,540	2,848,540	2,910,612
Total Entrepreneurial Activities Fund	2,235,250	2,848,540	2,848,540	2,910,612
Total Enterprise Funds	57,785,576	58,876,281	58,876,281	59,195,025
Instructional Television Special Revenue Fund:				
Cable Television Plan	1,457,591	1,477,261	1,477,261	1,595,624
Total Instructional Special Revenue Fund	1,457,591	1,477,261	1,477,261	1,595,624
GRAND TOTAL	\$2,168,538,095	\$2,225,421,052	\$2,225,421,052	\$2,317,295,116

Tax - Supported Budget	FY 2013 ACTUAL	FY 2014 BUDGET	FY 2014 CURRENT	FY 2015 ESTIMATED
Grand Total	\$2,168,538,095	\$2,225,421,052	\$2,225,421,052	\$2,317,295,116
Less:				
Grants	(76,536,652)	(80,729,142)	(80,729,142)	(77,903,934)
Enterprise Funds	(57,785,576)	(58,876,281)	(58,876,281)	(59,195,025)
Special Revenue Fund	(1,457,591)	(1,477,261)	(1,477,261)	(1,595,624)
Grand Total - Tax-Supported Budget	\$2,032,758,276	\$2,084,338,368	\$2,084,338,368	\$2,178,600,533

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 2013 ACTUAL	FY 2014 BUDGET	FY 2014 CURRENT	FY 2015 ESTIMATED
<u>Budgeted</u>				
FEDERAL AID: NO CHILD LEFT BEHIND (NCLB)				
Title I - A (941/949)	\$ 20,999,778	\$ 23,957,144	\$ 23,957,144	\$ 22,355,254
Subtotal	20,999,778	23,957,144	23,957,144	22,355,254
Title I - D				
Neglected and Delinquent Youth (937)	194,970	131,896	131,896	131,896
Total Title I	21,194,748	24,089,040	24,089,040	22,487,150
Title II - A				
Skillful Teaching and Leading Program (915)	405,691	355,443	355,443	355,443
Teacher Mentoring (917)	139,672	249,480	249,480	249,480
Consulting Teachers (961)	3,383,537	3,205,176	3,205,176	2,910,100
Total Title II	3,928,900	3,810,099	3,810,099	3,515,023
Title III				
English Language Acquisition (927)	3,776,800	3,699,880	3,699,880	3,354,765
Title VII				
American Indian Education (903)	24,225	29,028	29,028	25,440
SUBTOTAL	28,924,673	31,628,047	31,628,047	29,382,378
OTHER FEDERAL, STATE, AND LOCAL AID				
Head Start Child Development (932)				
Federal	3,549,379	3,535,742	3,535,742	3,371,910
Individuals with Disabilities Education (907/913/963/964/ 965/966/967)				
Federal	29,533,256	30,314,319	30,314,319	29,634,218
Infants and Toddlers (930)				
Federal	793,028	823,695	823,695	797,345
Passthrough from Montgomery County Department of Health and Human Services	232,394	226,393	226,393	226,393
Education Jobs Fund (935)				
Federal*	343,626	-	-	-
Medical Assistance Program (939)				
Federal	4,348,530	4,412,832	4,412,832	4,705,938
National Institutes of Health (NIH) (908)				
Federal	245,487	254,733	254,733	265,252
Provision for Future Supported Projects (999)				
Other	7,365,655	8,448,354	8,448,354	8,448,354
Carl D. Perkins Career & Technical Ed. Improvement (951)				
Federal	1,200,624	1,085,027	1,085,027	1,072,146
SUBTOTAL	47,611,979	49,101,095	49,101,095	48,521,556

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

Program Name and Source of Funding	FY 2013 ACTUAL	FY 2014 BUDGET	FY 2014 CURRENT	FY 2015 ESTIMATED
TOTAL	\$ 76,536,652	\$ 80,729,142	\$ 80,729,142	\$ 77,903,934
Summary of Funding Sources				
Federal	\$ 69,170,997	\$ 72,280,788	\$ 72,280,788	\$ 69,455,580
State				
County				
Other	7,365,655	8,448,354	8,448,354	8,448,354
GRAND TOTAL	\$ 76,536,652	\$ 80,729,142	\$ 80,729,142	\$ 77,903,934

FOR INFORMATION ONLY			
Additional grant appropriation through the Provision for Future Supported Projects as of November 19, 2013			
DHHS Alternative Education Grant			\$ 64,000
DHHS Alternative Education Grant - Special Education Portion			61,750
Carl D. Perkins Biomedical Sciences			24,276
Carl D. Perkins CTE Connect to the Future			8,000
Carl D. Perkins CTE Computer Sciences Program			7,992
National Institutes of Health - Research Experience for Teachers			16,000
National Institutes of Health - Summer Institute			6,000
Medical Assistance			293,106
Head Start - Extended Year			101,256
Healthy Hunger Free Kids Act			8,500
SUBTOTAL FEDERAL FUNDING			590,880
Educator Effectiveness Academy			422,807
Maryland Model for School Readiness (MMSR) Program			69,301
Judith B. Hoyer Childcare & Education (Judy Centers)			644,000
SUBTOTAL STATE FUNDING			1,136,108
TOTAL			\$ 1,726,988

**TABLE 4
SUMMARY OF STUDENT ENROLLMENT - FY 2012 THROUGH FY 2015**

DESCRIPTION	(1)	(2)	(3)	(4)	(5)	CHANGE	
	FY 2012 ACTUAL 9/30/2011	FY 2013 ACTUAL 9/30/2012	FY 2014 ACTUAL 9/30/2013	FY 2014 BUDGET 9/30/2013	FY 2015 Projected 9/30/2014	COLUMN (5) LESS COLUMN (4)	
						#	%
ENROLLMENT							
PRE-KINDERGARTEN	2,060	1,989	1,899	2,145	2,145		
HEAD START	618	618	628	628	628		
KINDERGARTEN	11,380	11,620	11,858	11,466	11,944	478	4.0
GRADES 1-5 / 6 *	54,994	56,768	58,121	58,360	59,453	1,093	1.9
SUBTOTAL ELEMENTARY	69,052	70,995	72,506	72,599	74,170	1,571	2.2
GRADES 6-8 **	30,972	31,228	32,125	32,037	33,012	975	3.0
SUBTOTAL MIDDLE	30,972	31,228	32,125	32,037	33,012	975	3.0
GRADES 9-12	44,764	44,707	44,759	44,505	44,680	175	0.4
SUBTOTAL HIGH	44,764	44,707	44,759	44,505	44,680	175	0.4
SUBTOTAL PRE-K - GRADE 12	144,788	146,930	149,390	149,141	151,862	2,721	1.8
SPECIAL EDUCATION							
PRE-KINDERGARTEN	951	1,030	1,112	1,213	1,364	151	13.6
SPECIAL CENTERS	444	485	486	540	522	(18)	(3.7)
SUBTOTAL SPECIAL EDUCATION	1,395	1,515	1,598	1,753	1,886	133	8.3
MONTESSORI CHARTER SCHOOL		68	99	101	130	29	29.3
ALTERNATIVE PROGRAMS	185	137	155	225	225		
GATEWAY TO COLLEGE	129	129	47	134	75	(59)	(125.5)
GRAND TOTAL	146,497	148,779	151,289	151,354	154,178	2,824	1.9

SOURCE: Division of Long-range Planning

NOTE: Grade enrollments include special education students

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

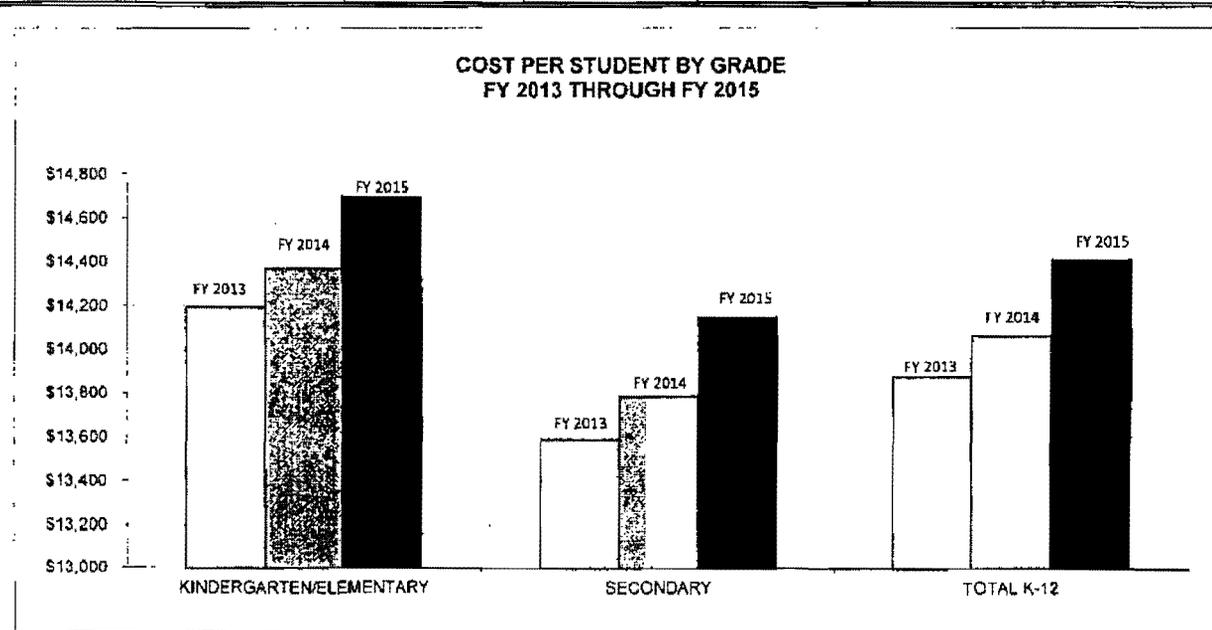
** Excludes enrollment numbers for Chevy Chase and North Chevy Chase Grade 6 that are budgeted in the elementary schools' enrollment figures.

