

## Appendix

### **Achieving a Structurally Balanced Budget in Montgomery County Part II: Options for Long-Term Fiscal Balance**

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## **Glossary of Terms**

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**Actuary:** A person qualified to calculate pension and insurance premiums, reserves, and dividends using probabilities based on statistical records.

**Assessable base:** The value of all real and personal property in the County, excluding tax-exempt property.

**Core benefit:** For MCPS employees who participate in the Maryland State Teachers' Pension System, the pension benefit provided by the State. For MCPS employees who do not participate in the Maryland State Teachers' Pension System, the pension benefit provided by MCPS (excluding the *supplemental benefit*).

**Cost of living adjustment (COLA):** See "*general wage adjustment*."

**Cost share:** The allocation of benefit costs (such as annual health insurance premiums) between the employer and the employee.

**Debt service:** The annual payment of principal, interest, and issuance costs for bonded debt.

**Defined benefit retirement plan:** A type of retirement plan in which an employer pays employees a specific benefit for life beginning at retirement. The amount of the benefit is known in advance and is usually based on factors such as age, earnings, and years of service. A defined benefit retirement plan is commonly referred to as a "pension."

**Defined contribution retirement plan:** A retirement plan in which an employer annually contributes a specified percent of an employee's salary or a certain amount of money into a retirement account. A 401(K) plan is a type of defined contribution plan.

**Employee benefit:** Employee compensation (other than salary and wages) paid by an employer. Employee benefits include employer contributions for Social Security, retirement, and group insurance.

**Employee Retirement System (ERS):** Montgomery County Government's *defined benefit retirement plan*. Most public safety employees and general government employees hired before 1994 participate in the ERS.

**Fiscal Plan:** A six year summary of projected tax supported revenue and agency expenditures. On June 29, 2010, the Council approved the Tax Supported Fiscal Plan Summary for FY11-16.

**General obligation (GO) debt:** Bonded debt backed by the full faith and credit of the County to pay the scheduled retirement of principal and interest.

**General wage adjustment:** An increase to base salary granted to all employees on a specific date, usually the beginning of a new fiscal year. All eligible employees receive the general wage adjustment regardless of job performance. A general wage adjustment is also known as a "cost of living adjustment (COLA)."

**Group insurance:** Insurance that is purchased for a group (such as the employees of a government or private company) usually at a reduced rate for the benefit of individual members of the group. County agency group insurance offerings include health, prescription drug, dental, vision, life, and long-term disability plans. County agencies offer group insurance benefits to active and retired personnel.

**Guaranteed Retirement Income Plan (GRIP):** The retirement plan for which the County Government guarantees a specific rate of return on contributions into employee retirement accounts. Under this GRIP, the County Government currently guarantees an annualized return of 7.25%.

**Health maintenance organization (HMO):** A health benefit plan that covers only services provided by in-network physicians or specialists.

**Hybrid retirement plan:** A retirement plan that offers a combination of *defined benefit* and *defined contribution retirement plan* features.

**Increment:** See “*step increase*.”

**Non-tax supported resources:** Agency resources generated from non-tax sources that are earmarked for a specific purpose or use. Examples of non-tax supported resources include grant funding and fees for service that must be used for a specific purpose (such as Permitting Services and solid waste disposal fees). The *Fiscal Plan* excludes non tax supported revenue and expenditures.

**Operating expenses:** Annual operating budget expenditures other than personnel costs. Examples of operating expenses include expenditures for contractual support, utility payments, facility and vehicle maintenance, office and program supplies, and technology. Operating expenses exclude all expenditures funded through the capital budget.

**Other post-employment benefits (OPEB):** Benefits – other than pension benefits – that an employer provides to its retired employees, including healthcare coverage, life insurance, and deferred compensation. The Government Accountability Standards Board requires that public sector employers report future OPEB liabilities during the period of active service for employees and recognize unfunded OPEB costs as a liability.

**Out-of-pocket costs:** Health care charges that are not covered by an insurance plan.

**PAYGO:** “Pay As You Go” funding; capital project funding using current revenue rather than debt.

**Personnel costs:** Expenditures for employee salaries, wages, and benefits.

**Point of service (POS) plan:** A health plan in which beneficiaries receive services from a network of authorized providers. Beneficiaries have the option of accessing out-of-network providers by paying additional *out-of-pocket costs*.

**Reserves:** Accounts for funds that are not budgeted for expenditure in the current fiscal year.

**Retirement Savings Plan (RSP):** Montgomery County Government's *defined contribution retirement plan*. Most non-public safety employees hired after 1994 participate in the RSP.

**Revenue:** All funds that the County receives, including tax payments, fees for specific services, receipts from other governments, fines, forfeitures, shared revenues and interest income.

**Step increase:** An increase to base salary granted on a recurring basis. In general, to be eligible for a step increase, an employee must have a salary below the maximum for their pay grade and must meet minimum job performance requirements. Employees usually receive steps on the anniversary of their original hire date. A step increase is also known as an "increment."

**Supplemental benefit:** For MCPS employees, a pension benefit provided by MCPS in addition to the *core benefit*.

**Tax supported resources:** Agency resources generated from taxes and other sources of revenue that are not earmarked for a specific purpose or use. Examples of tax supported resources include tax revenues, State K-12 aid, and parking and library fines. The Fiscal Plan includes tax supported revenue and expenditures but excludes *non-tax supported* revenue and expenditures.

**Workyear:** A standardized unit of measurement of personnel effort, similar to the term "full-time equivalents." For non-public safety employees of the County Government, a workyear equals 2,080 hours of service. For most MCPS employees (e.g., teachers), a workyear refers to a ten-month position.

## LIST OF ADDITIONAL OPTIONS

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The eight issue papers in this Office of Legislative Oversight report (A through H) identify an array of potential budget savings and revenue raising options. In order to deliver a useful product to the Council, OLO selected a finite number of options to assess and present. Of course, there are many more alternatives that hold the potential to reduce costs or raise revenue.

This section of the Appendix lists some of the additional options that could achieve savings or raise revenue. Some are variations of the options described in the issue papers; others are different ideas entirely. Any of the ideas listed could be developed further by Legislative or agency staff.

The options listed in this Appendix are organized into five categories:

- Compensation and Workforce Size;
- Retirement and Pensions;
- Health Benefits for Active Employees;
- Health Benefits for Retired Employees; and
- Revenue Measures.

### Compensation and Workforce Size

1. **Index general wage adjustment (GWA) increases to inflation** – Establish a ceiling on all general wage adjustments, e.g., the rate of inflation (as determined by the consumer price index for the Metropolitan Washington area).
2. **Reduce the standard workweek and lower salaries accordingly** – Agencies could reduce hours across the board, in selected departments, or for certain functions of government.
3. **Reduce/revise pay “add-ons”** – Reduce or eliminate the provision of pay “add-ons” such as multi-lingual pay, shift differentials, etc.
4. **Reduce/revise amount of paid leave provided** – Decrease the amount of paid leave (e.g., annual leave, sick leave, paid holidays) provided to employees.
5. **Create a salary cap** – Establish a maximum salary limit for all County agency merit system, elected, and/or appointed employees.
6. **Index workforce to population (or an alternative measure)** – Establish a limit on increases in the workforce based on growth in the County’s population or another measure, such as growth (or decline) of school enrollment.

## Retirement and Pensions

7. **Require former public safety employees who move to non-Employee Retirement System (ERS)-eligible jobs before they retire to move from the ERS to the Retirement Savings Plan (RSP) or Guaranteed Retirement Income Plan (GRIP)** – Currently, public safety employees hired on or after October 1, 1994 (members of the ERS) who move to non-ERS-eligible jobs (jobs that would otherwise require participation in the RSP or GRIP) are allowed to remain in the ERS during their employment with the County Government.
8. **Prohibit employees from receiving a County-funded pension during any time period they are re-employed (as an employee or by contract) by a County-funded agency** – This would end the practice referred to as “double dipping” – collecting a pension from a County-funded agency while working for that same or a different County-funded agency.
9. **Provide annual retiree pension cost of living adjustments (COLA) as a lump sum cash payout** – Instead of adding annual pension COLAs to retirees’ base pensions, County agencies could provide COLAs as an annual lump sum payment that is not added to base pensions. Consequently, COLAs would be calculated based on a retiree’s original pension amount each year, rather than based on a steadily increasing pension amount.
10. **Cap the pension amount on which pension COLA increases are based** – County agencies could establish a maximum dollar amount used to calculate pension COLAs. Retirees would not receive a COLA on any amount over the cap.
11. **Cap active employees’ salary amounts used to calculate pensions** – County agencies could establish annually a maximum salary amount used to calculate retirement contributions. Some jurisdictions use the Social Security wage base for this purpose (\$106,800 in 2010).

## Health Benefits for Active Employees

12. **Provide incentives (e.g., a lump sum payment) for employees *not* to participate in a County-sponsored health plan** – This would provide employees a financial incentive to join a partner’s health plan.
13. **Increase the number of hours an employee must work per week to be eligible for health benefits** – County agencies could raise the minimum threshold and reduce the number of part-time employees eligible to participate in group insurance plans.
14. **Offer a high deductible plan as one medical plan option** – High deductible plans often have lower premiums because employees are required to pay more out-of-pocket before receiving plan benefits. High deductible plans have been written up as a strategy for lowering health care costs for both employers and employees because they carry a financial incentive for employees to be more “careful” consumers of health care.

15. **Modify the design of available health plan benefits, such as increasing co-pays, deductibles, or out-of-pocket maximums, or reducing the types of services covered** – These strategies reduce employers’ cost because they shift more of the cost of care to employees.
16. **Standardize options to a “lowest common denominator plan” (for actives and retirees)** – For plans that offer more than one option level – i.e., Carefirst standard and high options – agencies could charge employees 100% of the difference between the standard option and the higher option. An example of this strategy was already implemented by the County Government (starting in 2009) with the pricing of the standard vs. high option Caremark Prescription Drug Plan.
17. **Wellness Program/Disease Management** – Agencies could provide incentives (i.e., lower insurance premiums, subsidized gym membership fees) that encourage employees to participate in wellness programs that improve employees’ overall health, such as health screenings and exercise programs.
18. **Set insurance premium cost share based on salary** – Higher paid employees could be required to pay a higher percent of their health premiums than lower paid employees.

### **Health Benefits for Retired Employees**

19. **For County Government and M-NCPPC, establish separate premiums for pre-Medicare retirees instead of calculating a combined rate with active employees** – Currently, retirees under age 65 are combined with active employees for the purpose of setting premiums, raising the premiums for active employees. Premiums for these retirees could be calculated separately, raising the cost for these retirees, but potentially saving the agencies money because of the higher cost share paid by retirees.
20. **Change plan designs for retirees such as increasing co-pays, deductibles, or out-of-pocket maximums, or reducing the types of services covered** – These strategies shift more of the cost of care to retirees.
21. **Do not provide benefits to retirees who are eligible for coverage in new jobs** – County agencies could require retirees with access to health coverage through new jobs to enroll in that coverage, allowing them to resume County agency coverage when they no longer have access to other health coverage.
22. **Offer a choice between pre-Medicare benefits or post-Medicare benefits, but not both** – At retirement, employees could choose to receive either pre-Medicare benefits or post-Medicare benefits.
23. **Give retirees a fixed sum to buy insurance in the private market** – County agencies could offer a cash benefit for retirees to purchase private health insurance in lieu of offering agency-provided health coverage.

## Revenue Measures

24. **Enact new excise taxes** – Excise taxes are a ready source of additional revenue for the County because they lack the constraints on other types of County taxes, e.g., the County income tax rate (limited by State law) and County property tax revenue (limited by the Charter). The County could, for example, establish excise taxes on items such as plastic bags or bottles.
25. **Institute new user fees or service charges for previously “free” services** – Residents currently access numerous County services at no charge that are funded with general tax revenues. User fees or service charges for these services help limit the use of public services to what consumers are willing to pay.
26. **Request authority from the State to institute local income tax rates and to enact a millionaire tax** – Currently, State law caps County income tax levels. The County could request authority from the State to set tax levels independently, including a higher tax brackets for millionaires.
27. **Remove property sub-districts from the Charter limit on property tax revenue** – Montgomery County levies property taxes through multiple districts to fund programs and services ranging from storm drain improvements to urban districts to M-NCPPC programs and facilities. This revenue is subject to the Charter’s limit on property tax revenue. The County could increase its revenue capacity by sponsoring a Charter amendment to remove one or more of the sub-districts from the Charter limit.
28. **Establish additional development districts to fund infrastructure improvements** – Development districts use special assessments to finance specific transportation and water and sewer projects in a district. The County has two existing districts and is considering a third district in White Flint. Development districts provide a way to allocate costs among different stakeholders while raising revenue for financing that does not compete with general obligation debt.
29. **Temporarily suspend or reduce tax credits** – The County’s 20 tax credits, exemptions, or deferrals cost \$329 million in levy year 2009, with the Homestead Property Tax Credit (\$135 million) and the Local Income Tax Offset Credit (\$169 million) accounting for 92% of the cost. Suspending or reducing tax credits/exemptions/deferrals does not increase revenue because the Charter limit caps overall property tax revenue; however, it allows the County to redirect the revenue to other priorities.
30. **Revise the municipal property tax duplication payment formula** – The County’s Tax Duplication Program reimburses municipalities for public services the municipalities provide that would otherwise be provided by the County. In FY11, the County reduced these reimbursements by 15%, saving \$1.1 million. The Council could permanently revise the current formula (adopted via Council resolution in 1996) to provide lower reimbursements.



OFFICE OF THE COUNTY ATTORNEY

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MEMORANDUM

TO: Karen Orlansky  
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FROM: Amy Moskowitz *AM/EBZ*  
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Edward B. Lattner *Edward B. Lattner*  
Chief, Division of Human Resources & Appeals

VIA: Marc P. Hansen *Marc Hansen*  
County Attorney

DATE: October 28, 2010

RE: **Council Authority to Modify Employee Compensation and Benefits**

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Due to a structural budget deficit, your office is exploring options to suggest to the County Council on reducing the deficit. Specifically, you asked our office to address whether the County Council may change employees' compensation and benefits, including changes to retirement and health benefits, for both active employees and retirees.

**Summary**

In general, because retirement benefits are set forth in the County Code, they are contractual obligations protected by the Contract Clause of the United States Constitution. Retirement benefits contained in current collective bargaining agreements may also have Contract Clause protection. The Council may make a retroactive modification that causes a substantial impairment in retirement benefits only if the modification is reasonable and necessary to serve an important public purpose. The Council can avoid any Contract Clause issues by only making prospective changes that do not affect accrued retirement benefits.

In contrast to retirement benefits, the Council has more flexibility in making changes to health benefits because those benefits are not required by County law. The Council resolutions that address retiree health coverage do not create an interest protected by the Contract Clause

because they do not promise any particular level of benefit or subsidy and, unlike the retirement law, they do not state that retirees “vest” or that retiree health benefits are an obligation of the County. While certain health benefits for current employees are provided for in collective bargaining agreements (and for retirees in the FOP agreement), the benefits in those agreements, like the benefits in the Council’s resolutions, are subject to the Council’s decision to annually appropriate sufficient funds to cover the cost of implementing those agreements. The discretionary funding of health benefits stands in marked contrast to the County-mandated funding of retirement benefits, which are held in trust. Thus, even in the face of a multi-year agreement, the Council could decide not to fully fund an agreement in any given fiscal year without violating that agreement or implicating the Contract Clause.

Likewise, the Council enjoys broad discretion in setting salaries for each upcoming fiscal year, unfettered by either the Contract Clause or the applicable collective bargaining agreements. The Council cannot promise salaries beyond the current fiscal year because the Charter restricts Council from appropriating funds beyond the current fiscal year.

## I. THE CONTRACT CLAUSE

Article I, § 10, clause 1 of the United States Constitution provides that “No State shall . . . pass any Law impairing the Obligations of Contracts . . .”. It is well settled that, despite the absolutist nature of the Clause, the Constitutional prohibition against impairing the obligation of contracts is not to be read literally. *Keystone Bituminous Coal Ass’n. v. DeBenedictis*, 480 U.S. 470, 502 (1987). The Contract Clause does not prohibit governments from impairing contracts, but limits a government’s right to do so. The courts employ a three-part test for harmonizing the command of the Contract Clause with the necessarily reserved sovereign power of the government to provide for the welfare of its citizens. *Baltimore Teachers Union v. Mayor and City Council*, 6 F.3d 1012, 1015 (4<sup>th</sup> Cir. 1993).

### A. Is There A Contract And Has The Government Impaired That Contract?

First, the court must determine whether there has been impairment of the contract. This inquiry necessarily requires a determination of whether there is a contractual relationship in the first place. *Allstate Ins. Co. v. Kyong*, 376 Md. 276, 299, 829 A.2d 611, 624 (2003). A contractual relationship can arise either from a contract or even a statute “when the language and circumstances [of the statute] evince a legislative intent to create private rights of a contractual nature enforceable against the [government].” *Andrews v. Anne Arundel County*, 931 F. Supp. 1255, 1260 (1996), *aff’d without opinion*, 114 F.3d 1175, *cert. denied* 522 U.S. 1015 (1997) (quoting *United States Trust Co. v. New Jersey*, 431 U.S. 1, 17 n. 14 (1977)). But there is a strong presumption that statutes do not create contractual rights. *Nat’l R. Passenger Corp. v. Atchison, Topeka & Santa Fe R. Co.*, 470 U.S. 451, 465-66 (1985).

**1. Contracts and even statutes can create contractual rights protected under the Contract Clause.**

The County's retirement plans are set out in Chapter 33 (Articles III and VIII) of the County Code.<sup>1</sup> "[I]n Maryland, as in most states, public employee pension plans embody contractual rights and duties between and employee and the government as employer under the well-settled Contract Clause analytical approach." *Howell v. Anne Arundel County*, 14 F. Supp. 2d 752, 754 (D. Md. 1998); *Frederick v. Quinn*, 35 Md. App. 626, 629-30, 371 A.2d 724, 726 (1977) (statutory pension rights created a contract for purposes of Contract Clause).

Unlike retirement benefits, health benefits and salaries are not set out in law.<sup>2</sup> But they are addressed in the collective bargaining agreements, along with retirement benefits. Charter Sections 510, 510A, and 511 state that the County Council shall provide for collective bargaining for police officers, firefighters and general government employees. The three collective bargaining laws, set forth in Articles V, VII and X of Chapter 33 of the County Code, provide that salaries, retirement, and benefits are mandatory subjects of collective bargaining. See County Code Sections 33-80, 33-107, and 33-152. All current collective bargaining agreements contain provisions regarding these items.

**2. The Contract Clause prohibits only retroactive impairment of contract.**

The Contract Clause prohibits only a retroactive impairment of contract, not a prospective impairment.

A very important prerequisite to the applicability of the Contract Clause at all to an asserted impairment of a contract by state legislative action is that the challenged law operate with retrospective, not prospective effect. *Ogden v. Saunders*, 25 U.S. 213, 12 Wheat. 213, 6 L. Ed. 606 (1827). See also *Old Wine in Old Bottles: the Renaissance of the Contract Clause*, (1979) Supreme Court Rev. 95, 99. *United States Trust Co. [v. New Jersey]*, 431 U.S. 1, 52 L. Ed. 2d 92, 97 S. Ct. 1505 (1977)] explicitly restates the existence of statutory retroactivity as a necessary predicate for the applicability of the Contract Clause. *United States Trust Co.*, 431 U.S. at 18 n.15. The opinions in both *United States Trust Co.* and [*Allied Structural Steel Co. v. Spannaus*], 438 U.S. 234, 244, 98 S. Ct. 2716, 2722, 57 L. Ed. 2d 727 (1978)] strongly assert that the challenged legislation involved was retroactive and thus, inferentially, impaired the subject contracts. *United States Trust Co.*, 431 U.S. at 14; *Spannaus*, 438 U.S. at 246, 247, 249. No

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<sup>1</sup> Charter Section 401 requires that "[t]he Council shall establish by law a system of retirement pay."

<sup>2</sup> Salaries for the County Executive and Council members being a notable exception.

Supreme Court decision has been found in this court's research which has invalidated a non-retroactive state statute on the basis of the Contract Clause.

*Maryland State Teachers Assoc. v. Hughes*, 594 F. Supp. 1353, 1360-1361 (D. Md. 1984). See also *American Nat'l Fire Ins. Co. v. Smith Grading & Paving*, 454 S.E.2d 897, 899 n.2 (S.C. 1995) (internal citations omitted) ("The first inquiry of any Contract Clause analysis is whether the state law has operated as a substantial impairment of a contractual relationship. It is a long-held axiom of Contract Clause analysis that there is no impairment where the statute affects only future contracts between private parties. A non-retroactive statute affecting private contracts is, by definition, a statute that affects only future contracts and does not violate the Contract Clause.")

**B. The Contract Clause Prohibits Only A Substantial Impairment Of Contract.**

Second, a contract violation occurs only if the government substantially impairs a party's right under the contract. Legitimate expectations of the parties determine whether the impairment was substantial. In *Baltimore Teachers Union v. Mayor and City Council*, 6 F.3d 1012 (4<sup>th</sup> Cir. 1993) the court noted that the Supreme Court provided little guidance as to what constitutes substantial impairment, but assumes that a substantial impairment occurs "where the right abridged was one that induced the parties to contract in the first place or where the impaired right was on which there had been reasonable and especial reliance."

**C. The Government May Substantially And Retroactively Impair A Contract If Reasonable And Necessary To Serve A Legitimate Public Purpose.**

Finally, a government may substantially impair a contract if reasonable and necessary to serve a legitimate public purpose. Reasonableness is determined in light of whether the contract had "effects that were unforeseen and unintended by the legislature". Necessity means that the government did not have a less drastic modification available and the government could not achieve its goals without altering the contractual terms. Courts generally defer to the government in determining the reasonableness and necessity of a particular measure, unless a government seeks to impair its own contracts. But even where the government acts to impair its own contracts some degree of deference is appropriate. *United States Trust of New York v. New Jersey*, 431 U.S. 1 (1977); *Allied Structural Steel Co. v. Spannaus*, 438 U.S. 234.

**II. ANALYSIS**

**A. Retirement**

**1. The County's retirement plans.**

Charter Section 401 requires a retirement plan. The County's mandatory retirement plans—the Employees' Retirement System (ERS), a defined benefit plan, and the Retirement Savings Plan (RSP), a defined contribution plan—are set forth in County Code Chapter 33, Articles III and VIII.<sup>3</sup> Employees hired before October 1, 1994, and represented public safety employees participate in the ERS. At retirement, participants receive a monthly benefit determined by years of service and average final earnings. Within the ERS, different benefit structures exist for various groups of employees (e.g., fire fighters, police officers, employees hired after 1984 receive decreased benefits at social security normal retirement age). County Code Section 33-40 requires the County to fund retirement benefits on an actuarially determined basis. As required by federal law, the funds are held in trust, established under County Code Section 33-58. The funds become ERS assets, not County assets.

Non public safety employees and unrepresented public safety employees hired after October 1, 1994, chose to participate in either the RSP or the Guaranteed Retirement Income Plan (GRIP), a cash balance plan, established within the ERS. In both plans, each pay period, employees generally contribute 4% percent of their salary and the County contributes 8% percent of their salary (unrepresented public safety employees contributions are different). RSP participants invest the contributions in selected investment options. GRIP participants receive earnings at an annual rate of 7.25%. At retirement or termination of employment RSP and GRIP participants receive the value of their account balance. The County deposits the RSP contributions in a trust, established under County Code Section 33-124.

As established under Maryland case law, the retirement plans in the County Code are contractual benefits protected by the Contract Clause. In addition, County Code Section 33-34 specifically provides Contract Clause-like protection against reduction of pension benefits, precluding modifications that reduce existing benefits except as necessary to maintain the fiscal integrity of the system. County Code Section 33-34, which is part of the ERS, provides in part:

It is the policy of the county to maintain a system of retirement pay and benefits for its employees which is adequately funded and insures employees sufficient income to enjoy during their retirement years. Any modifications to such retirement system shall not reduce the overall value of benefits which existed for members immediately prior to such modifications except that benefits may be reduced if necessary to maintain the fiscal integrity of the system after a finding by the county council that such change is necessary.

## **2. Case law**

Maryland courts have held that pension plan statutes contain contractual rights between

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<sup>3</sup> The County also offers a voluntary deferred compensation plan under Internal Revenue Code Section 457(b) in Article IX of Chapter 33 of the County Code.

employees and the government protected under the Contract Clause.

Because a Contract Clause issue only exists if the legislation operates retroactively and not prospectively, the court in *Maryland State Teachers Association, Inc. v. Hughes*, 594 F. Supp. (D. Md. 1984) stated that there can be no expectation that pension plans can not be altered as to future benefits to be earned by future service. Likewise, in *Howell v. Anne Arundel County*, 14 F. Supp. 2d 752 (D. Md. 1998) the court recognized that the contract clause only protects against retroactive diminution of vested benefits and no contract clause violation occurs when legislation applies prospectively to non vested plan benefits. In these cases, there was no impairment because a reduced COLA would only apply to benefits earned after the effective date of the legislation. In both case, members would have COLA adjustments calculated under a bifurcated formula. In addition to a reduced COLA, *Hughes* involved a number of prospective changes to the retirement system and also included a bifurcated option under which the formula changed from 1.8% of average final compensation to .8% of average final compensation for years of service earned after the effective date of the legislation.

The retroactive diminution of pension benefits is more likely than not a substantial impairment because individuals plan their lives based on pension benefits. *Andrews v. Anne Arundel County*, 931 F. Supp. 1255 (1996), *aff'd without opinion*, 114 F.3d 1175 (1997), *cert. denied*, 522 U.S. 1015 (1997). But the government can modify pension terms as long as the changes do not adversely affect the benefits, or if adversely affected, are replaced with comparable benefits. *City of Frederick v. Quinn*, 371 A.2d 724 (1977).

If the government makes a substantial retroactive impairment to pension benefits, the court will examine the necessity and reasonableness of the government's decision. The necessity and reasonableness of a particular legislative act is a factual inquiry. In *Baltimore Teachers Union v. Baltimore*, the court held that a salary reduction plan adopted to meet immediate budgetary shortfalls did not violate the Contract Clause. While the court found that the plan was a substantial impairment, it concluded that the City's action was reasonable and necessary. Protecting the City's financial integrity was a significant public purpose justifying city action. Although the *Hughes* court held that the plaintiffs did not suffer any impairment because the changes to the pension plan were prospective, the court discussed whether the changes were reasonable and necessary had there been an impairment. The court concluded that due to the financial circumstances of the pension system and the State, the non drastic nature of the impairment and the unavailability of a more moderate course of action, the changes would be permitted, even if retroactive.

However, in *Andrews v. Anne Arundel County*, 931 F. Supp. 1255 (1996), *aff'd without opinion*, 114 F.3d 1175, *cert. denied*, 522 U.S. 1015 (1997), a case involving retroactive changes to the pension plan, the court did not find the County's action to be reasonable and necessary. Although the County argued the legislation was necessary for the "restoration of the actuarial

soundness” of the plan, the court ruled that the County “has failed to make a sufficient showing that the means which it has adopted to address the problem is the least drastic available.” The court also noted that the County acknowledged that an emergency did not exist and that courts have typically upheld “such extreme modifications only in the face of an emergency or temporary situations.”

### 3. Conclusion

If the Council wanted to change retirement benefits, it could modify benefits for new employees or for current employees as to benefits not yet earned (i.e., for future service). This would comply with the Contract Clause and County Code Section 33-34 because the Council would not reduce benefits “earned,” only future benefits.<sup>4</sup>

In order to substantially impair the benefits for retirees or current employees who have already earned service, the Council would have to find under Section 33-34 that such modifications were reasonable and necessary to “maintain the fiscal integrity of the system.” This also meets the standard established under the Contract Clause (i.e., such a drastic action was necessary and that no less dramatic remedial actions were available).

In addition to the County Code, the collective bargaining agreements contain retirement benefit provisions. These provisions typically call for the County Executive to seek an amendment to Chapter 33 of the County Code to implement the parties’ negotiated changes to the retirement law. The Council may either enact the legislation or decline in which case the retirement benefits do not become effective. But even when the Council does enact the requested legislation, the retirement provisions typically remain in the collective bargaining agreements. By retaining this language in a collective bargaining agreement, the parties arguably intend that the benefits remain for the term of the agreement.

It is unclear whether these collective bargaining agreements, independent of Chapter 33, provide an interest protected by the Contract Clause. This office addressed this issue in the context of Bill 45-10, which proposes changes to the disability retirement provisions in the retirement law. As this office noted, the most conservative course of action would make any changes be effective after the dates of the current collective bargaining agreements (i.e., 2011 and 2012). Any changes before then could be subject to the Contract Clause analysis, requiring the County Council to find that any substantial retroactive modifications are necessary and reasonable for the public good. The change must be due to “effects that were unforeseen and unintended by the legislature” with no other less drastic modification available and the County Council cannot achieve its goals without altering the contractual terms.

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<sup>4</sup> Although certain changes are clearly prospective, other changes are more difficult to classify as prospective or retroactive (e.g., increasing years of service for current employees in order to qualify for full benefits at retirement and changes in the cost of living adjustments (COLA)).

**B. Health Benefits**

**1. The County's health plans**

While retirement benefits are required under the Charter, there is no such requirement for health benefits. County Code Section 20-37(b) provides the only authority for the County to offer health benefits:

The county is hereby authorized and empowered to adopt or install a plan or system of group health and life insurance and group hospitalization in cooperation with the employees or any portion thereof in any office, agency or branch of the government of the county and with paid employees of quasi-public corporations engaged in the performance of governmental functions, such as fire departments, whenever it may deem such to be advisable in the interest of the health, comfort and welfare of the county.

Unlike retirement benefits, which are provided in the County Code, the County has established health benefits solely through policy, collective bargaining agreements, and the budget. Currently, only the Summary Description formally describes benefits and eligibility. In addition, since 1994, the Summary Description has contained a provision reserving the right to amend plan terms. The Summary Description for active employees and retirees and all health plan communications state:

The County expects to continue the Plan, but it is the County's position that there is no implied contract between employees and the County to do so, and reserves the right at any time and for any reason to amend or terminate the Plan, subject to the County's collective bargaining agreements. The Plan may also be amended by the County at any time, either prospectively or retroactively.

Over the years the County has modified and otherwise made changes to health benefits (e.g., changes in copayments; change in plan structure). This demonstrates that the County has no contractual obligation to provide specific benefits. However, the County has often modified and changed active employee health benefits in conjunction with collective bargaining.

**a. active employee health coverage**

With regard to active employees, the County offers health coverage to all permanent employees with merit status (as well as appointed and elected officials). The cost sharing arrangement differs depending upon collective bargaining unit and number of hours worked (e.g., represented employees and full time employees hired before 1994 have a cost share of

20%). Through collective bargaining, the collective bargaining units have negotiated certain benefits, most notably the cost sharing arrangement.