**TABLE 5
ALLOCATION OF STAFFING**

	POSITIONS	BUDGET FY 2010	BUDGET FY 2011	BUDGET FY 2012	BUDGET FY 2013	CURRENT FY 2014	BUDGET FY 2015	FY 14-FY 15 CHANGE
1	Executive	19.000	17.000	17.000	19.000	21.000	21.000	-
2	Administrative - (directors, supervisors, program coordinators, executive assistants)	213.000	200.200	199.000	195.000	196.700	197.900	1.200
3	Business/Operations Administrator - (leadership positions supervised by directors and supervisors)	94.000	94.000	92.000	92.000	91.650	89.650	(2.000)
4	Other Professional - (12-month instructional/evaluation specialists)	210.800	198.500	186.900	182.300	183.500	191.500	8.000
5	Principal/Assistant Principal	485.000	484.000	484.000	486.000	491.500	494.000	2.500
6	Teacher	10,408.500	10,239.670	10,281.220	10,475.070	10,759.420	10,995.460	236.040
7	Special Education Specialist (speech pathologists, physical/occupational therapists)	469.500	479.600	482.400	495.200	506.750	508.958	2.208
8	Media Specialist	201.500	197.500	189.200	190.200	192.200	195.500	3.300
9	Counselor	467.000	461.000	451.300	453.300	456.300	468.500	12.200
10	Psychologist	97.100	96.205	94.805	94.905	100.000	106.034	6.034
11	Social Worker	14.100	14.805	13.905	14.405	14.800	14.830	0.030
12	Pupil Personnel Worker	47.000	45.000	45.000	45.000	45.000	51.000	6.000
13	Instructional Aide and Assistant (paraeducators, media assistants, lunch-hour aides, parent assistants, instructional data assistants)	2,614.880	2,627.980	2,519.048	2,560.253	2,596.605	2,644.494	47.889
14	Secretarial/Clerical/Data Support (secretarial, clerical, personnel/transportation/fiscal/other lower grade program/data assistants)	1,020.837	1,000.025	997.250	988.100	986.525	983.250	(3.375)
15	IT Systems Specialist	144.500	143.000	131.000	131.000	131.000	132.500	1.500
16	Security - (includes all positions except those in lines 2,3,14 above)	229.000	227.000	227.000	227.000	227.000	228.000	1.000
17	Cafeteria - (includes all positions except those in lines 2,3,14,15 above)	557.448	557.488	556.448	557.948	558.948	561.448	2.500
18	Building Services - (includes all positions except those in lines 2,3,14 above)	1,309.700	1,319.200	1,335.200	1,342.700	1,365.075	1,376.700	11.625
19	Facilities Management/Maintenance - (includes all positions except those in lines 2,3,14,15 above)	349.000	347.000	344.500	345.000	354.000	354.000	-
20	Supply/Property Management - (includes all positions except those in lines 2, 3,14,15 above)	54.500	53.500	53.000	47.000	50.000	50.500	0.500
21	Transportation - (includes all positions except those in lines 2,3,14,15 above)	1,694.750	1,695.750	1,687.650	1,685.650	1,685.590	1,685.590	-
22	Other Support Personnel - (business, technology human resources, communications, printing, and other support staff)	248.800	245.250	224.400	234.575	230.075	229.075	(1.000)
	TOTAL	20,949.916	20,743.683	20,812.226	20,861.606	21,243.738	21,579.889	336.161

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

	KINDERGARTEN/ ELEMENTARY	SECONDARY	TOTAL K-12*	AMOUNT EXCLUDED*	TOTAL BUDGET**
FY 2013 BUDGET					
EXPENDITURES	\$970,827,703	\$1,039,120,060	\$2,009,947,763	150,081,832	\$2,160,029,595
STUDENTS 9/30/12	68,393	76,452	144,845		
COST PER STUDENT	\$14,195	\$13,592	\$13,877		
FY 2014 BUDGET					
EXPENDITURES	\$1,008,872,900	\$1,062,018,494	\$2,070,891,394	\$154,529,658	\$2,225,421,052
STUDENTS 9/30/13	70,197	77,037	147,234		
COST PER STUDENT	\$14,372	\$13,786	\$14,065		
FY 2015 BUDGET					
EXPENDITURES	\$1,050,413,798	\$1,110,835,520	\$2,161,249,318	\$156,045,798	\$2,317,295,116
STUDENTS 9/30/14	71,451	78,491	149,942		
COST PER STUDENT	\$14,701	\$14,152	\$14,414		



Notes:

Enrollment figures used to calculate cost per student excludes students in Gateway to College and PreK/Head Start.
 Operating budget funds used in the calculation excludes amounts for Summer School, Community Services, Tuition for Students with Disabilities in Private Placement, and Enterprise Funds.
 FY 2014 Figures Reflect Current Approved Budget.

**Montgomery County Public Schools
FY 2015 Operating Budget**

Strategic Priority Enhancements

Improve the Student Support Model

5.5 Elementary Counselors, 4.0 School Psychologists and 3.0 Pupil Personnel Workers - \$947,109

The role of Coordinated Student Services Teams (CSST) in schools is to align services and programs to enable students to acquire social and emotional competence, help educators promote social/emotional learning, identify mental health needs, and provide mental health support. Current staffing levels impose significant constraints upon the ability of student services personnel to deliver a comprehensive continuum of services.

To effectively enhance the work of CSSTs, and as part of a multi-year effort, the FY 2015 Recommended Operating Budget includes \$413,078 for an additional 5.5 elementary school counselors, \$300,421 for 4.0 school psychologists, and \$233,610 for 3.0 pupil personnel workers. Adding positions over three years will provide for lower caseloads for employees and improvement of services to our most vulnerable students. Deployment of new staff will be based on school enrollment and variables which are associated with high school drop-out rates and lack of school success, including Free and Reduced-price Meals System (FARMS) eligibility, attendance, mobility, and suspension rates. These variables will be weighted to identify schools with the most immediate needs.

Continue the Middle School Focus

10.5 Positions to Support English Language Learners - \$1,451,145

MCPS is recommending a comprehensive multi-year effort to address the performance of English language learners to ensure that students attain and progress in English proficiency, and score proficient in reading and math. To improve academic outcomes for these students \$1,159,545 is budgeted to enable 21 middle schools to receive direct consultation and professional development from an English language development teacher/coach. The English language development teachers/coaches (average of .5 per school) will build the capacity of general education staff to support the language and academic content needs of ESOL students, students whose parents have refused ESOL services, and reclassified English language learners who have exited the ESOL program within the past two years.

The English language development teacher/coach will (1) support general education classroom teachers to analyze assessment data and differentiate classroom instruction based on the English language proficiency levels of students; (2) facilitate the use of information and resources provided through system-wide ESOL training to customize professional development to school staff members; and (3) model lessons, observe and provide feedback to teachers, and support grade-level and content team planning.

In addition, \$291,600 is budgeted to expand the Sheltered Instruction Observation Tool (SIOP) model to these 21 middle school and to 13 elementary middle schools. The SIOP model, sponsored by research conducted by the Center for Research on Education, Diversity, and Excellence, will be used to design and deliver instructional strategies to help both ESOL and general education teachers meet the unique needs of English Language Learners (ELLs) as they acquire proficiency in English and in the content areas.

Existing professional development funds of \$995,366 are realigned and targeted to build the capacity of general education teachers and leaders to work with ESOL students to support their language development and acquisition of academic content. The professional development will include face-to-face training, core team training, and training of trainers

8.2 Teachers for Middle School Leadership - \$704,167

As part of Middle School Reform, 11 schools implemented a leadership model where team leaders and content leaders for departments were allocated as separate positions. For FY 2015, implementation will continue for the remaining 27 middle schools. Implementation will be over three years with twelve schools changing to the new model in FY 2015, nine schools in FY 2016, and the remaining six schools in FY 2017. The change from the current model where leaders sometimes serve in both roles consists of adding leadership positions to schools. These leaders teach four classes in addition to serving in the leadership role. Therefore, the cost of each position is a .2 FTE. To implement the model so that each school has a content leader for each major content area and team leaders for each grade level, each school requires an additional .6 or .8 for a total of 8.2 FTE positions between the twelve schools. This new model will allow for more focused attention on each of the content areas so that the teacher leaders have more time to coach and work directly with teachers in the department.