**b. retiree health coverage**

The County offers retiree health coverage to employees who retire at a certain age with a specified number of years of service. The age and service requirement varies (e.g., age 60 with five years of service for non public safety employees). The cost a retiree pays for the health benefit varies with years of service (e.g., a retiree with 15 years of service pays 30%). Employees hired before 1987 can elect a cost share of 20% for the number of years they participated in group insurance and then pay 100% of the cost. In 1986 and 2002-2003, these retirees had the opportunity to change to the lifetime cost share option, which provides for an employee contribution of 30%.

In 1995 and 1998 two County attorney opinions counseled that the County may amend or discontinue retiree health benefits. The opinions stated that no written contract of the County promised retirees specific benefits at a specific cost for a specific duration without modification and that there was no indication that the County intended to create a contract enforceable against the County. A supplemental 1996 County Attorney opinion noted that although the County Code created limited collective bargaining of retiree health benefits, no collective bargaining agreement provided for retiree health benefits.

However, the current FOP collective bargaining agreement sets forth several provisions regarding retiree health benefits. First, the agreement sets forth the cost split described above and also includes a 30% cost for retirees with a service connected disability. Second a surviving spouse, eligible domestic partner and other dependents eligible for coverage at the time of death may continue retiree coverage as if he/she was the retiree until remarriage. Third, the agreement provides that for employees hired before July 1, 2008, eligibility and contributions for retiree health coverage will remain as is, except as modified by a collective bargaining agreement.

Although no legislation for retiree health coverage exists, in 1986, the Council adopted Resolution 10-2233 providing a cost sharing structure for retiree health coverage. The Resolution notes that the County's policy is to provide health benefits for retirees younger than age 65 with the same benefits as active employees and to provide for retirees age 65 or older a "lifetime" Medicare supplemental plan with a \$1,500 stop loss and 80% coinsurance for prescription drugs after a \$25 deductible (subject to cost of living increases). Subsequently, in 2002, the Council adopted Resolution 14-1168 providing retirees whose cost sharing arrangement would end<sup>5</sup> an option to change to a "lifetime" cost sharing option. The word "lifetime" in these Resolutions

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<sup>5</sup> Employees hired before 1987 can elect to participate in retiree health insurance at a cost share of 20% for the number of years they participated in group insurance; then they would pay 100% of the cost. In 1986, retirees had the opportunity to change to the lifetime cost share option of 30%.

strongly suggests health benefits will be provided indefinitely and could be viewed as a contractual right. However, it is questionable whether the County intended to create a contractual right, especially in the 2002 Resolution which gave retirees an additional benefit after retirement and they did not perform any additional service in exchange for this benefit. The 1998 County attorney opinion rejects the view that any Resolution could become a contract because the Resolutions lack the requirements of legislation. Finally, the Council did not define what health benefits the County would provide and did not state that benefits would remain unchanged.

## 2. Case law

There are currently no Maryland court cases addressing Contract Clause rights for health care in the government sector. Most government cases, where there are no collective bargaining agreements, have not found any contractual right to retiree health benefits. Because there is usually little or no statutory authority, the courts examine any statutes or documents and have generally held that the statutes and/or document must clearly set forth an explicit contractual intent. Cases where there are collective bargaining agreements have varying results. Like retirement cases, the analysis involves a factual determination.

Some cases address statutes providing for health benefits. The court in *Davis v. Wilson County*, 70 S.W.3d 724 (Tenn. 2002) held that employees do not automatically have a vested interest in welfare plan benefits such as retiree health care benefits absent “clear and express language” in the law indicating such an intent. In addition the Wilson county’s statement in its resolution reserving the right to modify or terminate benefits was inconsistent with any intent to vest or guarantee benefits. Similarly, in *Colorado Springs Fire Fighters Ass’n v. City of Colorado Springs*, 784 P.2d 766 (Colo. 1989) retirees believed that an ordinance providing for payment of retiree health insurance costs was a “contractual, quasi-pension benefit” and a subsequent ordinance reducing the benefits was an unconstitutional impairment of the contract. The court found that the ordinance was not a pension benefit, the amount of the City’s payment was determined on an annual basis and the cost and design of the program could change. In addition, the retirees’ argument of vested rights to health benefits was inconsistent with the City charter which prohibited imposing future liability upon the City, unless prior appropriation was made. The retirees could not have reasonably relied upon such an interpretation of the ordinance.

Some cases addresses collective bargaining agreements providing health benefits. In *Poole v. City of Waterbury*, 831 A.2d 211 (Conn. 2003), the City, while in a financial crisis, entered into a new collective bargaining agreement and replaced an indemnity plan. Retirees argued that they had a vested right under the collective bargaining agreement at the time of retirement. While the court held that the retirees had a vested right to retiree medical benefits generally, they did not have a vested right in the particular benefits provided in an expired collective bargaining agreement. The court would look to whether the benefits provided to retirees were “reasonably commensurate” with the benefits under the collective bargaining

agreement. In discussing whether there should be a presumption in favor of vesting of retiree health benefits like pension benefits, the court compared the inability to predict or control health insurance costs with the more predictable nature of pension benefits. The court stated it would be “counter to all of the parties’ interests” to construe the collective bargaining agreements to freeze the health benefits provided at retirement. In contrast to *Poole*, the court in *Roth v. City of Glendale*, 614 N.W.2d 467 (Wis. 2000), interpreted collective bargaining agreements which had provisions for subsidizing retiree health care benefits to presume health benefits vest unless the language of the contract provides otherwise. The health benefits are part of retirement benefits which last beyond the life of the contract, in the absence of contract language or extrinsic evidence demonstrating to the contrary.

### 3. Conclusion

It is doubtful that the Council resolutions regarding retiree health care benefits provide an interest protected by the Contract Clause. The Maryland Attorney General has concluded that the General Assembly’s ability to modify the state’s program of retiree health benefits was not limited by the Contract Clause. In 90 Op. Att’y Gen. Md. 195 (2005), the Attorney General examined the State Employee and Retiree Health and Welfare Benefits Program, Md. Code Ann., State Pers. & Pens. § 2-501 et seq., and concluded that it did not create a contractual obligation under the Contract Clause because “it does not purport to promise any particular level of benefits or subsidy to employees.” *Id.* at 209.

The benefits and subsidy made available to retirees are keyed to those to which current employees are entitled. The statute does not appear to confer any greater right to benefits and a State subsidy to retirees. Nor is there any clear and express language that vests retirees with benefits. We are not aware of any Maryland cases that hold that State retiree health care benefits authorized by statute generally are a contractual right.”

*Id.* at 209-210. In contrast to the state pension law, the Attorney General noted that the state law regarding retiree health benefits

neither states that a retiree “vests” in Program or subsidy eligibility, nor characterizes any portion of the Program as an “obligation of the State” to retirees. Rather, there is a statutory right, the delineation of which has been largely delegated to the Secretary of [the Department of Budget and Management] and the Governor, and which is subject to change by the General Assembly.

*Id.* at 217.

The legislatively chosen method of funding retiree health benefits further solidified the

difference between the pension statute and the retiree health benefit statute. The former provided for advance funding of pension benefits, with the creation of a specific fund for each retirement system (made up of government and employee contributions). The funding of the retiree health benefits, with limited exceptions, was left to the Governor's judgment in the proposed annual budget. Although the General Assembly had created special funds to help finance retiree health benefits, the statutes creating those funds did not create any specific obligation to retirees or commit to provide them with health care benefits. *Id.* at 218.<sup>6</sup> Finally, the materials published to employees and retirees regarding health care benefits explicitly disclaimed any intention to create a contractual obligation to provide health care benefits. *Id.* at 218-19.

The Council's resolutions do not preclude it from making changes to retiree health, especially those employees hired after 1994 because of the disclaimer on all communications. Even for employees hired before 1994, although certain retirees/employees could claim that the Council resolutions create an interest in health benefits protected by the Contract Clause due to the use of the word "lifetime," that claim would be dubious because (a) the County has made many changes to the health plans; (b) the resolutions are not binding law or a contract; and (c) health benefits are subject to annual appropriation. Charter Section 311 restricts the Council from making expenditures beyond funds appropriated. Each year the Council makes appropriations of employee compensation and benefits, including health benefits.

The County's collective bargaining agreements create an interest in health care benefits protected by the Contract Clause only to the extent the County Council adopts those benefits in law. That was the conclusion of the Attorney General in 90 Op. Att'y Gen. Md. 195 (2005) when reviewing state collective bargaining agreements providing for retiree health care benefits. A similar result should apply to the County. The State's collective bargaining law, like the County's collective bargaining law, contemplates that the Governor/County Executive will recommend full funding of all collective bargaining agreements in the annual proposed operating budget.<sup>7</sup> But, in both the State and the County, the legislature makes the final decision on the budget. Thus, collective bargaining agreements, even multi-year contracts, are subject to annual General Assembly/Council appropriations. Similarly, to the extent the collective bargaining agreements call for legislation (e.g., amendments to the retirement law in Chapter 33), they are dependent upon the legislature to acquiesce to that call. In other words, terms in a collective bargaining agreement that are inconsistent with current law become effective only if the legislature amends the applicable law. *Id.* at 220-21.

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<sup>6</sup> Similarly, the Council created a trust in 2008 to fund retiree health benefits under County Code Section 33-159 in order to benefit from new accounting rules. The County was not required to create the trust, nor is the County required to fund the trust.

<sup>7</sup> The County Executive is free to recommend a budget to the Council that is in the public's best interest even if the recommendation is does not fully fund a collective bargaining agreement.

For retirees with retiree health benefits set forth in a collective bargaining agreement (presently only the FOP), even if that agreement provides interests protected by the Contract Clause, those interests are limited to cost sharing and/or eligibility because those are the only topics addressed in the FOP collective bargaining agreement. The Council faces no barrier to modifying other aspects of retiree health care. And even with regard to modifying cost sharing and/or eligibility, there is a persuasive argument (with which we concur) that retirees can not rely on benefits beyond the current fiscal year because, as noted above, the collective bargaining agreements are subject to annual appropriation by the Council.

Even if certain retirees/employees have an interest in health benefits protected by the Contract Clause due to the resolutions and collective bargaining agreements, as described in the retirement section of this memo, the Council has the legislative power to make necessary and reasonable modifications when justified as described previously under the contract clause analysis. If the Resolutions and collective bargaining agreements could be viewed as a contract, the issue becomes whether any proposed change substantially impairs that contract or whether it reasonably modifies that contract. In addition, the retirees and employees not covered by the collective bargaining agreement would need to prove that they continued to work in exchange for or in reliance of this promise and there would need to be an analysis of the expectations of the promise to determine if there was any substantial impairment of the contract because of changes. Finally, neither the Resolutions nor the collective bargaining agreement clearly state an indication to enter into a binding contract.

### C. Salaries

Neither the Contract Clause, nor the collective bargaining agreements themselves, prohibit the imposition of a furlough or reduction-in-force (RIF), whether imposed in the midst of a fiscal year or planned for a future fiscal year, as was done for FY 11. The County Executive may impose a mid-year furlough or RIF because he retains management rights under the collective bargaining laws permitting the imposition of furloughs or RIF's (under certain circumstances). The collective bargaining laws provide that these management rights are a part of every collective bargaining agreement. Thus, the imposition of a mid-year furlough or RIF (under conditions specified in the contract) does not violate the collective bargaining agreement and, accordingly, could not violate the Contract Clause.<sup>8</sup> *Fraternal Order of Police Lodge No. 89 v. Canales*, 608 F.3d 183 (4<sup>th</sup> Cir. 2010) (imposition of furloughs during fiscal year did not violate Contract Clause because relevant collective bargaining laws provided that management right to impose furloughs must be read into every collective bargaining agreement). For the same

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<sup>8</sup> The County Executive has an obligation under the Council's collective bargaining laws to negotiate furlough and RIF procedures and a union could grieve that County's failure to follow those procedures in the imposition of a furlough or RIF. In addition, unless the Council provides otherwise in imposing a furlough or RIF, language in a collective bargaining agreement may impede the Executive's ability to implement a Council-planned furlough or RIF, including the realization of anticipated monetary savings underlying the furlough or RIF.

Karen Orlansky  
October 28, 2010  
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reasons, a furlough or RIF planned for a future fiscal year does not violate the Contract Clause. In addition, because the Council appropriates salaries on an annual basis (even where a collective bargaining agreement spans more than one fiscal year), a planned furlough or RIF cannot be a retroactive impairment of any collective bargaining agreement.

As noted above, Charter Section 311 restricts the Council from making expenditures beyond funds appropriated. Each year the Council makes appropriations of employee compensation and benefits, including health benefits. Even though a collective bargaining agreement may span more than one year, the collective bargaining laws provide that the Council's appropriation decision is made on a year-by-year basis, as part of the annual operating budget resolution. See §§ 33-80 (FOP), 33-108 (MCGEO), and 33-153 (IAFF).

Similarly, the same logic allows the Council to impose salary reductions for a future fiscal year. But, salary reductions in the midst of a fiscal year would likely be a substantial retroactive impairment of the collective bargaining agreements, permissible only if the reduction was reasonable and necessary to serve an important public purpose.

cc: Timothy Firestine, CAO  
Joseph Adler, Director, OHR  
Kathleen Boucher, Assistant CAO  
Robert Drummer, Senior Legislative Attorney

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OFFICE OF THE COUNTY ATTORNEY

Isiah Leggett  
County Executive

Leon Rodriguez  
County Attorney

MEMORANDUM

TO: Philip M. Andrews, President  
County Council

VIA: Leon Rodriguez  
County Attorney *LR*

FROM: Marc P. Hansen *Marc Hansen*  
Deputy County Attorney

Edward B. Lattner *Edward Lattner* *EL*  
Chief, Division of Human Resources & Appeals

DATE: May 4, 2009

RE: Council's Role in Collective Bargaining—A Primer

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The Council has asked the Office of County Attorney to prepare a “primer”<sup>1</sup> of the Council’s role in the collective bargaining process. We have understood our task to be to provide a brief overview of the steps in the collective bargaining process that require the Council’s participation. This memorandum is not intended to be an exhaustive analysis of the County’s collective bargaining laws.

The primary sources for describing the Council’s role in the collective bargaining process are the County’s three collective bargaining laws. These three collective bargaining laws were enacted to implement Charter §§ 510, 510A, and 511. These sections authorize the Council to enact legislation providing for collective bargaining with police officers, fire fighters, and general government employees, respectively.<sup>2</sup> Although the Charter requires legislation with “binding arbitration” only for police officers and fire fighters, all three collective bargaining laws

<sup>1</sup> According to Webster’s *New World Dictionary of the American Language*, a primer is a textbook that gives the first principles of any subject.

<sup>2</sup> The Council enacted three corresponding sets of collective bargaining laws: Article V of Chapter 33 for police (§§ 33-75 to 33-33-85), Article X of Chapter 33 for fire fighters (§§ 33-147 to 33-157), and Article VII of Chapter 33 for general government employees (§§ 33-101 to 33-112).

provide for binding arbitration between the employees and their employer—the County Executive.