Middle School Improvement Strategy Implementation - \$102,835

The middle school improvement strategy is based on the Strategic Planning Framework and lessons learned from Middle School Reform. The theory of action that guides this work is: If we value and understand all 21st century adolescent learners, and engage them in relevant, rigorous, and culturally responsive learning experiences, then we will improve conditions for teaching and learning that promote academic excellence, creative problem solving, and social emotional learning, and they will leave 8th grade ready for high school.

The work being done involves identifying the specific knowledge and skills (aligned to the academic, creative problem solving, and social emotional competencies outlined in the strategic planning framework) students should have before entering 9th grade. By the spring of their 8th grade year, students will be able to demonstrate their mastery of these competencies in a culminating activity through the use of technology called a Middle School Passport. The Passport will be an e-portfolio that allows students to contribute artifacts to demonstrate their growth in each of the three competencies. The Passport will serve as an additional communication tool to parents about their child's growth. Utilizing the Passport to understand the student as a learner will help build relationships with staff and improve the conditions of teaching and learning.

A pilot group of five middle schools and leadership teams will study ways to incorporate the middle school academic, creating problem solving, and social emotional competencies

throughout the instructional program. School administrators will build collaborative planning time into the schedule for staff to incorporate these characteristics in their content areas, reflect on their own practice, develop authentic relationships with students and colleagues, balance content expectations with instructions/interactions using these competencies, and explore and exploit rigorous and culturally relevant instructional strategies. Leadership teams in the five schools will participate in a one-day workshop to focus on understanding the middle school improvement strategy, and to explore opportunities to incorporate the strategy in the school structure, curricula, and activities. During the school year, cohorts of staff will have opportunities to plan and design innovative ways to apply the middle school improvement strategy, including the implementation of the Passport.

Enhance High School Initiatives

15.0 FTE High School Focus Teachers - \$977,145

A key area of focus in high schools continues to be reducing the achievement gap between White and Asian students and their Black and Latino counterparts. The FY 2015 budget includes 15 positions to address the achievement gap in the most impacted high schools. These positions will be combined with the existing 23.5 positions (17.3 budgeted for the Downcounty Consortium (DCC) high schools plus 6.2 added in FY 2014 for three additional impacted high schools) to reduce class sizes in our most impacted schools. These positions will be allocated to the eight schools that received these positions in FY 2014, as well as to other schools impacted by poverty to lower class sizes in English and mathematics (with a focus on Algebra 1 and Geometry) across all four grades.

The 17.3 positions were originally allocated to the DCC high schools to lower class sizes in ninth grade. However, over the past few years, these positions have been used in other grades as well. In FY 2014, 6.2 positions were added to support Watkins Mill, Springbrook, and Gaithersburg high schools in English and mathematics. The 38.5 positions will be allocated to schools based on enrollment and poverty factors to be used to support instruction across all grade levels in mathematics and English classes. The intent is to lower the student to teacher ratios and to provide high quality teachers to provide this instruction. Schools are expected to provide a plan for use of these positions.

10.0 Teacher Positions to Increase Release Periods for High School Resource Teachers - \$651,430

Currently, resource teachers teach four classes, one less than classroom teachers. The additional release period provides time for resource teachers to fulfill leadership responsibilities including observations, coaching, professional development, planning for meetings, and providing other supports. While developing and providing support to classroom teachers is a key leverage point to achieve our goals, one release period does not provide the time needed for resource teachers to do this work. To accomplish this work, high school resource teachers in the critical content areas need additional time to work with, mentor, coach, and support teachers. The additional 10.0 teacher positions will provide 50 resource teachers an additional release period. An additional 10 teacher positions will be requested in FY 2016 to provide resource teachers in math, English, social studies, and science an additional release period.

5.0 High School Staff Development Teachers - \$345,488

Previous budget reductions resulted in each high school losing .6 staff development teacher position, and each school was allocated a .4 staff development teacher position. The result was that each school has less staff development support for teachers. The addition of 5.0 high school staff development teacher positions for FY 2015 will restore a .2 position to each of the 25 high schools. With the emphasis on improving instruction and preparing all students for career and college in our high schools, it is imperative that teachers have the required staff development support. In addition, the curriculum changes that will result from the Common Core State Standards will require much more focused support and assistance, which can only be accomplished by increasing the allocation of these staff development teachers. The additional .2 position per school will provide staff development teachers more time to provide school teams and individual teachers the support needed to build professional learning communities and focus on improving instruction and learning in all schools.

Project-based Learning (PBL) at Wheaton High School – \$49,500

Project-Based Learning (PBL) refers to students designing, planning, and carrying out an extended project such as a product, publication, or presentation. Teams of teachers, often from different disciplines, carefully plan learning experiences that engage students, scaffold skills, and culminate in a public sharing or presentation.

The additional amount requested to prepare for Wheaton's transformation from a traditional high school to a project-based community high school is \$49,000 for professional development. The following three interrelated initiatives are being developed and implemented:

- (1) Project-based learning: To ensure school staff understands the components of a successful project-based school, the budget includes funding for PBL materials, time for teachers to work on designing and implementing pilot projects, and the opportunity to work with an outside consultant to provide professional development on the principles for designing, assessing, and managing standards-focused projects as well as designing performance assessments.
- (2) Transformation of culture: The budget includes funding for summer professional development to help staff and students identify and understand the pillars of the cultural transformation. This work will help Wheaton High School move toward a culture of trust and transparency that supports all students and promotes PBL.
- (3) Collaborative partnerships among schools, parents, and the community: For FY 2014, Wheaton High School received a .4 staff allocation to coordinate the work of the three strategic plan subcommittees that focus on school culture, problem-based learning (PBL), and community outreach. For FY 2015, an additional .2 allocation will allow the school to expand its PBL efforts from experimental design in selected classrooms to a framework of PBL that is applied in all classrooms.

Minority Achievement Programs- \$50,000

In FY 2014, \$100,000 was budgeted to support minority achievement extracurricular programs in high schools. Schools applied for funds, and allocations were based on need and the ability of schools to support the program. Schools have initiated a variety of extracurricular programs that support improving achievement for minority students, including stipends for sponsors, materials for programs, and speaker fees. Each of the programs provides ongoing support for groups of minority students involved in programs outside of the student day. For FY 2015, an additional \$50,000 is budgeted to support these programs. These funds will be allocated through an application process.

Alternative Programs Redesign - \$136,534

The Alternative Programs redesign will strengthen the instructional program and learning environment for students who have not been successful in traditional middle school and high school programs. The redesigned program will include the following components of research-based best practices:

- Individualized alternative education plans with measurable goals and criteria for success.
- Comprehensive, therapeutic, and wrap-around services for students and families including both behavior and mental health specialists on site to support students as well as case managers to connect families to supports.
- Academic standards aligned with the Common Core State Standards that are transparently linked to future learning and work opportunities.
- Student-centered project-based instruction and experiential learning, including online learning opportunities.
- A healthy and inviting physical environment that fosters education, emotional well-being, and sense of pride.

Each student will have a personalized learning plan that is coordinated, monitored, and revised as needed. Student support teams consisting of educators and mental health professionals will meet weekly to measure student progress toward academic and social emotional goals. The redesign team is exploring a partnership with the “City Connects” program that joins students and families to school and community resources. Expanded and individualized wrap-around services will address health-related and environmental barriers to student achievement.

For FY 2015, approximately \$300,000 is realigned to support the redesigned program. Resource teachers for individual programs are realigned to support content areas. Staffing reallocations will create a curriculum program coordinator position to develop and implement the instructional redesign, and reading specialist, school psychologist, and counselor positions to address academic and social emotional needs. An additional 1.2 FTE positions and \$136,534 is added to complete the redesign, including the creation of 1.0 City Connects Coordinator to develop and monitor student interventions. The additional funds will support additional position salaries and benefits of \$14,757. The remaining \$121,777 will allow resource and staff development teachers to attend a summer professional development conference to study best practices for alternative education, all staff to participate in a five-day summer onboarding retreat, and time for professional staff to create individual student learning plans.

Support Partnerships and Community Engagement

5.0 Positions for the Office of Community Engagement and Partnerships - \$532,230

Resources are requested to expand the Office of Community Engagement and Partnerships (OCEP) to enhance business and community engagement and partnership activities. These additional resources include two directors, two parent community coordinators, and one administrative secretary to enhance MCPS efforts to engage with parents and the community.

One director will lead OCEP's business and community partnership efforts, concentrating on building key relationships with corporate partners. This leader will develop strategies and networks to build new and strengthen existing partnerships, resulting in increased financial and volunteer support to MCPS' initiatives. The second director position will lead OCEP's engagement efforts, concentrating on exploring trends and activities in community organizing around education, as well as leading MCPS collaborations across disciplines to share resources and support family-facing staff throughout the system.

The two parent community coordinator positions will provide additional coordination of OCEP's parent and community engagement services, with direct focus on activities to implement Community Engagement Teams. The teams will work with Interventions and Innovation schools, as well as, the new Joint Engagement Plan. The Joint Engagement Plan requires coordination and oversight of a host of new activities in support of the superintendent's and Board of Education's outreach to families and communities. The administrative secretary will supported the expanded activities in the office.

Expand the Kennedy Cluster Project - \$118,157

The Kennedy Cluster Project was initiated in 2007 to identify and address the root causes of the achievement gap in MCPS. Schools in the Kennedy High cluster were selected as the focus of the project because the Kennedy Cluster schools enrolled large percentages of African American and Hispanic students, many of whom were poor or lived in homes where Spanish was the primary language. The Kennedy Cluster Project multiagency team representatives have provided students and their families support in school as well as access to health care, housing, financial assistance, legal aid, and many other social services. Although the achievement gap has not closed for the Kennedy Cluster students, there is evidence that the Kennedy Cluster Project has contributed to positive academic outcomes for individual at-risk students and for the Kennedy Cluster schools overall.

In FY 2015, the project model will expand to the Watkins Mill Cluster, and further expansion to other clusters is anticipated for FY 2016 and FY 2017. MCPS' share of this expansion for FY 2015 is \$118,227. This amount is distributed as follows:

- \$45,675 for a 0.5 evaluation specialist to conduct a study of the outcomes of the program. While the project has undergone several informal evaluations, there has never been an in-depth, formal evaluation conducted by the MCPS Office of Shared Accountability.
- \$60,552 for two 0.4 teacher-level positions to coordinate after-school programs at Col. E. Brook Lee Middle School and Montgomery Village Middle School. The Kennedy Project model includes extended-day programs in secondary schools, including Excel Beyond the Bell, Sports Academy, and Police Explorers. This position would report to the

principals of these schools and work with the multiple agencies that provided these programs to facilitate scheduling, coordination, and problem resolution.

- \$12,000 to help serve families. Currently, the Montgomery County Department of Health and Human Services provides \$12,000 per year to the Project's Multi-Agency Team to provide emergency cash assistance to families referred by the project schools. This amount would be a matching share from MCPS and would expand the Multi-Agency Team's ability to serve families in these schools.

Transportation for Students Attending Excel Beyond the Bell—\$148,480

Excel Beyond the Bell (EBB) provides high quality after-school programming for students to promote social, emotional, intellectual, and physical development. EBB operates as a collaborative partnership, combining the commitment and resources of the Montgomery County Recreation Department, the Montgomery County Collaboration Council for Children, Youth and Families, and MCPS. EBB is offered free of charge to students and their families, operates from 2:45 to 5:15 p.m. up to four days per week, and includes snacks and a hot meal, as well as transportation home for students. Course offerings vary by location and have included: Science, Technology, Engineering, and Mathematics (STEM) Academy; robotics; yoga; sports instruction; financial management; art and dance; and culinary arts. EBB currently is offered at six middle schools (Argyle, A. Mario Loiederman, Clemente, Forest Oak, Neelsville, and Col. E. Brooke Lee). The FY 2015 recommended budget assumes that one additional school, Montgomery Village Middle School, will receive the program as part of the expansion of the Kennedy Project Cluster. The budgeted dollars will be used to provide transportation for students participating in the program. Current activity bus funds cover buses that leave school at approximately 4:15 p.m., when MCPS-sponsored activities end. Because the EBB program extends until 5:15 p.m., additional funds are needed to pay for the 5:15 p.m. activity buses.

Provide Elementary School Support

Elementary Team Leaders - \$251,832

Most elementary schools receive seven team leader positions, and schools often use six of these seven positions for grade level teams, leaving one position for Special Education, ESOL, or the arts team. To provide opportunities for elementary schools with larger Special Education, ESOL, or arts teams with more than four full-time equivalent positions to have a team leader, an additional 40 team leader positions are budgeted for FY 2015 at a cost of \$251,832. Since some schools include ESOL and Special Education teachers on the grade level teams, not all schools will need the additional allocation even though they have more than four teachers.

7.0 Teacher Positions for Grade 5/6 Compacted Mathematics - \$456,000

The ongoing rollout for the Curriculum 2.0 mathematics program includes a compacted mathematics course beginning in Grade 4. Approximately 13 percent of the Grade 3 class was identified by schools for this course. Many schools had small numbers of identified students and could not support the course with existing staff. To support these students, MCPS added 10 teacher positions in the FY 2014 Operating Budget to support those who have demonstrated proficiency in the grade-level curriculum and need additional challenge. During FY 2014, students who met this designation are taking the equivalent of mathematics curriculum for Grades 4 and 5 during Grade 4. An additional 7.0 teacher positions are included in the FY 2015

Recommended Operating Budget to support these students as they enroll in the compacted Grade 5/6 Mathematics Curriculum next year.

8.0 Teacher Positions for Elementary Schools that had Previous Reductions in Staff Development Teacher, Reading Specialist, Media Specialist, or Counselor Positions - \$541,677

Reductions in the budget over the past five years resulted in small and midsize schools losing either a .5 of a 1.0 teacher position in one or two of their teacher-level support positions. These positions include staff development teacher, reading specialist, media specialist, and counselor. Small and midsize non-focus schools had a reduction of either a 1.0 or a .5, while focus schools had a reduction of a .5 teacher position. Schools determined which of the four positions to reduce based on their individual needs. Prior to these reductions, all elementary schools had a full-time allocation for each of the positions.

With increases in enrollment over recent years some of these schools have struggled to provide support with this reduction. The restoration of eight positions in FY 2015 will mean that .5 positions will be restored at 16 schools. The restorations will occur at schools that had lost 1.0 position while others will be at schools that had lost a 0.5 position. The restoration will be based on enrollment in kindergarten through Grade 5. In addition, a plan is in place to restore another eight positions in FY 2016, and eight positions in FY 2017, for a total of 24.0 positions over three years. At that time, all elementary schools will have a 1.0 position for each of the four types of positions.

Investing in Initiatives Across Grade Levels

Career Lattice Program - \$800,000

The Career Lattice provides educators with opportunities to make a difference in student achievement beyond their classroom, as well as an incentive to work in high-need schools. Participants in the Career Lattice assume greater levels of responsibility for improving student learning, both inside and outside the classroom.

The Career Lattice provides recognition and career planning opportunities for exemplary teachers to retain direct responsibility for students while accepting additional responsibilities as leaders, coaches, and facilitators of school improvement. The budget includes \$500,000 to provide salary supplements to:

- Attract and retain high-performing teachers, especially in high-need schools;
- Promote leadership skills among teachers, both in the classroom and in the larger school community to the benefit of the instructional program;
- Promote teacher leadership for measureable educational improvements; and
- Promote and support collaborative and reflective practices that influence school culture and student achievement.

In addition, \$300,000 is budgeted to provide grants to high needs schools for locally designed school improvement projects that will increase student learning. Supported school improvement projects must be aligned with the school improvement plan. Proposals for projects will be developed by the school leadership team in conjunction with the lead teacher. The projects will be monitored by the school leadership team. In order to take advantage of the enhanced skills

and leadership of lead teachers, these school improvement projects will be implemented by lead teachers.

As a component of the Teacher Professional Growth System (PGS), the Career Lattice recognizes those teachers who are exemplary, and provides a structure for career planning that expands professional opportunities for teacher leaders while allowing them to continue to have direct responsibility for student learning. This final step in the development of the Teacher PGS reinforces the importance of high-quality teachers in every classroom.

Expand Innovation Schools - \$75,000

Innovation Schools are currently receiving intense support in designing and implementing innovative school improvement and professional learning plans to accelerate the closing of achievement gaps. Customized plans of support have been crafted according to each school's specific needs. By providing one-on-one coaching and support to school principals, the Chief School Improvement Officer partners with schools in leading the process of improvement, focusing on the development of high-performing leadership teams, and enhancing instructional programming. The Innovation Schools serve as a key example of how central services is collaborating with our school leaders in new ways and informing next steps in improvement system-wide.

Funds budgeted to support the Innovation Schools will be used for: (1) professional learning to facilitate school improvement at the Innovation Schools; (2) the Panasonic Foundation partnership; and (3) the career lattice. For FY 2015, \$75,000 will provide for substitutes and stipends to provide time for leadership team members to deepen their work as leaders of school improvement practices and to engage in their own learning of school improvement strategies. The funds will be allocated to individual Innovation Schools to support the development and implementation of each school's school improvement plan. Additionally, members of leadership teams may engage in cross-school learning together with other Innovation Schools to further their development as leaders of school improvement in specific strategy areas.