### **The Council's Role in Collective Bargaining**

#### **Step 1: Presentation of collective bargaining agreement for Council approval.**

The Council's role in collective bargaining begins after the parties (the executive and the union) submit their final agreement<sup>3</sup> for Council action. The collective bargaining laws provide<sup>4</sup> that, in each annual proposed operating budget, the County Executive must describe any collective bargaining agreement or amendment to an agreement that is scheduled to take effect in the next fiscal year and estimate the cost of implementing that agreement. By April 1, unless extenuating circumstances require a later date, the County Executive must submit to the Council for review all terms and conditions in any agreement requiring an appropriation of funds or enactment, repeal or modification of a County law.<sup>5</sup>

One could well ask why the Council has any role in the collective bargaining process if the Charter provides for binding arbitration. The reason is that, under the Maryland Constitution, core legislative functions, such as adopting a budget, imposing taxes, and enacting legislation, must be made by an elected legislative body—*i.e.* the County Council. Having elected officials make government policy “is essential to the system of representative democracy provided for in Art. XI-A of the Maryland Constitution.”<sup>6</sup> *Save Our Streets v. Mitchell*, 357 Md. 237, 252 (2000). So, Step 1 is an unavoidable part of any collective bargaining process.

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<sup>3</sup> The parties may have reached final agreement through negotiations or it may have been imposed through impasse arbitration.

<sup>4</sup> The police, fire, and general government collective bargaining laws are substantially similar, but not identical, in so far as the Council's role is concerned.

<sup>5</sup> The police collective bargaining law requires the County Executive to submit “any term or condition of a collective bargaining agreement which requires an appropriation of funds or enactment, repeal or modification of a County law.” § 33-80(g). The fire collective bargaining law requires the County Executive to submit any term or condition “that requires an appropriation of funds, or are inconsistent with any County law or regulation, or require the enactment or adoption of any County law or regulation, or which have or may have a present or future fiscal impact.” § 33-153(l). Finally, the general governmental employee collective bargaining law requires the County Executive to submit any term or condition “that requires an appropriation of funds, or the enactment or adoption of any County law or regulation, or which has or may have a present or future fiscal impact.” § 33-108(g).

<sup>6</sup> Montgomery County is a charter home rule county organized under Art. XI-A of the Maryland Constitution.

**Step 2: Council indicates whether it intends to fund or otherwise implement the agreement.**

By May 1,<sup>7</sup> the Council must indicate by resolution whether it intends to appropriate funds or otherwise implement the provisions of the agreement requiring Council review, and if not, its reasons for rejecting that part of the agreement. All three collective bargaining laws expressly provide that the Council may accept or reject any “part” of or “item” within an agreement that require an appropriation of funds or legislation.

Step 2 may present two conundrums under certain circumstances:

(A) The Council has the authority to reject a part of an agreement submitted for Council approval—*e.g.* the Council could decline to fund a provision in an agreement that permits police officers to use personal patrol vehicles outside the County. The union and Executive often will argue that the item being rejected should not be viewed in isolation because it is only one part of a larger agreement. That agreement contains many items some of which may have only been agreed to in exchange for the item being rejected by the Council. This reality of contract formation puts the Council in the difficult position of having to balance the reasons for rejecting the item against the perceived or real inequity this decision may visit on one or both parties to the agreement. Perhaps in mitigation of this, the collective bargaining law provides that the parties may re-negotiate any item in the agreement during the re-negotiation process described in Step 3, below.

(B) The Council’s vote at Step 2 is an expression of the Council’s intention. This means the vote is not binding. For example, the Council might vote to express an intention to pass legislation authorizing a retirement incentive program. But when the vote on the legislation is actually taken, a majority of the Council may no longer feel a retirement incentive program is in the public interest and the legislation fails to be enacted. This action may come after the timelines designed to allow the parties to engage in further negotiations (see Step 3, below) has passed. Of course, if such a situation were to arise, both parties could agree to go back to negotiations, but it is unclear that one party could force the other to negotiate.

**Step 3: Re-negotiation.**

If the Council resolves to reject any part of the agreement submitted for its review under Step 2, it must designate a representative to meet with the parties (the County Executive and the

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<sup>7</sup> The Council, by majority vote taken on or before May 1, may defer the May 1 deadline no later than May 15. In addition, all the collective bargaining laws provide that these procedures apply to Council review of wage or benefits adjustments after the first year of any multi-year agreement as well as any out-of-cycle amendments. In the latter instance, the Council President must set new action deadlines for any amendments received after May 15.

union) and present its views in the parties' further negotiations.<sup>8</sup> The parties must attempt to negotiate an agreement acceptable to the Council. The collective bargaining laws do not prohibit the parties from re-negotiating any item, and so the parties are not restricted to negotiating only on the item rejected by the Council. Either party may make use of the impasse procedure, and the Council's representative must participate in any impasse procedure in order to state the Council's position. The parties must submit the results of the negotiation or impasse to the Council by May 10.<sup>9</sup>

The Fire and general government employee collective bargaining laws provide that the Council must again indicate by resolution whether it intends to appropriate funds for or otherwise implement the agreement as renegotiated by the parties. This language is absent from the police collective bargaining law. Although this language is absent from the police collective bargaining law, § 31(A)(3) of the police collective bargaining agreement suggests that the Council would be asked to consider the parties' renegotiated agreement.

The Council may accept or reject any re-negotiated item in the agreement to the extent that the item requires an appropriation or legislation to implement.<sup>10</sup>

#### Step 4: The aftermath.

All the collective bargaining laws state that every collective bargaining agreement must provide either for automatic reduction or elimination of wage or benefits adjustments if the Council fails to take action necessary to implement the agreement or fails to appropriate sufficient funds for any fiscal year when the agreement is effective.<sup>11</sup>

### Conclusion

The role assigned to the Council in the collective bargaining process is, in many key

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<sup>8</sup> The collective bargaining laws governing fire fighters and general governmental employees provide that those further negotiations are "on items that the Council has indicated its intention to reject." The police collective bargaining law does not contain this limiting language. Moreover, § 31(A)(1) of the police collective bargaining agreement provides that if any economic provision of the agreement becomes inoperative for any reason, including Council refusal to fund, then all economic provisions are reopened for negotiation.

<sup>9</sup> If the Council deferred the May 1 deadline, the May 10 deadline is automatically postponed for an equal number of days.

<sup>10</sup> Although the collective bargaining laws are silent on this point, we do not believe that Council rejection of an item at this stage would trigger another round of re-negotiations. To construe the collective bargaining laws otherwise would lead to a potentially endless cycle of negotiations.

<sup>11</sup> Interestingly, the collective bargaining law applicable to general government employees also states the following: "The Council must take any action required by the public interest with respect to any matter still in dispute between the parties. However, any action taken by the Council is not part of the agreement between the parties unless the parties specifically incorporate it in the agreement." § 33-108(1). Nevertheless, the Council action will generally remain binding on all parties as a matter of law.

respects, at odds with collective bargaining as it is practiced in the private sector. Private employers have different goals and are responsible to a different constituency than a public employer. The County, as the employer, must exercise many core functions (appropriation of funds and enactment of legislation) through an elected legislative body.<sup>12</sup> Neither an arbitrator nor the Executive and union by agreement can set core public policy. Thus, in many respects the agreement reached by the Executive and union (either through consent of the parties or by way of arbitration) is not a true agreement—it is more in the nature of a proposal or offer which must be accepted by the Council.

We hope the Council will find this primer helpful. If we can provide further assistance in this matter, please let us know.

Cc: Joe Adler, Director, Office of Human Resources  
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<sup>12</sup> See Elkouri & Elkouri, *How Arbitration Works* (6<sup>th</sup> ed. 2003) 1306. Not surprisingly, Elkouri, long regarded the “bible” for labor relations, devotes a separate chapter to arbitration in the public sector.

## **MAINTENANCE OF EFFORT REQUIREMENTS AND MCPS FUNDING**

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Maryland State law requires local jurisdictions to fund school systems at a minimum level known as Maintenance of Effort (MOE). The law establishes a formula to determine the threshold funding level, based on enrollment and prior year funding. The calculation for local contributions is independent of any other funding, such as State or Federal aid. Regardless of any potential changes to other revenue sources, the MOE law requires the local jurisdiction to maintain the level of its local contribution to the school system, adjusted only for enrollment. The MOE law includes a waiver provision and a penalty for violating the MOE requirement.

The State law related to MOE has three primary parts:<sup>1</sup>

- The **funding level**, which specifies that the local jurisdiction must appropriate at least as much per pupil as the prior year. As a result, the yearly minimum is the previous year's appropriation adjusted only for increases or decreases in enrollment.
- The **waiver provision**, which allows local jurisdictions to apply to the State Board of Education for a temporary or partial waiver from the MOE provisions.
- The **penalty** for not meeting MOE. If the State Superintendent or the State Board finds that a county has not met its MOE, the Comptroller must withhold the increase over the prior year allocated to a local jurisdiction in the General State School Fund. This penalty is limited to three streams of State aid: Foundation Aid, the Geographic Cost of Education Index (GCEI), and Supplemental Grants.

### **MOE Funding in Montgomery County, FY02-FY11**

In most years, the County has funded MCPS at a much higher level than the MOE threshold. From FY02 to FY11, Table 1 compares the annual MOE per pupil funding requirements for MCPS with actual Council per pupil appropriations; and Table 2 compares annual MOE total appropriation requirements with actual total Council appropriations.<sup>2</sup> In sum, the data show that:

- In each year from FY02 to FY09, the County provided MCPS more money per pupil than required under MOE. With each annual increase in MCPS funding exceeding that year's MOE requirement, the County's MOE requirement was reset to a higher per pupil amount the following year.
- Exceeding the MOE requirement in multiple years has led to an overall 45% increase in required per pupil spending, from \$7,745 in FY02 to \$11,249 in FY10. Had the County only provided funding to MCPS at the required MOE per pupil level since FY02, the current MOE requirement would have remained at \$7,745 per student.
- The County's total MOE appropriation to MCPS increased by 38% from FY02 (\$1,029 million) to FY11 (\$1,415 million), compared to a 9% increase in enrollment for MOE.

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<sup>1</sup> State of Maryland Code, § 5-202(d), 5-213

<sup>2</sup> Table 1 includes unpublished data compiled by MCPS, the County Council, and County Government to determine the County's annual MOE requirement.

**Table 1. Montgomery County MOE Appropriations per Pupil, FY02 – FY11**

Fiscal Year	Enrollment for MOE*	Per Pupil Appropriation		Difference over Requirement
		MOE Requirement	Actual	
2002	126,924	\$7,745	\$8,106	+\$362
2003	129,628	\$8,106	\$8,307	+\$201
2004	132,619	\$8,307	\$8,566	+\$259
2005	133,580	\$8,566	\$9,107	+\$541
2006	134,432	\$9,107	\$9,539	+\$432
2007	135,267	\$9,539	\$10,203	+\$664
2008	134,631	\$10,203	\$10,794	+\$591
2009	134,547	\$10,794	\$11,249	+\$455
2010	135,969	\$11,249	\$11,249	\$0
2010 (w/o debt)	135,969	\$11,249	\$10,664	(\$584)
2011	138,137	\$10,664	\$10,244	(\$420)

\*Enrollment for MOE uses prior fiscal year enrollment (e.g. FY01 MOE enrollment used to calculate FY02 MOE requirement)

**Table 2. Montgomery County MOE Total Appropriations, FY02 – FY11  
(\$ in millions)**

Fiscal Year	Total Appropriation		Difference over Requirement
	MOE Requirement	Actual	
2002	\$986.0	\$1,028.8	+\$42.8
2003	\$1,050.7	\$1,076.8	+\$26.1
2004	\$1,101.6	\$1,136.1	+\$34.5
2005	\$1,144.3	\$1,216.5	+\$72.2
2006	\$1,224.3	\$1,282.4	+\$58.1
2007	\$1,290.3	\$1,380.2	+\$89.8
2008	\$1,373.7	\$1,453.3	+\$79.5
2009	\$1,453.7	\$1,513.6	+\$59.9
2010	\$1,529.6	\$1,529.6	\$0
2010 (w/o debt)	\$1,529.6	\$1,450.1	(\$79.5)
2011	\$1,473.1	\$1,415.1	(\$58.0)

In FY10 and FY11, the County Government applied for waivers from the State Board of Education to allow lower funding to the school system than required under the MOE law. The State denied the waiver in FY10. To meet MOE in FY10, the County allocated \$79.5 million in public schools debt funding to the MCPS budget.

In FY11 the County successfully received an MOE waiver from the State Board of Education. As a result, the law requires that the FY12 MOE be calculated based on the higher of the two previous years per pupil amounts, that is, \$10,664 in FY10.

## Projected MOE Funding Requirements FY12-FY17

With the FY11 MOE waiver, the County funded MCPS at \$10,244 per student for a total MOE appropriation of \$1.4 billion. In FY12, should the County fund MCPS at the MOE requirement of \$10,664 per student, the County's appropriation would increase by \$82 million (\$58 million to offset the FY11 waiver amount and another \$24 million for a 2,256 student increase in enrollment for MOE).<sup>3</sup>

MCPS' MOE enrollment is anticipated to increase through FY17, but the magnitude of this increase is unknown. For overall student enrollment, the Superintendent's Recommended Capital Budget projects a cumulative 4% increase in enrollment between FY13 and FY17. Assuming the changes in MCPS' MOE enrollment mirror the projected overall enrollment changes, Table 3 shows the annual projected increase in MOE enrollment and projected increase in MOE required appropriations for FY13-FY17.

**Table 3. Projected Increases in MOE Enrollment and Budget Requirements, FY13 – FY17**

Fiscal Year	Projected Increase In	
	MOE Enrollment	Required MOE Appropriation
2013	2,191	\$23.4 million
2014	2,121	\$22.6 million
2015	1,471	\$15.7 million
2016	1,158	\$12.3 million
2017	1,623	\$17.3 million
<b>Total</b>	<b>8,564</b>	<b>\$91.3 million</b>

Source: Based on changes in Projected Enrollment from Superintendent's Recommended FY 2012 Capital Budget

Should student enrollment increase less than projected, the County's additional costs of funding MOE would be lower; should it increase more, then the County's costs would be higher. In general, for every 100 student increase in MOE enrollment, the County's required MOE funding would increase by nearly \$1.1 million based on the current per pupil amount of \$10,664.

## MOE Compliance and State Funding

As indicated above, if a County does not comply with the MOE law, it risks not receiving increases in certain categories of State aid. A county's compliance with MOE entitles its school system to receive increases in three streams of state aid when they are available: Foundation Aid, the Geographic Cost of Education Index (GCEI), and Supplemental Grants.

<sup>3</sup> "Enrollment for MOE" (also referred to as "MOE enrollment") does not include some categories included in "total enrollment," such as Pre-Kindergarten, Head Start, and some alternative programs; the FY12 MOE enrollment number is a current estimate subject to change.

Table 4 (below) shows the FY02 through FY11 total State aid received by MCPS, the amount of State aid from the three funding streams that can be impacted by MOE compliance, and the annual change in the subtotal of State aid that can be impacted by MOE compliance. The data show that the amount of State money at risk in any given year under MOE ranged from a high of \$41 million in FY11 to a low of \$0 in FY05 when State aid decreased from the prior year.

Of note, most growth in Foundation Aid (more than half of all State aid) and State aid overall depends not on compliance with MOE, but on changes in the relative wealth among counties and student enrollment and demographics.