The Panasonic Foundation partners with the Innovation Schools to provide professional learning experiences; to co-facilitate the innovation network design; and to author reports on the progress of the initiative. Existing funds of \$75,000 will continue to be used as matching funds to the Panasonic Foundation to facilitate the foundation's achievement of these purposes and to demonstrate our commitment to the Innovation Schools' work.

The Innovation Schools also will have the first opportunity to interview and hire teachers who have attained lead teacher status as designated by the Career Lattice.

Resources for the Intervention Schools Network - \$226,881

The Interventions Schools Network began in FY 2014 and is comprised 10 schools that are part of a district-wide initiative to improve the timeliness and quality of interventions for students who are struggling. These schools have created student support teams that meet regularly to assess student performance, problem-solve and plan instruction, and monitor progress. A 1.0 instructional specialist and \$81,881 is recommended for FY 2015 to provide direct support and assistance and professional development to the Intervention Schools. In addition, \$145,000

is budgeted for professional development materials, contractual services to support implementation and monitoring of the early warning indicators system, and to purchase materials for pilot programs to support personalized learning. The additional support will include coaching schools in the Interventions Schools Network, technical assistance for infrastructure planning, and the delivery of early warning indicators through a blended learning model.

Expand the Use of Technology for Teaching and Learning - \$3,000,000

The innovative use of technology remains a significant strategy in MCPS' ongoing improvement initiatives, and advances in mobile, social, information, and cloud technologies are creating new opportunities for how we teach and learn. The convergence of these four forces is enabling access to personal mobile technologies to learn and work. Moreover, the interactive and mobile technologies with which our students are immersed outside of school present tremendous opportunities to redesign our learning environments. The growing use of personal and consumer-grade technology products in the workplace also increases the expectation of our staff and students to use their own technology tools at school.

The FY 2015 Operating Budget includes \$3 million to enable MCPS to move forward in acquiring mobile devices that are essential for transforming our learning environments for teaching and learning in the digital age. To prepare students to succeed in college and career pursuits, MCPS schools must have the ability to use instructional resources and pedagogical strategies that incorporate the technology that is part of daily life outside the classroom. In addition to being an integral part of enhancing student learning experiences, these devices also will be used to enable the district to comply with the state's Partnership for Assessment of Readiness for College and Careers (PARCC) online assessment requirements.

Special, Choice, and Signature Programs - \$200,000

MCPS provides a wide variety of specialized academic programs for students at the elementary, middle, and high school levels. Examples of these programs include elementary and middle school world language immersion programs, various magnet school programs in middle and high schools, International Baccalaureate Programs, and choice programs in the Northeast and Downcounty Consortiums. In addition, a number of high schools have created signature programs that integrate a specific focus or distinguishing theme with the skills, concepts, and instructional strategies of some portion of a school's curriculum. Each program is designed to provide enriched learning opportunities based on student interest, motivation and/or level of achievement in a particular area of study. Funding is included in the FY 2015 Recommended Operating Budget for an outside study of the Special, Choice, and Signature Programs in MCPS to assess their effectiveness in meeting the needs of students in the 21st century.

MONTGOMERY COUNTY BOARD OF EDUCATION
Rockville, Maryland

February 11, 2014

MEMORANDUM

To: Members of the Board of Education

From: Philip Kauffman, President 

Subject: Proposed Amendments to the Superintendent's Recommended FY 2015 Operating Budget

WHEREAS, On December 7, 2013, the Superintendent of Schools unveiled his Recommended FY 2015 Operating Budget to the Montgomery County Board of Education; and

WHEREAS, The Board held operating budget hearings that were attended by community members and key stakeholders who provided feedback on the budget recommendation that helped inform the Board's work during the Board's operating budget work sessions on January 23 and 28, 2014; and

WHEREAS, As a result, Board members have identified additional areas of need based on community input and the Board's review; now therefore be it

Resolved, That the Superintendent's Recommended FY 2015 Operating Budget be amended by the following additions:

1. Add Resources for Two Additional Prekindergarten Classes – 2.35 FTE Positions - \$140,441

The pre-kindergarten instructional curriculum prepares vulnerable learners for kindergarten readiness and future educational success. Our increasing outreach and relationship-building efforts with low-income families and community programs and agencies are likely to result in additional program applications. An increase of 2.35 FTE positions and \$140,441 is necessary to fund the cost of two pre-kindergarten classes to serve an additional 40 students.

2. Add Professional Development Funds for Training in Cultural Competency - \$125,000

The MCPS community increasingly reflects the rich cultural and linguistic diversity of a global society. This diversity requires that MCPS prepare all students and employees to understand how to productively and constructively live and work in a multicultural environment. Professional development opportunities are required to build the cultural competence of staff to ensure

high expectations for all students in our diverse community. Funding of \$125,000 will provide for contractual services for trainers, and substitutes for teacher leaders to attend training.

3. Add 3.0 Pupil Personnel Workers and 1.0 Psychologist - \$305,221

The Superintendent's Recommended FY 2015 Operating Budget includes the addition of 5.5 elementary school counselors, 4.0 school psychologists, and 3.0 pupil personnel workers to enhance the work of Coordinated Student Services Teams (CSST) in schools. Current staffing levels have imposed significant constraints on the ability of the teams to ensure that services and programs are aligned to enable students to acquire social and emotional competence, help educators promote social/emotional learning, identify mental health needs, and provide mental health support.

While this is the first year of a multi-year effort, additional positions are needed for FY 2015 to lower caseloads to a more manageable level and effectively improve services to our most vulnerable students. The cost of adding 3.0 pupil personnel workers and 1.0 psychologist is \$305,221.

4. Add Funds to Provide for a Science, Technology, Engineering, Mathematics (STEM) Club for High School Students - \$39,150

Montgomery County Public Schools (MCPS) students must be critical thinkers who are able to solve non-routine problems in a globally competitive society. The addition of an extracurricular STEM Club in our high schools will provide interested student's opportunities to extend and enrich the STEM instruction they are receiving in the classroom. The cost to provide stipends for high school club sponsors is \$39,150.

5. Add Funds for a Special Education Program and Services Review - \$150,000

A comprehensive review of MCPS special education programs and services is necessary to ensure that students with disabilities have access to high-quality, rigorous instruction and have the supports that will enable them to be successful. An additional \$150,000 is required to conduct this review in FY 2015.

Copy to:

Dr. Starr, Mr. Bowers, Dr. Schiavino-Narvaez, Dr. Statham
Mr. Ikheloa, Dr. Zuckerman

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

March 11, 2014

MEMORANDUM

To: Members of the Board of Education
From: Joshua P. Starr, Superintendent of Schools
Subject: Monthly Financial Report

This financial report reflects the actual financial condition of Montgomery County Public Schools (MCPS) as of January 31, 2014, and projections through June 30, 2014, based on program requirements and estimates made by primary and secondary account managers. At this time, revenues have a projected surplus of \$1.5 million, and expenses have a projected surplus of \$13.5 million. There is no change in projected revenue from the previous estimate. The projected expenditure surplus is \$1.0 million lower than reported last month.

As a result of cumulative savings in Fiscal Year (FY) 2011, FY 2012, and FY 2013, and after the County Council appropriated \$27.0 million to fund the FY 2014 Operating Budget, the FY 2014 beginning fund balance as of July 1, 2013, is \$22.1 million. Based on revenue and expenditure projections as of January 31, 2014, the FY 2014 fund balance at year end will be \$37.2 million. My expectation is that the available fund balance will be used for appropriation over several years to avoid any sudden increase in the need for local contribution to replace fund balance as a revenue source.

Attachment 1 presents a chart displaying budgeted and projected revenues as reflected in this report. Attachment 2 is a chart detailing expenditure information by state category. The chart displays authorized (budgeted) expenditures, actual year-to-date expenditures and encumbrances, projected expenditures for the remainder of the fiscal year, and the projected year-end balance as reflected in this report.

REVENUE

Total revenue is projected to be \$2,243,644,536, which is \$1.5 million more than the revised budget of \$2,242,144,537. There is no change from the previous month's projection.

County

The projected revenue from the county is \$1,448,250,594. There is no change in the projection from the prior month.

State

The projected revenue from the state is \$606,439,615. This is \$1.45 million more than the \$604,989,615 budgeted. There is no change in the revenue projection from last month. The additional revenue of \$1,450,000 from the state is related to special education students placed in nonpublic programs. The state has informed MCPS of a change in the calculation of the local contribution, which is based on 300 percent of the average per-pupil cost that is locally funded, plus 30 percent of the cost that exceeds the 300 percent amount. The state pays 70 percent of the cost that exceeds the 300 percent amount. As the 300 percent amount is lower, the MCPS share of the cost is lower and the state's share is higher.

Federal

Projected revenue from Impact Aid is \$200,000. This is \$200,000 less than the \$400,000 budgeted; however, there is no change from the prior month's projection. The impact of sequestration is expected to result in less support for federally connected students.

Other

The projected revenue from other sources is \$3,975,708, which is \$250,000 more than the FY 2014 budget. There is no change in the amount projected from the previous estimate. Most of the additional revenue is from summer school fees.

Appropriated Fund Balance

As reported last month, the projected revenue from appropriated fund balance is \$32,450,617. This amount includes \$5,478,166 for prior-year encumbrances.

Enterprise Funds

The projected revenue from enterprise funds is \$60,421,436.

Supported Projects

The anticipated revenue for supported projects is \$91,906,567. This estimate includes \$11,177,425 carried forward from FY 2013. Projects approved through January 31, 2014, have been assigned \$86,515,835.

EXPENDITURES

The projected surplus of \$14,500,000 reported last month is reduced by \$1.0 million to \$13,500,000. There are projected surpluses in Category 1, Administration; Category 2, Mid-level Administration; and Category 3, Instructional Salaries. There is a projected deficit in Category 10, Operation of Plant and Equipment. Expenditures for all other categories are projected to be on budget by the end of the fiscal year. The following provides an explanation of the projections for each category, including changes from the prior month.

Category 1—Administration

The projected end-of-year surplus of \$500,000 in Category 1, Administration, remains the same as reported last month. As of January 31, 2014, 93.4 percent of the funds budgeted in the category have been spent or encumbered. It is projected that an additional \$2.0 million or 5.3 percent of budgeted funds will be spent during the remainder of the year. Currently, there are 15.3 vacant Full-time Equivalent (FTE) positions, and there is no significant change in the number of vacancies from last month. The balances associated with these vacancies are offset by the estimated amount that will be needed to fill the vacancies. The projected position salary surplus is \$800,000; \$100,000 higher than the \$700,000 surplus reported last month based on additional actual salary data. There is a projected surplus of \$400,000 for temporary part-time salaries, and there is no change from last month's projection. The projected deficit of \$600,000 for contractual services has increased by \$100,000 to \$700,000. The deficit in contractual services is due to higher than budgeted costs for legal services and the hiring of outside contractors for technology services as a result of vacant positions.

Category 2—Mid-level Administration

The \$2.0 million projected end-of-year surplus in Category 2, Mid-level Administration, has not changed from last month's projection. As of January 31, 2014, 97.2 percent of the funds budgeted in this category have been spent or encumbered, and it is anticipated that an additional \$1.9 million or 1.4 percent of budgeted funds will be expended during the remaining months of the year. Currently, there are 17.3 vacant FTE positions, and there is no significant change from the number of vacancies reported last month. Most of the surplus projected for the category (\$1.7 million) is related to position salary balances. Also, the projected surpluses of \$200,000 for long-term leave and workers' compensation reimbursement, and the \$100,000 surplus in contractual services, supplies and materials, and mileage reimbursement for local travel remain the same.

Category 3—Instructional Salaries

Category 3, Instructional Salaries, is projected to end the year with a surplus of \$14.0 million. This is an increase of \$1.0 million more than the \$13.0 million surplus reported last month. Approximately 96.1 percent of the funds budgeted in Category 3, Instructional Salaries, have

been spent or encumbered. It is projected that an additional \$18.8 million or 2.2 percent of the budgeted amount will be spent during the remainder of the year. The \$11.2 million surplus in position salaries reported last month has increased by \$200,000 to \$11.4 million. Currently, there are 161.8 position vacancies, and this number is expected to fluctuate each month. The balance includes salaries for long-term substitute teachers who fill vacant teacher positions. The \$1.8 million surplus projected in temporary part-time salaries has increased by \$800,000 to \$2.6 million. The surplus is primarily related to surpluses in expenditures for short-term substitute salaries, long-term leave, and costs for sick and annual leave payments to employees.

Category 4—Textbooks and Instructional Supplies

The expenditure projection for Category 4, Textbooks and Instructional Supplies, has not changed from last month and is expected to be on budget. As of January 31, 2014, approximately 64.3 percent of the funds budgeted in this category have been spent or encumbered. Remaining funds are projected to be spent throughout the rest of the fiscal year for textbooks, instructional supplies and materials, media materials, and school equipment purchases that cost less than \$1,000.

Category 5—Other Instructional Costs

As reported last month, expenditures in Category 5, Other Instructional Costs, are projected to be on budget. As of January 31, 2014, approximately 65.3 percent of the funds budgeted in the category have been spent or encumbered. Examples of expenditures that will be made throughout the rest of the fiscal year include costs for interscholastic sports, replacement of school furniture and equipment, and maintenance of duplicating equipment.

Category 6—Special Education

Expenditures for Category 6, Special Education, are projected to be on budget, and there is no change from last month's projection. As of January 31, 2014, 98.1 percent of the funds budgeted in this category have been spent or encumbered. Currently, there are 15.8 vacant FTE positions. Last month's projected position balance of \$200,000 has increased by \$300,000 to \$500,000 based on analysis of an additional month of actual position salary data. Position salary balances resulting from vacant FTE positions are offset by long-term substitutes for classroom coverage and temporary part-time salaries and contractual services to provide services to students with disabilities as prescribed in their Individualized Education Programs. The deficit of \$200,000 projected for tuition for students in nonpublic programs has increased by \$300,000 to \$500,000. The number of students enrolled in school-age day programs is projected to increase through the remainder of the year. Also, while the FY 2014 budget included an assumption of a 2.0 percent tuition rate increase, the final state-approved tuition rate increase is 2.5 percent.

Category 7—Student Personnel Services

As reported last month, expenditures for Category 7, Student Personnel Services, are projected to be on budget. As of January 31, 2014, approximately 97.1 percent of all budgeted funds in the category have been spent or encumbered. There are 3.1 FTE position vacancies and salary balance of \$300,000. This balance is \$50,000 higher than the \$250,000 reported last month. Expenditures for part-time salaries and operating expenses will continue to be made throughout the year and are expected to offset the surplus in salaries.

Category 9—Student Transportation

The projection for Category 9, Student Transportation, is expected to be on budget as reported last month. As of January 31, 2014, approximately 85.3 percent of all budgeted funds in the category have been spent or encumbered. Based on a projection of 63 vacant FTE positions at year end, there is a position salary surplus of \$2.5 million, and there is no change from the prior month. This surplus is offset by projected expenditures of \$2.3 million for temporary part-time school bus operator salaries. While prices are volatile, it is anticipated at this time that expenditures for school bus fuel will be on budget. Expenditures for bus parts and contractual school bus repair services are projected to be \$200,000 higher than the amount budgeted.

Category 10—Operation of Plant and Equipment

The deficit of \$1.0 million reported last month for Category 10, Operation of Plant and Equipment, has increased by \$2.0 million to \$3.0 million. Approximately 82 percent of all budgeted funds in this category have been spent or encumbered. It is projected that an additional \$23.8 million will be spent throughout the remainder of the year. Currently, there are 40 FTE position vacancies, primarily building service positions. There is no significant change in the number of vacancies, and the projected position salary surplus of \$400,000 remains the same as last month. Also, the projected deficit of \$400,000 for building service substitute salaries reported last month remains the same. The \$1.0 million projected deficit for utilities reported last month has increased by \$2.0 million to \$3.0 million. Severely cold weather during the month of January has resulted in a projected 25 percent increase in the consumption of electricity, natural gas, and fuel oil. In addition, rates have increased due to the imbalance between supply and demand. While the price for the majority of MCPS' anticipated electricity and natural gas requirements was fixed through contracts, a portion of the electricity and natural gas is purchased at market rates. This projection is subject to change if weather conditions for the remainder of the year do not follow prior year trends. The current projection is in contrast to the last several years where large surpluses were based on moderate weather, decreasing energy rates, and increased energy conservation.

Category 11—Maintenance of Plant

Expenditures in Category 11, Maintenance of Plant, are projected to be on budget, and there is no change in the projection from last month. Approximately 88.1 percent of budgeted funds have been spent or encumbered as of January 31, 2014, and all funds are expected to be spent by year end. Currently, there are 35 FTE position vacancies—1.0 more than reported last month. The \$640,000 position and temporary part-time salary surplus reported last month remains the same. There are offsetting deficits projected of \$150,000 in contractual services, \$160,000 for maintenance and grounds care supplies, and \$330,000 for vehicle operating costs.

Category 12—Fixed Charges

As reported last month, expenditures for Category 12, Fixed Charges, are projected to be on budget. Approximately 66.3 percent of budgeted funds have been spent as of January 31, 2014. The projected deficit of \$700,000 in tuition reimbursement for MCPS staff based on prior year actual expenditures remains the same as reported last month. Offsetting this deficit is a projected surplus of \$100,000 in the *Federal Insurance Contribution Act* (FICA) tax. This is \$200,000 less than the \$300,000 surplus reported for FICA last month. The \$300,000 surplus in the administrative retirement fee that is paid to the state is the same as reported last month. In addition, there is a projected surplus of \$200,000 for workers' compensation and a \$100,000 surplus for unemployment insurance.