**Table 4. State Aid for MOE Purposes, FY02 – FY11**  
(\$ in millions)

Fiscal Year	Total State Aid for MCPS	MOE State Aid Categories			
		Foundation Aid	GCEI and Supplemental Grants	Total MOE State Aid	Annual Change
2002	\$168.9	\$121.0	--	\$121.0	--
2003	\$177.6	\$136.4	--	\$136.4	+\$15.4
2004	\$248.1	\$164.3	--	\$164.3	+\$27.9
2005	\$270.2	\$161.4	--	\$161.4	(\$3.0)
2006	\$300.7	\$173.0	--	\$173.0	+\$11.6
2007	\$336.0	\$180.0	--	\$180.0	+\$6.9
2008	\$392.1	\$193.3	--	\$193.3	+\$13.3
2009	\$425.2	\$190.2	\$28.4	\$218.6	+\$25.3
2010	\$440.1	\$223.6	\$9.3	\$232.9	+\$14.3
2011	\$488.6	\$264.7	\$9.5	\$274.2	+\$41.3

Source: MCPS Operating Budgets

Source: Office of Legislative Oversight, with assistance from Council staff, December 2010

Resolution No.: 16-1173  
Introduced: October 20, 2009  
Adopted: October 27, 2009

**COUNTY COUNCIL  
FOR MONTGOMERY COUNTY, MARYLAND**

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By: County Council at Request of County Executive

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**SUBJECT:** Approval of Local Government Debt Policy

**Background**

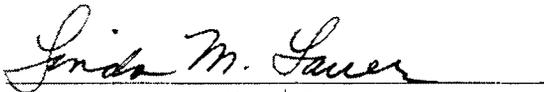
1. State of Maryland Chapter 693 of the Laws of 2009 requires that each local government adopt a debt policy and submit it to the State Treasurer.
2. On October 8, 2009 the Chief Administrative Officer transmitted a recommended a Local Government Debt Policy to the Council.

**Action**

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

The attached Local Government Debt Policy is approved.

This is a correct copy of Council action.

  
Linda M. Lauer, Clerk of the Council

**Montgomery County, Maryland**

**Debt Policy**

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# Montgomery County, Maryland

## Debt Policy

### I. Introduction

Montgomery County recognizes that one of the attributes of sound financial management is a comprehensive debt policy. Adherence to a debt policy signals to residents, rating agencies and the capital markets that a government is well managed and should meet its obligations in a timely manner. The development of a debt policy is a recommended best practice by the Government Finance Officers Association. A debt policy establishes the parameters for issuing and managing debt. It improves the quality of decisions, provides justification for the structure of debt issuance, identifies policy goals, and demonstrates a commitment to long-term financial planning, including a multi-year capital plan.

Debt levels and their related annual costs are important long-term obligations that must be managed within available resources. An effective debt policy provides guidelines for a government to manage its debt program in line with those resources.

This debt policy is to be used in conjunction with the operating and capital budgets, the capital improvement program (CIP), and other financial policies.

### II. Legal Framework

The Annotated Code of Maryland, Article 25A, Section 5(P), authorizes borrowing of funds and issuance of bonds up to a maximum of the sum of six percent of the assessed valuation of all real property and 15 percent of the assessed valuation of all personal property within the County. Article 25A, Section 5(P) provides that obligations having a maturity not in excess of twelve months shall not be subject to, or be included in, computing the County's legal debt limitation. However, the County includes its BANs/Commercial Paper in the calculation because it intends to repay the notes with the proceeds of long-term debt to be issued in the near future.

The Montgomery County Charter, Section 312 provides for the issuance of public debt for other than annual operating expenditures and imposes general requirements for fiscal policy: The capital improvements program must provide an estimate of costs, anticipated revenue sources, and an estimate of the impact of the program on County revenues and the operating budget. Bond issues may not be for longer than 30 years.

In November 1990, County voters approved an amendment to the Montgomery County Charter, Section 305, to require that the County Council annually adopt spending affordability guidelines for the capital and operating budgets. Spending affordability guidelines for the CIP have been interpreted in subsequent County law to be limits on the amount of County general obligation debt, which may be approved for the first and second years of the CIP and for the entire six-year period of the CIP. Similar provisions apply to debt of the Maryland-National Capital Park and Planning Commission

(M-NCPPC). These limits may be overridden by an affirmative vote of seven Councilmembers.

Chapter 20 of the Montgomery County Code sets various financial guidelines in law such as the deposit of funds, the borrowing of money generally, the activities of the Department of Finance, revenue bonds, and spending affordability.

Internal Revenue Service rules under the Tax Reform Act of 1986, as amended, provide limits on the tax-exempt issuance of public debt, and limit the amount of interest the County can earn from investment of the bond proceeds. County shares of costs for some major projects, such as those relating to mass transit and highway interchanges, are dependent upon Federal appropriations and allocations.

Federal Office of Management and Budget circular A-87 prescribes the nature of expenditures that may be charged to Federal grants. Federal legislation will influence the planning and expenditures of specific projects, such as requirements for environmental impact statements for Federally assisted road projects, and the Davis-Bacon Act, which requires local prevailing wage scales in contracts for Federally assisted construction projects.

The American Recovery and Reinvestment Act (ARRA) created a number of additional tax-advantaged forms of governmental debt. These forms of debt are expected to result in lower costs and therefore savings to taxpayers. The County will utilize beneficial provisions of the act and issue these new forms of debt where appropriate and advantageous to the County.

### **III. County Debt Policies**

#### **Policy on Funding the Capital Improvements Program (CIP) with Debt**

Much of the CIP should be funded with debt. Capital projects usually have a long useful life and will serve future taxpayers as well as current taxpayers. It would be inequitable and an unreasonable fiscal burden to make current taxpayers pay for many projects out of current tax revenues. Bond issues, retired over approximately 20 years, are both necessary and equitable.

Projects deemed to be debt eligible should:

- Have a useful life at least approximately as long as the debt issue with which they are funded.
- Not be able to be funded entirely from other potential revenue sources, such as intergovernmental aid or private contributions.
- Special Note: With a trend towards more public/private partnerships, especially regarding projects aimed at the revitalization or redevelopment of the County's central business districts, there are more instances when public monies leverage private funds. These instances, however, generally bring with them the "private activity" or private benefit (to the County's partners) that generally make it necessary for the County to use current revenue as its funding source. It is County fiscal policy that financing in partnership situations ensure that tax-exempt debt is issued only for those

improvements that truly meet the IRS requirements for this lowest cost form of financing.

### **Policy on General Obligation Debt Limits**

General obligation debt usually takes the form of bond issues, and pledges general tax revenue for repayment. Paying principal and interest on general obligation debt is the first claim on County revenues. By virtue of prudent financial management and the long-term strength of the local economy, Montgomery County has maintained the highest quality rating of its general obligation bonds, AAA. This top rating by Wall Street rating agencies, enjoyed by very few local governments in the country, assures Montgomery County of a ready market for its bonds and the lowest available interest rates on its debt.

### **Debt Capacity**

To maintain the AAA rating, the County adheres to the following guidelines in deciding how much additional County general obligation debt may be issued in the six-year CIP period:

Overall Debt as a Percentage of Assessed Valuation - This ratio measures debt levels against the property tax base, which generates the tax revenues that are the main source of debt repayment. Total debt, both existing and proposed, should be kept at about 1.5 percent of full market value (substantially the same as assessed value) of taxable real property in the County.

Debt Service as a percentage of the General Fund - This ratio reflects the County's budgetary flexibility to adapt spending levels and respond to economic condition changes. Required annual debt service expenditures should be kept at about ten percent of the County's total General Fund. The General Fund excludes other special revenue tax supported funds. If those special funds supported by all County taxpayers were to be included, the ratio would be below ten percent.

Overall Debt per Capita - This ratio measures the burden of debt placed on the population supporting the debt and is widely used as a measure of an issuers' ability to repay debt. Total debt outstanding and annual amounts issued, when adjusted for inflation, should not cause real debt per capita (i.e., after eliminating the effects of inflation) to rise significantly.

Ten year Payout Ratio - This ratio reflects the amortization of the County's outstanding debt. A faster payout is considered a positive credit attribute. The rate of repayment of bond principal should be kept at existing high levels and in the 60-75 percent range during any ten-year period.

Per Capita Debt to Per Capita Income - This ratio reflects a community's economic strength as an indicator of income levels relative to debt. Total debt outstanding and annual amounts proposed should not cause the ratio of per capita debt to per capita income to rise significantly above about 3.5 percent.

These ratios will be calculated and reported each year in conjunction with the capital budget process, the annual financial audit and as needed for fiscal analysis.

**Policy on Terms for General Obligation Bond Issues**

Bonds are normally issued in a 20-year series, with 5 percent of the series retired each year. This practice produces equal annual payments of principal over the life of the bond issue, which means declining annual payments of interest on the outstanding bonds, positively affecting the pay-out ratio (see Debt Limits, below). Thus annual debt service on each bond issue is higher at the beginning and lower at the end. When bond market conditions warrant, or when a specific project would have a shorter useful life, then different repayment terms may be used.

**Policy on Other Forms of General Obligation Debt**

The County may issue other forms of debt as appropriate and authorized by law. From time to time, the County has issued Commercial Paper/Bond Anticipation Notes (BANs) for interim financing to take advantage of favorable interest rates within rules established by the Internal Revenue Service.

**Policy on Use of Revenue Bonds**

Revenue bonds are secured by the pledge of particular revenues to their repayment in contrast to general obligation debt, which pledges general tax revenues. The revenues pledged may be those of a Special Revenue fund, or they may be derived from the funds or revenues received from or in connection with a project. Amounts of revenue debt to be issued should be limited to ensure that debt service coverage ratios shall be sufficient to ensure ratings at least equal to or higher than ratings on outstanding parity debt. Such coverage ratios shall be maintained during the life of any bonds secured by that revenue stream.

**Policy on Use of Appropriation-backed Debt**

Various forms of appropriation backed debt may be used to fund capital improvements, facilities, or equipment issued directly by the County or using the Montgomery County Revenue Authority or another entity as a conduit issuer. Under such an arrangement, the County enters into a long-term lease with the conduit issuer and the County lease payments fund the debt service on the bonds. Appropriation-backed debt is useful in situations where a separate revenue stream is available to partially offset the lease payments, thereby differentiating the project from those typically funded with general obligation debt. Because these long-term leases constitute an obligation of the County similar to general debt, the value of the leases is included in debt capacity calculations.

**Policy on Issuance of Taxable Debt**

Issuance of taxable debt may be useful in situations where private activity or other considerations make tax-exempt debt disadvantageous or ineligible due to tax code requirements or other considerations. The cost of taxable debt will generally be higher because investors are not able to deduct interest earnings from taxable income. Taxable debt may be issued in instances where the additional cost of taxable debt, including legal, marketing, and other up-front costs and the interest cost over the life of the bonds, is outweighed by the advantages in relation to the financing objectives to be achieved.

**Policy on Use of Interim Financing**

Interim Financing may be useful in situations where project expenditures are eligible for long term debt, but permanent financing is delayed for specific reasons, other than

affordability. Interim Financing should have an identified ultimate funding source, and should be repaid within the short term. An example for interim financing would be in a situation where offsetting revenue will be available in the future to pay off a portion of the amounts borrowed, but the exact amounts and timing of the repayment are uncertain.

#### **Policy on Use of Short Term Financing**

Short term financing (terms of seven years or less) may be appropriate for certain types of equipment or system financings, where the term of the financing correlates to the useful life of the asset acquired, or in other cases where the expected useful life is long, but due to the nature of the system, upgrades are frequent and long term financing is not appropriate. Short term financings in the CIP are also of a larger size or magnitude than smaller purchases typically financed with short term Master Lease financing in the Operating Budget.

#### **Policy on Use of Current Revenues**

Use of current revenues to fund capital projects is desirable as it constitutes “pay-as-you-go” financing and, when applied to debt-eligible projects, reduces the debt burden of the County. Decisions to use current revenue funding within the CIP have immediate impacts on resources available to annual operating budgets, and require recognition that certain costs of public facilities should be supported on a current basis rather than paid for over time.

Current revenues from the General Fund are used for designated projects which have broad public use and which fall outside any of the specialized funds. Current revenues from the Special and Enterprise Funds are used if the project is associated with the particular function for which these funds have been established.

The County has the following policies on the use of current revenues in the CIP:

- Current revenues must be used for any CIP projects not eligible for debt financing by virtue of limited useful life.
- Current revenues should be used for CIP projects consisting of limited renovations of facilities, for renovations of facilities which are not owned by the County, and for planning and feasibility studies.
- Current revenues may be used when the requirements for capital expenditures press the limits of bonding capacity.
- Except for excess revenues which must go to the Revenue Stabilization Fund, the County will, whenever possible, give highest priority for the use of one-time revenues from any source to the funding of capital assets or other nonrecurring expenditures so as not to incur ongoing expenditure obligations for which revenues may not be adequate in future years.

#### **Policy on Use of Federal and State Grants and Other Contributions**

Grants and other contributions should be sought and used to fund capital projects whenever they are available on terms that are to the County’s long-term fiscal advantage. Such revenues should be used as current revenues for debt avoidance and not for debt service.

### **Policy on Minimum Allocation of PAYGO**

PAYGO is current revenue set aside in the operating budget, but not appropriated, and is used to replace bonds for debt eligible expenditures. To reduce the impact of capital programs on future years, the County will fund a portion of its CIP on a pay-as-you-go basis. Pay-as-you-go funding will save money by eliminating interest expense on the funded projects. Pay-as-you-go capital appropriations improve financial flexibility in the event of sudden revenue shortfalls or emergency spending. It is the County's policy to allocate to the CIP each fiscal year as PAYGO at least ten percent of the amount of general obligation bonds planned for issue that year.

### **Policy on Operating Budget Impacts**

In the development of capital projects, the County evaluates the impact of a project on the operating budget and displays such impacts on the project description form. The County shall not incur debt or otherwise construct or acquire a public facility if it is unable to adequately provide for the subsequent annual operation and maintenance costs of the facility.

## **IV. Debt Issuance and Structuring Policies**

### **Credit Ratings**

The County's ability to borrow cost-effectively depends upon its credit standing as assessed by the three major credit rating agencies: Moody's, Standard and Poor's, and Fitch. The Director of Finance shall be responsible for maintaining relationships with the rating agencies that currently assign ratings to the County's various debt obligations. This effort shall include providing periodic updates of the County's general financial condition along with coordinating meetings and presentations in conjunction with a new debt issue. The Director shall be responsible for determining whether or not a rating shall be requested on a particular financing, and which of the major rating agencies shall be asked to provide such rating.

### **Fixed or Variable Rate Mode**

The County will use variable debt to balance interest rate cost risk across its debt portfolio. The use of variable rate debt allows the County to take advantage of short term interest rates, which are typically lower, as well as to provide interim financing for the general obligation bond funded portion of the capital program and to provide interim financing in instances where prepayment or restructuring is a high probability and redemption in the short term is likely. Variable rate debt secured by the County's general obligation pledge includes Variable Rate Demand Notes (VRDOs) and Bond Anticipation Notes (BANs).

### **Method of Sale - Competitive vs. Negotiated Sales**

The County as a matter of policy shall issue its debt obligations through a competitive sale unless the Director of Finance determines that such a sale method will not produce the best results for the County. Generally, a negotiated sale process may be used when the County is attempting to market more complex bond transactions such as a new credit structure, or at times when a competitive sale does not produce bids or produces bids that are unsatisfactory to the County.

When appropriate and approved by the Finance Director, the County may elect to sell its debt obligations through a private placement or limited public offering. Selection of an institution to underwrite the debt shall be made pursuant to the selection procedures developed by the Department of Finance and consistent with other competitive procurements.

#### **Selection of Service Providers**

The Director of Finance is responsible for establishing a solicitation and selection process for securing professional services that are required to develop and implement the County's debt program. Goals of the solicitation and selection process shall include encouraging participation from qualified service providers, both local and national, and securing services at competitive prices. The solicitation and selection of process for services will comply generally with the County's Procurement requirements for such services, if appropriate.