JPS:LAB:TPK:jp

Attachments

MONTGOMERY COUNTY PUBLIC SCHOOLS
Monthly Financial Report and Year-end Projections
As of January 31, 2014

REVENUE

Source	FY 2014 Original Budget	Revised Budget(a)	Projection		Current Report Variance Over (Under) Revised Budget
			As of 1/31/2014	As of 12/31/2013	
County	\$ 1,448,250,594	\$ 1,448,250,594	\$ 1,448,250,594	\$ 1,448,250,594	\$ -
State	604,989,615	604,989,615	606,439,615	606,439,615	1,450,000
Federal	400,000	400,000	200,000	200,000	(200,000)
Other	3,725,708	3,725,708	3,975,708	3,975,708	250,000
Appropriated fund balance	26,972,451	32,450,617 (b)	32,450,617	32,450,617	-
Subtotal	2,084,338,368	2,089,816,534	2,091,316,534	2,091,316,534	1,500,000
Food Services	51,189,670	51,201,527	51,201,527	51,201,527	-
Real Estate Management	2,920,399	2,942,071	2,942,071	2,942,071	-
Field Trip	1,917,672	1,917,672	1,917,672	1,917,672	-
Entrepreneurial Activities	2,848,540	2,853,626	2,853,626	2,853,626	-
Instructional Television	1,477,261	1,506,540	1,506,540	1,506,540	-
Supported Projects	80,729,142	91,906,567 (c)	91,906,567	91,906,567	-
Total	\$ 2,225,421,052	\$ 2,242,144,537	\$ 2,243,644,536	\$ 2,243,644,536	\$ 1,500,000

Notes:

- (a) Revised budget includes carryover of prior-year encumbrances.
(b) Includes \$5,478,166 for prior-year encumbrances.
(c) Includes \$11,177,425 carried forward from FY 2013.

MONTGOMERY COUNTY PUBLIC SCHOOLS
Monthly Financial Report and Year-end Projections
As of January 31, 2014

EXPENDITURES

Category	Authorized Expenditures	Actual Year-to-Date Expenditures 1/31/2014	Encumbrances 1/31/2014	Expenditures and Encumbrances 1/31/2014	Projected Expenditures 6/30/2014	Current Report Projected Year-end Balance	Prior Report Projected Year-end Balance	Variance Over (Under)	(a) Percentage
01 Administration	\$ 38,400,552	\$ 20,976,900	\$ 14,885,707	\$ 35,862,607	\$ 2,037,945	\$ 500,000	\$ 500,000	\$ -	1.30
Position salaries		15,721,785	13,897,154	29,618,939					
Non-position salaries		348,773	32,593	381,366					
Operating expenses		4,906,343	955,959	5,862,302					
02 Mid-level Administration	136,576,527	\$ 70,354,164	\$ 62,351,067	\$ 132,705,231	1,871,296	2,000,000	2,000,000	-	1.46
Position salaries		67,859,106	61,913,944	129,773,050					
Non-position salaries		1,066,923	241,747	1,308,670					
Operating expenses		1,428,136	195,376	1,623,512					
03 Instructional Salaries	850,461,410	412,889,716	404,719,412	817,609,128	18,852,282	14,000,000	13,000,000	1,000,000	1.65
Position salaries		388,271,548	403,649,114	791,920,662					
Non-position salaries		24,618,168	1,070,298	25,688,466					
04 Textbooks and Supplies	23,687,738	13,144,700	2,090,157	15,234,857	8,452,881			-	-
05 Other Instructional Costs	12,285,803	6,738,000	1,282,131	8,020,130	4,265,673			-	-
06 Special Education	264,680,026	128,798,662	130,747,717	259,546,379	5,133,647			-	-
Position salaries		104,355,618	109,638,693	213,994,311					
Non-position salaries		3,320,093	409,184	3,729,277					
Operating expenses		21,122,951	20,699,841	41,822,791					
07 Student Personnel Services	10,436,067	5,499,801	4,633,677	10,133,478	302,588			-	-
Position salaries		5,189,577	4,513,145	9,702,722					
Non-position salaries		231,235	119,358	350,593					
Operating expenses		78,988	1,175	80,163					
08 Health Services	37,402	14,026	(0)	14,026	23,376			-	-
Position salaries				-					
Non-position salaries		1,722	0	1,722					
Operating expenses		12,304	(0)	12,304					

MONTGOMERY COUNTY PUBLIC SCHOOLS
Monthly Financial Report and Year-end Projections
As of January 31, 2014

EXPENDITURES

Category	Authorized Expenditures	Actual Year-to-Date Expenditures 1/31/2014	Encumbrances 1/31/2014	Expenditures and Encumbrances 1/31/2014	Projected Expenditures 6/30/2014	Current Report Projected Year-end Balance	Prior Report Projected Year-end Balance	Variance Over (Under)	(a) Percentage
09 Student Transportation	97,475,367	49,094,706	34,092,148	83,186,855	14,288,513			-	-
Position salaries		29,916,964	31,866,130	61,783,094					
Non-position salaries		4,330,566	251,319	4,581,885					
Operating expenses		14,847,176	1,974,700	16,821,875					
10 Operation of Plant & Equipment	114,956,217	62,992,994	31,185,883	94,178,876	23,777,341	(3,000,000)	(1,000,000)	(2,000,000)	(2.61)
Position salaries		33,488,586	29,598,016	63,086,601					
Non-position salaries		2,133,938	505,339	2,639,276					
Operating expenses		27,370,470	1,082,529	28,452,998					
11 Maintenance of Plant	34,638,857	17,912,967	12,597,847	30,510,815	4,128,042			-	-
Position salaries		12,348,680	10,751,976	23,100,656					
Non-position salaries		727,741	52,825	780,566					
Operating expenses		4,836,547	1,793,046	6,629,593					
12 Fixed Charges	506,130,567	335,632,647	181,069	335,813,716	170,316,851			-	-
14 Community Services	50,000	50,000	0	50,000	-				
Non-position salaries		0	0	-					
Operating expenses		50,000	0	50,000					
Subtotal	2,089,816,534	1,124,099,283	698,766,816	1,822,866,099	253,450,435	13,500,000	14,500,000	(1,000,000)	0.65
61 Food Services	51,201,527	28,555,960	9,402,734	37,958,694	13,242,833	-	-	-	-
51 Real Estate Management	2,942,071	1,597,483	778,415	2,375,897	566,174	-	-	-	-
71 Field Trip	1,917,672	760,820	142,810	903,630	1,014,042	-	-	-	-
81 Entrepreneurial Activities	2,853,626	1,469,453	427,443	1,896,896	956,729	-	-	-	-
37 Instructional Television	1,506,540	800,441	510,918	1,311,359	195,181	-	-	-	-
Supported Projects	91,906,567	41,139,212	22,817,440	63,956,652	27,949,915	-	-	-	-
Total	\$ 2,242,144,537	\$ 1,198,422,650	\$ 732,846,576	\$ 1,931,269,226	\$ 297,375,310	\$ 13,500,000	\$ 14,500,000	\$ (1,000,000)	0.60

Note:

(a) Percentage of projected year-end balance to authorized expenditures.

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SCHOOLS & ED

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MONTGOMERY COUNTY BOARD OF EDUCATION

850 Hungerford Drive • Rockville, Maryland 20850

March 21, 2014

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

RECEIVED
MONTGOMERY COUNTY
2014 MAR 28 AM 8:57

Dear Mr. Rice:

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 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 April 2013</u>	<u>Reported April 2012</u>
FY 2014		5.74	5.74	5.81
FY 2015	\$83.3 million	5.73	6.00	6.02
FY 2016	\$87.9 million	5.73	5.79	5.85
FY 2017	\$92.4 million	5.73	5.60	5.69
FY 2018	\$94.7 million	5.73	5.55	5.64
FY 2019	\$77.1 million	4.72	5.42	-
FY 2020	\$77.4 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 what was projected by the actuaries in April 2012 and 2013.

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

The calculation of the annual employer contribution above is based on actuarial work performed by the Montgomery County Public Schools (MCPS) actuary, AON Hewitt, and submitted to Mrs. Susanne G. DeGraba, chief financial officer, on March 4, 2014 (Enclosure A). The estimate is based on the updated market value of the plan as of January 31, 2014. 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, 2014.
- **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.

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-president of the Board of Education 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 starting 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 maintain 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. Additionally, the last year of recognition of the 2009 investment losses occurred with the valuation as of June 30, 2013. We expect the funded status of the plan to improve more rapidly now that those losses are behind us.

During FY 2013, the pension fund gained 13.0 percent to end the year at \$1.158 billion. During FY 2014, through January 31, 2014, the total fund has met its actuarial rate of return to earn just more than 7.5 percent, up to a value of \$1.293 billion as of January 31, 2014.