Bond Counsel – Pursuant to Section 213 of the County Charter, the County Attorney may, with the approval of the County Council, employ special legal counsel to advise on bond and debt issuance matters. Upon advice and consultation with the Director of Finance, the County Attorney shall make recommendations to the County Council regarding the selection of bond counsel to be employed, and the duration of the employment for individual or a series of financings.

Underwriters, Remarketing Agents, Paying Agents, and Liquidity Providers – The Director of Finance shall solicit proposals from the service providers noted above for all debt issues when applicable. The principal criteria for selection will be the relative cost of the service, the experience of the provider, and the willingness of the provider to comply with the County's terms and conditions. The solicitation process shall include formation of a review committee to evaluate written proposals and, if deemed necessary, conduct oral interviews. The period for employment may relate to an individual transaction, a series of financings, or a specified period of time.

Other Services – The Director of Finance shall periodically solicit for providers of other services necessary to carry out the debt issuance activities of the County, such as printers, periodicals, appraisers, escrow agents, verification agents, and trustees. The Director may request that another party in the transaction hire these providers or the County can hire them directly. In either case, the selection of such additional service providers shall take into account an evaluation of the cost and perceived quality of service of the proposed service provider.

#### **V. Debt Management Policies**

**Arbitrage Rebate Reporting** - The County will comply with all arbitrage rebate requirements as established by the Internal Revenue Service and all disclosure requirements established by the Securities and Exchange Commission. This effort includes tracking investment earnings on bond proceeds, calculating rebate payments in compliance with the tax law and rebating positive arbitrage earnings to the federal government in a timely manner in order to preserve the tax exempt status of the County's outstanding debt issues.

**Disbursements and Management of Accounts** – The Director of Finance or a designee will be the County’s Representative controlling disbursements from bond accounts held by trustees. Bond accounts include, among others, debt service reserve funds, construction/project accounts, rebate accounts, and costs of issuance accounts. At the appropriate time, upon completion of a project, the Department of Finance will proactively close the trust accounts related to a particular bond issue. This practice will ameliorate the possibility of unauthorized use of the bond proceeds and will further comply with IRS regulations relative to spend-down requirements and arbitrage rebate calculations.

**Investment of Bond Proceeds** – Any investment of bond proceeds shall be in accordance with the Investment Guidelines and/or Policies listed in the Trust Indenture. Selection of securities and/or providers shall be accomplished through a competitive process and bond counsel must monitor that process. If it is anticipated that the bond proceeds will be disbursed in approximately 12 months, for those shorter-lived projects where liquidity is required, funds can be managed by the trustee in a money market account.

**Internal Controls and Compliance** - The County will ensure that adequate systems of internal control exist to provide reasonable assurance as to compliance with applicable laws, regulations, and covenants associated with outstanding debt.

**Investor Relations and Continuing Disclosure** – The County will maintain compliance with disclosure standards promulgated by state and national regulatory agencies and provide on-going disclosure information to investors on its dedicated debt management and disclosure web site found at: <http://bonds.montgomerycountymd.gov/>. Information to be made available to the public and updated on an annual basis include the County’s Annual Information Statement, to be updated and published by January 15 of each year. Also available are the County’s Comprehensive Annual Financial Report (CAFR) and operating and capital improvements budgets. Information to be posted will also include reportable events pursuant to SEC Rule 15(c) 2-12, and information required in any applicable Continuing Disclosure Agreements associated with past bond issues.

**Refundings** - The County will monitor its outstanding debt in relation to existing conditions in the debt market and will refund any outstanding debt when sufficient cost savings can be realized. Generally, a refunding is economic at a point where the County can save, on a net present value basis, at least three percent of the amount of bonds being refunded. In cases of advance refunding, the County will purchase State and Local Government Securities (SLGs) to fund the escrow. If SLGs are not available, upon permission from the Finance Director and with guidance from bond counsel, the County may fund the escrow with competitively bid US Treasury securities.

## **VI. Administration and Implementation**

The Director of Finance is responsible for the administration and issuance of debt including the completion of specific tasks and responsibilities included in this policy. The County will evaluate the debt policy at least every five years.

Resolution No: 16-1415  
Introduced: May 27, 2010  
Adopted: June 29, 2010

**COUNTY COUNCIL  
FOR MONTGOMERY COUNTY, MARYLAND**

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By: Council President at the Request of the County Executive

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**SUBJECT:** Reserve and Selected Fiscal Policies

**Background**

1. Fiscal policy corresponds to the combined practices of government with respect to revenues, expenditures, debt management, and reserves.
2. Fiscal policies provide guidance for good public practice in the planning of expenditures, revenues, and funding arrangements for public services. They provide a framework within which budget, tax, and fee decisions should be made. Fiscal policies provide guidance toward a balance between program expenditure requirements and available sources of revenue to fund them.
3. As a best practice, governments must maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. Fund balance levels are a crucial consideration, too, in long-term financial planning. Credit rating agencies monitor levels of fund balance and unrestricted fund balance in a government's general fund to evaluate a government's continued creditworthiness.
4. In FY10, the County experienced an unprecedented \$265 million decline in income tax revenues, and weathered extraordinary expenditure requirements associated with the H1N1 flu virus and successive and historic winter blizzards. The costs of these events totaled in excess of \$60 million, only a portion of which was budgeted and planned for.
5. In a memorandum dated April 22, 2010, the County Executive recommended that the County Council restore reserves first to the current 6% policy level for FY11 and also to revise and strengthen policy levels in order to more appropriately position the County to weather economic cycles in the future, and to achieve structural balance in future budgets.
6. The County's financial advisor has recommended that the County strengthen its policy on reserves and other fiscal policies to ensure budget flexibility and structural stability, and has provided specific recommendations, which are reflected below.

### Action

The County Council for Montgomery County, Maryland, approves the following policies regarding reserves and other fiscal matters:

1. Structurally Balanced Budget

*Montgomery County must have a goal of a structurally balanced budget. Budgeted expenditures should not exceed projected recurring revenues plus recurring net transfers in minus the mandatory contribution to the required reserve for that fiscal year. Recurring revenues should fund recurring expenses. No deficit may be planned or incurred.*

2. Reserves

*Montgomery County must have a goal of achieving the Charter §310 maximum for the reserve in the General Fund of 5% of General Fund revenues in the preceding fiscal year, and of building up and maintaining the sum of Unrestricted General Fund Balance and Revenue Stabilization Fund Balance to 10% of Adjusted Governmental Fund revenues, as defined in the Revenue Stabilization Fund law. This goal must be reflected in the Revenue Stabilization Fund law.*

3. Use of One-Time Revenues

*One-time revenues and revenues in excess of projections must be applied first to restoring reserves to policy levels or as required by law. If the County determines that reserves have been fully funded, then one-time revenues should be applied to non-recurring expenditures which are one-time in nature, PAYGO for the CIP in excess of the County's targeted goal, or to unfunded liabilities. Priority consideration should be given to unfunded liabilities for Retiree Health Benefits (OPEB) and Pension Benefits Prefunding.*

4. PAYGO

*The County should allocate to the CIP each fiscal year as PAYGO at least ten percent of the amount of general obligation bonds planned for issue that year.*

5. Fiscal Plan

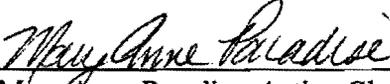
*The County should adopt a fiscal plan that is structurally balanced, and that limits expenditures and other uses of resources to annually available revenues. The fiscal plan should also separately display reserves at policy levels, including additions to reserves to reach policy level goals.*

6. Reports to Council

*The Executive must report to the Council:*

- a. the prior year reserve and the current year reserve projection as part of the November fiscal plan update;*
- b. current and projected reserve balance in the Executive's Annual Recommended Operating Budget;*
- c. any material changes expected to have a permanent impact on ending reserve fund balance; and*
- d. current and projected reserve balances in any proposed mid-year savings plan.*

This is a correct copy of Council action.

  
\_\_\_\_\_  
Mary Anne Paradise, Acting Clerk of the Council

Resolution No.: 16-1416  
Introduced: June 29, 2010  
Adopted: June 29, 2010

**COUNTY COUNCIL  
FOR MONTGOMERY COUNTY, MARYLAND**

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By: Management and Fiscal Policy Committee

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**SUBJECT:** Approval of the County's Tax Supported Fiscal Plan Summary for the FY11-16 Public Services Program

**Background**

1. Section 302 of the County Charter states in part: *The County Executive shall submit to the Council, not later than March 15 of each year, comprehensive six-year programs for public services and fiscal policy. The six-year programs shall require a vote of at least five Councilmembers for approval or modification. Final Council approval of the six-year programs shall occur at or about the date of budget approval.*
2. Over the last two decades the Council's Management and Fiscal Policy Committee has collaborated with the Office of Management and Budget and the Department of Finance to develop and refine County fiscal projections. The result has been continuous improvement in how best to display such factors as economic and demographic assumptions, individual agency funds, major known commitments, illustrative expenditure pressures, gaps between projected revenues and expenditures, and productivity improvements. This work has also increased the County's ability to harmonize the fiscal planning methodologies of the four tax supported agencies. Each version of the fiscal projections, or six-year fiscal plan, is a snapshot in time that reflects the best estimate of future revenues and expenditures as of that moment, as well as a specific set of fiscal policy assumptions.
3. On March 15, 2010 the County Executive included in his FY11 Recommended Operating Budget a Tax Supported Fiscal Plan Summary for FY11-16. The Executive subsequently transmitted revised versions of this summary to reflect changes in his recommended budget made on March 25 and April 22, 2010.
4. On April 13, 2010 the Council President recommended that the Council approve for the first time a balanced six-year fiscal plan for the FY11-16 period.

5. On May 21, 2010 the Executive transmitted another revised version of the fiscal plan summary to reflect his recommended new reserve policy. On June 24, 2010 the Management and Fiscal Policy Committee recommended approval of this policy, as amended. Action clause 5 of the approval resolution states: *The County should adopt a fiscal plan that is structurally balanced, and that limits expenditures and other uses of resources to annually available revenues. The fiscal plan should also separately display reserves at policy levels, including additions to reserves to reach policy level goals.* The Committee recommended implementing such a fiscal plan for the FY11-16 period, starting with the FY11 Operating Budget approved by the Council on May 27, 2010.

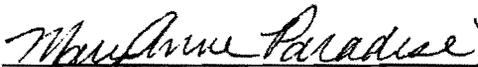
**Action**

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

The Council approves the Tax Supported Fiscal Plan Summary for the FY11-16 Public Services Program, as outlined on the attached pages. This summary reflects:

- (1) current information on projected revenues and non-agency expenditures for the six-year period, which must be updated as conditions change. To keep abreast of changed conditions the Council regularly reviews reports on economic indicators and revenue estimates prepared by the Finance Department.
- (2) the policy on expanded County reserves established in Resolution No. 16-1415 and the amendments to the Revenue Stabilization Fund law in Bill 36-10, both of which the Council approved on June 29, 2010.
- (3) other specific fiscal assumptions, listed in the summary, that are important goals for inclusion in future budgets.

This is a correct copy of Council action.

  
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Mary Anne Paradise, Acting Clerk of the Council

**County Council's Approved FY11-16 Public Services Program  
Tax Supported Fiscal Plan Summary**

(\$ in millions)

	App. FY10	Restated FY10	% Chg. FY10-11	App. FY11	% Chg. FY11-12	Projected FY12	% Chg. FY12-13	Projected FY13	% Chg. FY13-14	Projected FY14	% Chg. FY14-15	Projected FY15	% Chg. FY15-16	Projected FY16
<b>Total Revenues</b>	<b>5-21-09</b>			<b>5-27-10</b>										
			Restated to approved											
1 Property Tax (less PDs)	1,440.9	1,440.9	0.6%	1,450.1	2.7%	1,489.9	3.0%	1,534.9	3.1%	1,582.6	3.4%	1,635.9	2.4%	1,675.3
2 Income Tax	1,214.8	1,214.8	-12.7%	1,060.7	8.6%	1,130.2	6.2%	1,200.8	5.3%	1,264.8	8.6%	1,373.6	7.9%	1,482.6
3 Transfer/Record. Tax	123.4	123.4	13.4%	139.9	6.0%	148.3	-2.2%	145.1	8.7%	157.8	7.5%	169.7	5.1%	178.3
4 Investment Income	5.9	5.9	-38.2%	3.6	88.3%	6.9	95.1%	13.4	28.0%	17.1	16.8%	20.0	8.8%	21.7
5 Other Taxes	185.3	185.3	69.0%	313.2	2.8%	322.1	-32.8%	216.4	2.9%	222.6	2.8%	228.9	2.7%	235.1
6 Other Revenues	834.6	755.1	7.5%	811.6	-2.5%	791.7	0.7%	797.2	0.7%	803.1	0.8%	809.6	0.9%	816.6
7 <b>Total Revenues</b>	<b>3,804.9</b>	<b>3,725.4</b>	<b>1.4%</b>	<b>3,779.2</b>	<b>2.8%</b>	<b>3,889.1</b>	<b>0.6%</b>	<b>3,907.8</b>	<b>3.6%</b>	<b>4,048.0</b>	<b>4.7%</b>	<b>4,237.6</b>	<b>4.1%</b>	<b>4,409.6</b>
8														
9 Net Transfers in (Out)	37.2	37.2	12.1%	41.7	-68.0%	13.4	2.4%	13.7	2.6%	14.0	2.8%	14.4	3.0%	14.9
10 <b>Total Revenues and Transfers Available</b>	<b>3,842.2</b>	<b>3,762.6</b>	<b>1.6%</b>	<b>3,821.0</b>	<b>2.1%</b>	<b>3,902.4</b>	<b>0.5%</b>	<b>3,921.4</b>	<b>3.6%</b>	<b>4,062.0</b>	<b>4.7%</b>	<b>4,252.0</b>	<b>4.1%</b>	<b>4,424.4</b>
11														
12 <b>Non-Operating Budget Use of Revenues</b>														
13 Debt Service	251.5	251.5	5.0%	264.0	11.9%	295.3	11.3%	328.6	8.3%	358.1	6.3%	378.5	4.6%	398.1
14 PAYGO	1.3	1.3	-100.0%	-	n/a	32.5	0.0%	32.5	0.0%	32.5	0.0%	32.5	0.0%	32.5
15 CIP Current Revenue	30.7	30.7	-22.6%	23.8	72.1%	40.9	40.3%	57.4	41.0%	81.0	3.9%	84.2	-24.7%	63.4
16 Montgomery College Reserves						4.0	-98.1%	0.1	-2.9%	0.1	5.5%	0.1	4.2%	0.1
17 MNCPPC Reserves						4.3	-98.3%	0.2	-2.8%	0.2	7.1%	0.2	-25.9%	0.1
18 Contribution to General Fund Undesignated Reserves	(39.3)	(39.3)	-372.3%	107.1	-100.4%	(0.4)	1300.2%	5.4	-119.9%	(1.1)	668.3%	6.1	39.3%	8.5
19 Contribution to Revenue Stabilization Reserves	-	-	n/a	33.9	-28.5%	24.3	-16.0%	20.4	16.4%	23.7	44.9%	34.4	-6.3%	32.2
20 Retiree Health Insurance Pre-Funding	-	-	n/a	-	n/a	83.6	22.7%	102.6	18.6%	121.7	14.9%	139.8	5.0%	146.8
21 Set Aside for other uses (supplemental appropriations)	2.5	2.5	-90.2%	0.3	8916.1%	22.5	0.0%	22.5	0.0%	22.5	-11.3%	20.0	0.0%	20.0
22 <b>Total Other Uses of Resources</b>	<b>246.7</b>	<b>246.7</b>	<b>73.9%</b>	<b>429.1</b>	<b>18.2%</b>	<b>607.0</b>	<b>12.4%</b>	<b>589.7</b>	<b>11.7%</b>	<b>636.6</b>	<b>9.3%</b>	<b>695.6</b>	<b>0.6%</b>	<b>699.6</b>
23 <b>Available to Allocate to Agencies (Total Revenues + Net Transfers - Total Other Uses)</b>	<b>3,595.4</b>	<b>3,515.9</b>	<b>-3.5%</b>	<b>3,391.8</b>	<b>0.1%</b>	<b>3,395.4</b>	<b>-1.3%</b>	<b>3,361.7</b>	<b>2.2%</b>	<b>3,425.4</b>	<b>3.8%</b>	<b>3,556.4</b>	<b>4.7%</b>	<b>3,724.9</b>
24														
31 <b>Agency Uses</b>	<b>3,595.4</b>	<b>3,515.9</b>	<b>-3.5%</b>	<b>3,391.8</b>	<b>0.1%</b>	<b>3,395.4</b>	<b>-1.3%</b>	<b>3,361.7</b>	<b>2.2%</b>	<b>3,425.4</b>	<b>3.8%</b>	<b>3,556.4</b>	<b>4.7%</b>	<b>3,724.9</b>
32 <b>Total Use</b>	<b>3,842.2</b>	<b>3,762.6</b>	<b>1.6%</b>	<b>3,821.0</b>	<b>2.1%</b>	<b>3,902.4</b>	<b>0.6%</b>	<b>3,921.4</b>	<b>3.6%</b>	<b>4,062.0</b>	<b>4.7%</b>	<b>4,252.0</b>	<b>4.1%</b>	<b>4,424.4</b>
33 <b>(Gap)/Available</b>		<b>0.0</b>		<b>0.0</b>		<b>0.0</b>		<b>0.0</b>		<b>0.0</b>		<b>0.0</b>		<b>0.0</b>