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 project 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, 2014.

Active employees

Beginning fund balance	\$30.9 million
Anticipated change to fund balance	<u>(13.0) million</u>
Projected ending fund balance	\$17.9 million

Retirees

Beginning fund balance	\$17.1 million
Anticipated change to fund balance	<u>1.4 million</u>
Projected ending fund balance	\$18.5 million

Changes were made to co-payments for both medical and prescription plans effective January 1, 2013. We also introduced a mandatory generic step therapy program and pharmacy restrictions for specialty medications.

The active employee fund balance is projected to decrease by almost \$13.0 million, slightly more than was planned. Revenues are tracking close to budgeted amounts. Claims are exceeding budget with medical claims experience being higher than expected due to a number of individual high claims. Additional reasons for the increase in costs include

increased enrollment and one-time costs related to the overlap of plans during the transition from UnitedHealthcare to Cigna.

The recently ratified negotiated agreements between the Board of Education and the employee associations include a reduction of the percentage of costs paid by MCPS during the next two fiscal years. Employees will see an increase in their premiums from the current 5 percent (HMO plans only) and 10 percent (POS, prescription, dental, vision) to 8 percent (HMO) and 13 percent (all other) in FY 2015 and 12 percent (HMO) and 17 percent (all other) in FY 2016 with an ability to reduce this by 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).

The retiree fund balance is projected to increase by \$1.4 million. Revenues and expenses are tracking close to budgeted amounts, with improved performance from the changes effected during FY 2013. There are no changes to retiree health plans during FY 2014. We anticipate moving to Medicare Part D with a wrap program for retirees on January 1, 2015. It is anticipated that this should provide some additional savings to the plan.

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

Sincerely,



Philip Kauffman
President

PK:jer

Enclosures

Copy to:

Members of the Montgomery County Council

Members of the Board of Education

Dr. Starr

Mr. Bowers

Dr. Zuckerman

Mrs. DeGraba

Mr. Klausling

Mr. Ikheloa



March 4, 2014

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

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, 2013 valuation. As a reminder, this assumes the January 31, 2014 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 a market value basis.

Valuation Date	Fiscal Year (FY) Ending	Board Contribution as % of Payroll	% Funded AVA Basis	% Funded MVA Basis
July 1, 2013	June 30, 2015	5.73%	69.01%	71.96%
July 1, 2014	June 30, 2016	5.73%	73.08%	76.72%
July 1, 2015	June 30, 2017	5.73%	76.67%	78.61%
July 1, 2016	June 30, 2018	5.73%	78.88%	80.48%
July 1, 2017	June 30, 2019	4.72%	81.82%	82.30%
July 1, 2018	June 30, 2020	4.62%	83.29%	83.29%
July 1, 2019	June 30, 2021	4.58%	84.21%	84.21%

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, 2013 actuarial valuation report.

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

Ms. Susanne DeGraba

March 4, 2014

Page 2

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

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

† Beginning with the July 1, 2010 valuation report, the contribution was increased with interest from July 1 to October 1 based on expected timing of the actual contribution. The 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 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 88 million of unrecognized asset gains as of July 1, 2014, contribution should decline over the next few years as the asset gains are reflected in the smoothed asset value.

There has been a great deal of volatility in the contribution rate in the past, and the causes of this volatility will continue into the future. One of the main causes of this volatility is the asset returns the fund generates. To calculate contributions, MCPS uses an actuarial value of assets which smoothes market returns over a 5-year period, but even with this smoothing technique, contributions and funded ratios can be volatile. The following table illustrates a distribution of financial outcomes over the course of a one-year time period including the potential change in the Plan's funded status and the corresponding impact on the contribution required for the fiscal year ending in 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. Also, for illustrative purposes, for a full year's volatility the table below is projected from the June 30, 2013 asset value as apposed from the January 31, 2014 value used in the 6-year projection above.

Ms. Susanne DeGraba
March 4, 2014
Page 3

Fiscal Year (FY) Ending	Percentile	Expected Return	Board Contribution as % of Payroll	% Funded AVA Basis	% Funded MVA Basis
June 30, 2016	5 th	(11.9%)	5.87%	70.52%	61.19%
June 30, 2016	25 th	2.4%	5.73%	72.49%	71.08%
June 30, 2016	50 th	7.2%	5.73%	73.16%	74.40%
June 30, 2016	75 th	12.3%	5.73%	73.87%	77.95%
June 30, 2016	95 th	30.5%	5.73%	76.38%	90.50%

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 70.52% 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, 2013 to the present. The normal distribution of return is based on a short term period of 1 year.

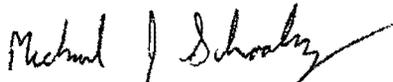
In order to complete this 6 year projection, we used the following methods and assumptions:

- All exits are replaced by new employees based on average new hire demographic information in the July 1, 2013 valuation data.
- 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 2013 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 January 31, 2014 (Actual Through December 31, 2013)

	FY14 Budget/Projection	YTD actual	Projected Remaining	Total	Variance Fav - (Unfav)
Revenue Receipts:					
County Appropriation	217,652,688	213,552,688	4,100,000	217,652,688	0
Enterprise Funds	9,242,780	4,383,809	4,803,991	9,187,800	-54,980
Capital Projects	1,150,927	531,993	528,214	1,060,207	-90,720
Supported Programs	8,181,264	4,157,412	4,244,313	8,401,725	220,461
Employee Payments	24,310,591	12,161,991	12,241,719	24,403,710	93,119
Optional Life	591,152	361,316	286,646	647,962	56,810
Investment Earnings	27,502	7,482	14,223	21,705	-5,797
Rebates/ Recoveries/Other	3,742,000	2,235,255	2,061,945	4,297,200	555,200
Total Revenue	<u>264,888,904</u>	<u>237,391,946</u>	<u>28,281,051</u>	<u>265,672,997</u>	<u>774,093</u>
Expenditures:					
Premiums:					
Prudential Life	3,787,200	2,128,039	1,575,500	3,703,539	83,661
Aetna Dental	1,939,800	1,104,702	827,500	1,932,202	7,598
Kaiser Permanente Health Plan	40,443,000	22,995,310	17,246,500	40,241,810	201,190
All Other	10,854,700	7,415,034	3,604,500	11,019,534	(364,834)
Claims:					
Dental	13,121,600	7,731,952	5,648,100	13,378,052	(256,452)
Health	151,586,100	91,702,265	66,571,800	158,273,865	(6,687,765)
Prescription	49,773,600	27,975,396	20,504,900	48,480,296	1,293,304
Vision	141,400	77,060	56,800	133,860	7,540
Administrative Expenses:	1,471,129	826,329	676,110	1,502,439	-31310
Total Expenditures	<u>272,918,529</u>	<u>161,956,087</u>	<u>116,709,510</u>	<u>278,665,587</u>	<u>(5,747,068)</u>
	<u>(8,019,625)</u>	<u>75,435,859</u>	<u>(88,428,459)</u>	<u>(12,992,600)</u>	<u>(4,972,975)</u>

42

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

	FY14 Budget/Projection	YTD actual	Projected Remaining	Total	Variance Fav - (Unfav)
Revenue Receipts:					
County Appropriation	47,258,001	46,358,001	900,000	47,258,001	0
Retiree Payments	28,095,830	17,854,045	11,358,435	29,212,480	1,116,650
Investment Earnings	-	2,330	1,150	3,480	3,480
Rebates/ Recoveries/Other	3,652,300	1,282,982	1,920,267	3,203,249	-449,051
Medicare Part D Reimbursements	3,443,000	1,737,070	1,705,930	3,443,000	0
Total Revenue	<u>82,449,131</u>	<u>67,234,429</u>	<u>15,885,782</u>	<u>83,120,211</u>	<u>671,080</u>
Expenditures:					
Premiums:					
Prudential Life	2,226,000	1,333,084	963,000	2,296,084	(70,084)
Aetna	393,000	235,398	173,000	408,398	(15,398)
Kaiser Permanente Health Plan	7,048,200	4,114,842	2,998,000	7,112,842	(64,642)
All Other	3,915,500	1,832,744	1,246,472	3,079,216	836,284
Claims:					
Dental	4,688,500	2,741,794	2,051,100	4,792,894	(104,394)
Health	34,491,500	20,076,129	14,704,000	34,780,129	(288,629)
Prescription	27,454,600	17,313,837	11,596,800	28,910,637	(1,456,037)
Vision	59,500	33,183	23,500	56,683	2,817
Administrative Expenses:					
	284,202	156,894	130,919	287,813	(3,611)
Total Expenditures	<u>80,561,002</u>	<u>47,837,905</u>	<u>33,886,791</u>	<u>81,724,696</u>	<u>(1,163,694)</u>
	<u>1,888,129</u>	<u>19,396,524</u>	<u>(18,001,009)</u>	<u>1,395,515</u>	<u>(492,614)</u>