	App. FY10	Restated FY10	% Chg. FY10-11	App. FY11	% Chg. FY11-12	Projected FY12	% Chg. FY12-13	Projected FY13	% Chg. FY13-14	Projected FY14	% Chg. FY14-15	Projected FY15	% Chg. FY15-16	Projected FY16
34 <b>Beginning Reserves</b>														
35 Unrestricted General Fund	115.5	115.5	-74.3%	29.7	360.6%	136.8	-0.3%	136.4	3.9%	141.8	-0.8%	140.7	4.3%	146.8
36 Revenue Stabilization Fund	119.6	119.6	-49.5%	60.4	58.2%	94.3	25.7%	118.6	17.2%	139.0	17.1%	162.7	21.1%	197.1
37 Total Beginning Reserves	235.2	235.2	-61.7%	90.1	158.6%	231.2	10.3%	255.0	10.1%	280.7	8.1%	303.4	13.3%	343.9
38														
39 <b>Additions to Reserves</b>														
40 Unrestricted General Fund	-39.3	-39.3	-372.3%	107.1	-100.4%	-0.4	1300.2%	5.4	-119.9%	-1.1	668.3%	6.1	39.3%	8.5
41 Revenue Stabilization Fund	0.0	0.0	n/a	33.9	-28.5%	24.3	-16.0%	20.4	16.4%	23.7	44.9%	34.4	-6.3%	32.2
42 Total Change in Reserves	-39.3	-39.3	-458.6%	141.1	-83.1%	23.8	8.2%	25.8	-12.1%	22.6	78.6%	40.5	0.5%	40.7
43														
44 <b>Ending Reserves</b>														
45 Unrestricted General Fund	78.2	76.2	79.6%	136.8	-0.3%	136.4	3.9%	141.8	-0.8%	140.7	4.3%	146.8	5.8%	155.3
46 Revenue Stabilization Fund	119.6	119.6	-21.2%	94.3	25.7%	118.6	17.2%	139.0	17.1%	162.7	21.1%	197.1	16.3%	229.2
47 Total Ending Reserves	195.8	195.8	18.0%	231.2	10.3%	255.0	10.1%	280.7	8.1%	303.4	13.3%	343.9	11.8%	384.5
48 Reserves as a % of Adjusted Governmental Revenues				6.0%		6.5%		7.1%		7.4%		8.0%		8.6%
49 Agency Reserves														
50 Montgomery College				0.0	n/a	4.0	1.9%	4.0	1.8%	4.1	1.8%	4.2	1.9%	4.3
51 MNCPPC				0.0	n/a	4.3	3.7%	4.5	3.5%	4.6	3.6%	4.8	2.6%	4.9
52 <b>Retiree Health Insurance Pre-Funding</b>														
53 Montgomery County Public Schools (MCPS)						53.2		64.8		76.4		87.7		92.1
54 Montgomery College (MC)						1.0		1.2		1.3		1.4		1.5
55 MNCPPC (w/o Debt Service)						4.4		5.1		5.8		6.1		6.4
56 MCG						25.0		31.5		38.4		44.8		46.8
57 Subtotal Retiree Health Insurance Pre-Funding						83.6	-	102.6	-	121.7	-	139.8	-	146.8

**This fiscal plan summary reflects the following assumptions:**

1. FY12-16 property tax revenues are at the Charter Limit assuming a tax credit. All other tax revenues at current rates except as noted below.
2. Revenues reflect Energy Tax and Wireless Telephone Tax increases approved by the County Council on May 27, 2010. Energy Tax increase sunsets at the end of FY12.
3. PAYGO restored to policy level of 10% of planned GO Bond borrowing in FY12-16. See Row 14 above.
4. FY11 revenues reflect one-year redirection of Recordation Tax Premium (\$8 M.) and Recordation Tax for MCPS CIP and College IT (\$5 M.).
5. Retiree Health Insurance Pre-Funding assumed to resume at scheduled contribution levels in FY12. See Rows 20 and 53-56 above.
6. Projected FY12-16 rate of growth of Agency Uses constrained to balance the fiscal plan in FY12-16. Allocations to the four agencies (MCPS, Montgomery College, MNCPPC, and County Government) will be determined in the annual budget process.
7. FY11 reserves reflect restoration of reserves to current 6% (of tax supported resources) policy level. FY10 and FY11 reserves (see Rows 34-48 above) include all County and Outside Agency tax supported reserves.
8. FY12-16 Unrestricted General Fund Reserves are reduced in certain years to reflect compliance with Section 310 of the County Charter on maximum size of the general fund balance (shall not exceed 5% of prior year general fund revenues). Outside Agency reserves are excluded from these amounts and are displayed separately (see Rows 16 - 17 and 50 - 51 above).
9. FY12-16 reserves reflect proposed new reserve policy including increase in reserve levels and inclusion of capital projects and grant revenues as part of Adjusted Governmental Revenues.

**Notes:**

1. Restated FY10 excludes \$79.5 million for debt service that was double appropriated to MCPS to meet the State's Maintenance of Effort requirement and then reimbursed to the County.
2. As of 6-22-10, Actual FY10 agency uses are estimated to be \$103.0 million less than Approved or Restated FY10 due chiefly to reductions from two FY10 savings plans.



## Montgomery County Government

ROCKVILLE, MARYLAND 20850

### MEMORANDUM

September 30, 2010

TO: Isiah Leggett, County Executive  
Nancy Floreen, President, County Council

FROM: Vernon Ricks, Co-Chair, Organizational Reform Commission *YR*  
Richard Wegman, Co-Chair, Organizational Reform Commission *RW*

SUBJECT: Status Report and Work Plan

On behalf of the Organizational Reform Commission, we are pleased to submit our progress report and proposed work plan as outlined in Resolutions No. 16-1350 and 16-1434. The resolutions state that the Commission will submit to the Council and the Executive by September 30, 2010 a status report outlining its progress to date and its work plan through January 31, 2011.

#### Progress Report

##### Weekly Meetings

The Organizational Reform Commission has met weekly since July 28<sup>th</sup> for a total of nine meetings thus far. The list of meeting dates, presenters and participants and materials distributed for each of these meetings is on pages 4 to 6 of this memo. Future meetings are scheduled weekly on Wednesdays in October, November, and December.

Attendance by Commissioners has been excellent, with absent members reading detailed minutes or participating by conference call. Of course, all the Commission meetings are open to the public and there has been an audience at each meeting. Council and Executive staff have attended all meetings and have been instrumental in scheduling presenters. The cooperation of departments and agencies has been good.

## PHASE I – Briefings and Outreach

The Commission was briefed on other related County initiatives underway 1) the Cross-Agency Resource-Sharing Committee (CARS) and 2) the Office of Legislative Oversight's (OLO) Structural Budget Deficit Project. Briefings were also held on County revenue issues, the FY11 Fiscal Plan, and the collective bargaining process.

Presentations have been made by leadership from County Government, Montgomery County Public Schools, Montgomery College, Maryland-National Capital Park and Planning Commission and some County Government departments. In addition to information about the structure of each of these entities, each was asked to address the following questions: 1) What organizational changes and budget restructuring measures have you implemented over the last 3 to 4 years, and are there other such measures that you are considering? 2) What is your agency considering doing to address the County's continuing revenue deficits? and 3) What are the legal and organizational impediments to reducing costs without impacting your core mission?

Subsequent meetings have included discussions with "stakeholders" such as employee unions and major County organizations including the Taxpayers League, League of Women Voters, Chambers of Commerce, and Montgomery County Council of Parent Teacher Associations. They have been asked to consider the Commission's task "to make recommendations to reorganize and consolidate functions performed by the County Government and County-funded agencies" and were requested to make suggestions on what programs should be consolidated, reduced, or eliminated.

The Commission will hold additional meetings with "stakeholders" and has scheduled a public forum on October 20 to solicit ideas from the community on what County programs should be consolidated, reduced, or eliminated. The forum will be advertised by press releases and mailings sent to civic organizations and other groups. The Commission has a County website which is linked to the Council website. The Commission has received comments from individuals at its email address which is [Organizational.Reform@MontgomeryCountyMD.gov](mailto:Organizational.Reform@MontgomeryCountyMD.gov). The Commission will hold a public hearing on its draft recommendations once they are developed.

Phase I has been a very open process to encourage comments and participation by many different points of view and to stimulate new ideas and promote innovative thinking.

### **Mission Statement**

The Commission adopted the following Mission Statement:

Pursuant to Resolution No. 16-1350 of the Montgomery County Council, adopted on May 18, 2010, the Organizational Reform Commission will

(A) solicit and consider suggestions from County officials and employees, stakeholders, and the general public concerning reorganization or consolidation of functions or government processes performed by County government and County-funded agencies,

- (B) develop recommendations to reorganize or consolidate functions or revise government processes to achieve significant cost savings or efficiencies,
- (C) identify the cost savings, ease of implementation and impact on level of service associated with each recommendation,
- (D) submit an interim report to the County Council and County Executive not later than September 30, 2010, and
- (E) submit a final report to the County Council and County Executive not later than January 31, 2011.

In developing its final report and recommendations, the Commission will take into consideration the report and recommendations of the Office of Legislative Oversight's Structural Budget Deficit project, due to be submitted to the Council in December, and the recommendations of the Cross-Agency Resource-Sharing Committee also to be submitted in December. The Commission is keenly aware of the projected \$145 million deficit facing the County and will be guided by the County Executive's September 22 Fiscal Update and Council Staff Director Steve Farber's memo to the Council of September 23.

### **Work Plan**

#### PHASE II – Deliberations and Draft Recommendations

The Commission considers its initial meetings and briefings as Phase I of its work plan and should complete this Phase I process in October when it concludes its public forum. Resolutions No. 16-1350 and 16-1434 also call for the Commission to draft and adopt written criteria to evaluate which suggestions merit further consideration by the Commission. For Phase II of its work, the Commission will develop these criteria, conduct additional research, and develop draft recommendations. The Commission will narrow the list of issues to be addressed and develop concrete and specific ideas for further review and discussion. As part of that Phase II discussion, the Commission will provide an opportunity for public comment on these more specific draft recommendations. The Commission will circulate the draft recommendations and obtain comments on them from the public, elected officials, stakeholders and as many citizens as possible. As previously stated, the Commission will hold a public hearing in late November/December on the draft recommendations.

The Commission may organize into subgroups to facilitate information gathering and public hearing processes. The Commission will have resources available from the Council and Executive staffs to conduct its research and analysis. In December the Commission will refine and modify its recommendations and in January will finalize its report and recommendations.

The Commission has outlined the following work plan for October, November, and December.

## Work Plan

### October/November

Continue information gathering and outreach

Hold public forum October 20

Develop criteria to evaluate which suggestions merit further consideration by the Commission

Identify issues for further study and investigation using criteria developed

Gather additional information and conduct more in-depth study and discussion

### November/December

Develop draft recommendations

Hold public hearing to solicit comments and reactions from stakeholders, government officials, and the public on the draft recommendations

Further discussion and analysis

Refine and modify recommendations

### January

Finalize report and recommendations

Submit final report to the Council and Executive by January 31, 2011

## PHASE III – Final Report

For Phase III of its work, the Commission will complete its recommendations in January and submit its final report by January 31, 2011.

Commissioners appreciate their role in this important project, and also thank everyone who has participated to date. More detailed information on the Commission's meetings held in July, August, and September follows this memo.

**Organizational Reform Commission**  
July, August and September Meeting Information

**July 28, 2010**

Discussion with

Nancy Floreen, Council President  
Duchy Trachtenberg, Councilmember  
Lou D'Ovidio, Councilmember Berliner Office  
Tim Firestine, Chief Administrative Officer  
Steve Farber, Council Staff Director  
Karen Orlansky, Legislative Oversight (OLO), Structural Budget Deficit Project  
Fariba Kassiri Assistant CAO, Cross-Agency Resource- Sharing Committee

Materials Distributed:

- Montgomery County Charter
- Info excerpted from FY11 Budget about Montgomery County including Montgomery County Organizational Chart
- Resolution No. 1416 – County's Tax Supported Fiscal Plan Summary FY11-16
- Glossary and Acronyms
- Office of Legislative Oversight (OLO) Structural Budget Deficit Project
- CARS – Cross-Agency Resource-Sharing Committee
- Summary and Report of Reorganization, Restructuring and Realignment Work Group for County  
Executive Isiah Leggett, February 11, 2008
- Resolution 16-1419, FY 2011 Work Program of the Office of Legislative Oversight
- OLO Report 2009-9. A Research Brief on Furloughs and Buyouts
- List of Office of Legislative Oversight Reports, 2005-2010

**August 9, 2010**

Presentation by Joe Beach, Director, Office of Management and Budget, Overview of County Government & Agencies  
Presentation by Steve Farber, Council Staff Director, Fiscal Overview

Materials Distributed:

- PowerPoint Handout from Joe Beach, Montgomery County Government: Organizational and Fiscal Structure
- Council's Approved FY 11-16 Public Services Program: Tax Supported Fiscal Plan Summary
- MACo's Budgets, Tax Rates, & Selected Statistics FY 2010
- WSSC's Workforce Reductions: Lessons Learned
- New Mexico Report by Committee on Government Efficiency
- Approved FY11 Budget

**August 16, 2010**

Discussion with Councilmember Roger Berliner  
Presentation - Maryland-National Capital Park & Planning Commission by Françoise Carrier, Chair, MCPB,  
with Mary Bradford, Director, Parks Department, Adrian Gardner, General Counsel, Patti Barney, Executive  
Director, Rollin Stanley, MC Planning Director  
Presentation - Montgomery College, Dr. Brad Stewart, Vice President and Provost Silver Spring/Takoma Park and  
Donna Dimon, Chief Budget and Management Studies Officer

Materials Distributed:

- Folder of Information on Parks
- Montgomery County Recreation Guide
- OLO Report 2009-7, Organization of Recreation Programs across the Department of Parks and Department of Recreation
- Presentation outline from Montgomery College

**August 23, 2010**

Presentation – Montgomery County Public Schools by Chris Barclay, Board Vice President, MCPS and Jerry Weast,  
Superintendent, MCPS with Larry Bowers, Chief Operating Officer, MCPS, Marshall Spatz, Director, Management,  
Budget and Planning

Materials Distributed:

Letter from BOE President Patricia O'Neill and attached PowerPoint handout

**August 30, 2010**

- Presentation - Overview Montgomery County Employees Collective Bargaining Process, Joseph Adler, Director, Office of Human Resources MCG, with Mike Faden, Sr. Legislative Counsel participating
- Presentation - Overview Montgomery County Public Schools Collective Bargaining Process, Larry Bowers, Chief Operating Officer, MCPS with Stan Damas, Director of Association Relations, MCPS, and Marshall Spatz, Director, Management, Budget and Planning
- Discussion – County Police view of Park Police merger with County Police, Assistant Chief Betsy Davis, MCPD, and Assistant Chief Drew Tracy, MCPD; also contributing to the discussion, Chief Darien Manley, Park Police, MNCPPC and Mike Young, President, FOP Lodge #30, Park Police, MNCPPC
- Discussion – Commission Outreach with Neil Greenberger, Council Legislative Information Officer

Materials Distributed:

- OLO Report 2006-5, A Base Budget Review of the Montgomery County Park Police
- Overview of collective bargaining programs of Montgomery County Public Schools
- Maryland Collective Bargaining Laws Prior to July 2010
- OLO Report 2009-5, Collective Bargaining Law In Montgomery County: A Legislative History
- Fairness in Negotiations Act, Effective July 1, 2010
- Memo to Council from Linda McMillan re: Park Police/County Police Consolidation
- Memo from Marc Hansen to Phil Andrews, re: Council's Role in Collective Bargaining
- Handout on language found in Res. 16-1373 & 16-1376 Park Police/County Police

**September 7, 2010**

- Meeting with Montgomery County Public Schools Employee Unions - Doug Prouty, President, Montgomery County Education Association (MCEA); Dr. Rebecca Newman, President and Edye Miller, Montgomery County Association of Administrators & Principals (MCAAP); Merle Cuttitta, President and David Rodich, Service Employees International Union, Local 500 (SEIU)
- Presentation – County Department of Recreation view of Parks/Recreation merger, Gabriel Alborno, Director, Montgomery County Department of Recreation

Materials Distributed:

- Joint Statement & attached health insurance table from MCAAP, MCEA and SEIU
- Power Point Handout: Overview – Department of Recreation
- OLO Report 2010-5, Comparative Data on Montgomery County and Fairfax County

**September 13, 2010**

- Meeting with Major Montgomery County Organizations: Yale Wiesberg, Montgomery County Taxpayers League; Elaine Apter, President Montgomery County League of Women Voters; Ginanne Italiano, Director, Bethesda-Chevy Chase Chamber of Commerce; Jane Redicker, Director, Greater Silver Spring Chamber of Commerce; and Kristin Tribble, President, Montgomery County Council of Parent Teacher Associations (MCCPTA)

Materials Distributed:

- Chart – Interest Arbitration Results in Montgomery County, MD
- OLO Report No. 2010-9 - An Inventory and Assessment of Housing-Related Programs: DHHS, SHCA and HOC

**September 22, 2010**

- Presentation - Department of Health and Human Services by Uma, Ahluwalia, Director
- Presentation - Housing Opportunities Commission by Annie Alston, Executive Director
- Presentation - Department of Housing and Community Affairs, by Rick Nelson, Director

Materials Distributed:

- Power Point Handout: Overview – Department of Health and Human Services; Fact Sheet & Community Guide
- Power Point Handout: Overview – Housing Opportunities Commission; “Budget in Brief” & Fact Sheet
- Power Point Handout: Overview – Department of Housing and Community Affairs
- OLO Report No. 2009-8 – The Department of Economic Development –Review of Budget and Strategies
- OLO Report No. 2008-5 – Overview of Revenue, Expenditures, & Other Financial Data for Municipalities & Special Taxing Districts in Montgomery County
- Communications Consolidation Progress Report Park Police/County Police Communications Consolidation Steering Committee dated September 15
- CARS Meeting and Presentation – ORC Commissioners Fidler, Fosler, Echavarren, Heltemes, & Ricks attended

**September 29, 2010**

- Meeting to review, revise and approve Progress Report and Work Plan



OFFICES OF THE COUNTY EXECUTIVE

Isiah Leggett  
County Executive

Timothy L. Firestine  
Chief Administrative Officer

MEMORANDUM

March 24, 2010

**TO:** Jerry Weast, Superintendent, Montgomery County Public Schools  
Hercules Pinkney, Interim President, Montgomery College  
Royce Hanson, Chairman, Montgomery County Planning Board  
Jerry Johnson, General Manager, Washington Suburban Sanitary Commission  
Steve Farber, Staff Director, Office of the County Council

**FROM:** Timothy L. Firestine, Chief Administrative Officer

**SUBJECT:** Cross-Agency Resource-Sharing Committee

Thank you for your participation in the Cross-Agency Resource-Sharing discussion on February 3<sup>rd</sup>. These are difficult times and the financial challenges before us are significant. As we agreed, the current budget situation offers us an opportunity to reexamine the way in which County government functions in order to be more efficient and effective. This is a great opportunity to work together and reach an unprecedented level of collaboration and partnership towards structurally improving our long-term budget challenges. To this end, I am offering the following for your review and comments before we formalize this process:

**Overall Purpose:** The purpose of the Cross-Agency Resource Sharing Committee is to provide a forum for coordination among Montgomery County agencies that seeks to share ideas/best practices, develop potential resource-sharing strategies to achieve operational efficiencies, reduce costs, and improve the quality of services offered to our residents.

**Organizational Framework:** It is essential that we create a framework that encourages cooperation and collaboration among our employees involved in this process, and also leverages the expertise of our organizations in a manner that generates new and creative ideas and fosters strong working relationships among our agencies. Therefore, I propose a two-tier organizational framework that contains an Executive Committee that is accountable for achieving results in a timely and transparent fashion, and a number of workgroups that will apply their expertise to sharing ideas and generating solutions to pressing issues faced by all of our agencies.

**Executive Committee:** The executive Committee will be composed of the following members with the authority to convene meetings on a quarterly basis, provide direction and act on the recommendations of each of the workgroups, and render decisions on future action items. The Executive Committee will also appoint representatives from their agency to serve on each of the workgroups.

- Timothy Firestine, Chief Administrative Officer, Montgomery County Government
- Jerry Weast, Superintendent, Montgomery County Public Schools
- Hercules Pinkney, Interim President, Montgomery College
- Royce Hanson, Chairman, Montgomery County Planning Board
- Jerry Johnson, General Manager, Washington Suburban Sanitary Commission
- Steve Farber, Staff Director, Office of the County Council

**Workgroups:** The workgroups will be composed of a representative from each of the agencies. Each workgroup will nominate a member to serve as the Workgroup Chair, who will have the responsibility of guiding overall efforts and reporting on the group's progress to the Executive Committee. The workgroups will meet on as-needed basis, to complete action items and foster the creation of new ideas.

**Workgroups' Focus Areas:** As we agreed at our February 3<sup>rd</sup> meeting, the initial cross-agency resources-sharing efforts will be focused on the following areas:

1. Information Technology – *utilize ITPCC*
2. Utilities – *utilize ICEUM*
3. Facilities Planning, Design, Construction and Maintenance
4. Procurement – *utilize IPACC*
5. Space Utilization
6. Fleet
7. Mailing, Printing and Document Management
8. Employees and Retirees Benefit Plans (health, retirement, etc.)
9. Administrative Functions (payroll, budget, finance, training, etc.)

**Next Steps:**

- By Friday, April 9<sup>th</sup>, members of the Executive Committee will come to agreement on the above-proposed organizational framework and workgroups' focus areas and designate representatives to serve on each of the eight workgroups.
- By the end of April, convene the first Cross-Agency Resource-Sharing Executive Committee kick-off meeting to provide direction and discuss the overall purpose, process and timelines for this effort. Select a chairperson for each of the workgroups.
- In order to encourage ideas from those with the greatest knowledge of their subject matter, initial action items and charge statements should be devised by each workgroup

and subsequently presented to the Executive Committee at its first quarterly update meeting. Each workgroup should generate a list of both short-term (able to complete within one year) and long-term action items that will focus the efforts of each group. In addition to preparing action items, each workgroup should create a specific charge statement to guide their efforts. These charge statements could change from year to year as the workgroups prioritize different aspects of their specific topic areas.

- On quarterly basis, the Executive Committee meets to receive updates, provide directions and discuss progress made by each workgroup.
- In addition, I suggest we reach out to the community at large (business, residential, non-profit) to seek their input and guidance in this effort.

I look forward to working with you on this initiative. Please review the above-proposed process, provide any comments/suggestions you have about the process, as well as the name of the representative you designate to serve on each of the eight workgroups to Assistant Chief Administrative Officer Fariba Kassiri via e-mail at [Fariba.Kassiri@montgomerycountymd.gov](mailto:Fariba.Kassiri@montgomerycountymd.gov) by Friday, April 9<sup>th</sup>. Upon receipt, she will compile and send you a complete package and notify you of the date and time of our first Executive Committee kick-off meeting. She can be reached by phone at (240) 777-2512 if you have any questions or need additional information.

Thank you for your help in this important effort. I believe we all see opportunities for greater efficiencies and I am hopeful that working together we can make these improvements for the good of our community.

TLF:st

## Cross-Agency Resource-Sharing Committee (CARS)

Executive Committee's Response to Subcommittee Recommendations - October 27, 2010

Subcommittee	Recommendation	Response	Implemt. Date
<b>Utilities</b>	1. Establish an Interagency Energy Technical Service Organization	Recommend moving forward by enhancing existing Interagency Committee on Energy and Utilities Management. It is recommended that each agency provide energy management staff and access to finance, budget and procurement staff as needed to advance initiatives.	Immediately
<u>Executive Summary of Recommendations</u>	2. Multi-Agency Energy Service Contract Agreement for Energy-Efficiency and Renewable Energy Retrofits	Recommend that agencies move forward with developing a performance contracting procurement vehicle and financial options to advance a large package of building retrofits. The County Department of General Services, Department of Environmental Protection, Office of Management and Budget, Finance and Agency representatives should convene to address the following items: 1) Develop a common RFP for agencies, in which all agencies can opt into as participants, 2) Identify the best funding option(s) including energy service company performance contracting and County bond options, 3) Measurement and Verification needs, and 4) Resource needs including staff. By March 30, 2011, the County and participating agencies should have a clear funding plan and RFP ready for issuance.	Mid Year FY12
<u>Detailed Recommendations Report</u>	3. Consolidate Utility Billing	Given different systems in place, for now, efforts should focus on consolidating data within each agency, instead of between agencies. Most agencies have some function underway to internally consolidate utility billing. We recommend that the subcommittee review utilities options and consider contracting for services for year 2013 and later.	Post FY12
	4. Interagency Energy Conservation Campaign	The subcommittee's next report (due Dec. 1st) for this action item should include a more detailed description of the campaign including target audiences, how existing campaigns within agencies would be coordinated, cost savings and resource needs.	Mid Year FY11

Subcommittee	Recommendation	Response	Implemt. Date
<b>Utilities (Continue)</b>	5. T8 32W to 25/28W Fluorescent Retrofit	The MCPS has been very successful in implementation of this idea. With some upfront investment, which was recovered in year 1, they were able to achieve significant ongoing yearly savings in utility cost. Other agencies should begin piloting in at least one facility each, comprehensive replacement of 32W T8 lamps with 25/28W replacements. Agencies are encouraged to share contracts as necessary, or build into performance contracts under item #2 above, which would eliminate the need for a separate upfront resource investment. Consider using the Jane E. Lawton fund as a source of capital, based on MCPS's example, to fund the retrofit to ensure that budgetary savings are realized in year one. Coordinate on common application and discussions with MEA regarding funding needs. The subcommittee's next report (due Dec. 1st) for this action item should include a progress report and a detailed implementation plan, potential savings and resource needs.	FY12
	6. Building Operator Certification (BOC) Training	County Government should continue to build training infrastructure that can be delivered in the County using ARRA funds, and make best efforts to make subsidized training seats available to agencies. Once the training program is in place, agencies should evaluate opportunities to send appropriate staff.	FY12
	7. Expand/Enhance Cooperative Purchasing of Utilities	Additional research needed by ICEUM committee.	Post FY12
	8. Establish a Energy-Efficiency/Renewable Energy Finance Fund to Reinvest a Portion of Savings from Retrofits	Additional research needed, consider consolidating as part of Multi-Agency Energy Service Contract Agreement for Energy-Efficiency and Renewable Energy Retrofits strategy.	Post FY12
	9. Participate in PJM Load Management Programs	Additional research needed by ICEUM committee.	Post FY12
	10. Develop Multi-Agency Facility Sharing Plan to plan future facility use and combine efforts	It is recommended that the Facilities and ICEUM/Utilities Subcommittees coordinate to discuss opportunities for FY13.	Post FY12
	11. Adopt Thin-Client or Similar IT architecture to reduce desk-top energy consumption	Additional opportunities may be available in coordination with consolidating IT resources among agencies. Recommend that Utilities/ICEUM Subcommittee coordinate with IT Subcommittee for post FY13 and beyond.	Post FY12

Subcommittee	Recommendation	Response	Implemt. Date
<b>Fleet</b>  <u>Executive Summary of Recommendations</u>  <u>Detailed Recommendations Report</u>	1. Fueling/ Fuel Management System and Infrastructure Consolidation	Expand to include all departments within all agencies with the goal of strategically locating joint use fueling facilities and reducing the number of facilities currently in use. The subcommittee's next report (due Dec. 1st) for this action item should include potential savings and a detailed implementation plan.	FY12
	2. Share Specialized Equipment Use/Towing	Expand this action item to include other equipment. Create list of equipment that can be shared by agencies and a process by which that equipment can be identified, reserved, maintained and replaced on a shared basis. The Subcommittee's next report (due Dec. 1st) for this action item should include potential savings and a detailed implementation plan.	FY12
	3. Training Consolidation	Move forward with implementation of this action item.	FY12
	4. Shared purchasing - combine bids for new vehicles equipment	<b>Refer to General Note 1 in Procurement section.</b> Advance implementation of this action item to FY12. Compile a cross-agency list of all related contracts and work with the Procurement Subcommittee to implement this action item.	FY12
	5. Grants vehicles/equipment	Start cost/benefit analysis and preliminary implementation plan.	Post FY12
	10. CNG – Fast Fill	Unclear as to how this is a cross agency benefit. Is this intended to address expansion of CNG fueling operators? If so, isn't it a component of item #1?	
	7. Shared maintenance space	Expand this action item to include shared use of fleet personnel and also advance implementation to FY12. Pursue shared use of space and personnel to support work overflow and down periods, if any, when equipment maintenance backlogs can be addressed. Work with OMB and County Attorney on MOU and personnel charge-back between agencies. The Subcommittee's next report (due Dec. 1st) for this action item should include potential savings and a detailed implementation plan.	FY12
	8. Emergency Communications	Start assessment to develop cost/benefit analysis and preliminary implementation plan.	Post FY12
	9. Parts Solicitation	<b>Refer to General Note 1 in Procurement section.</b> Advance implementation of this action item to FY12. Compile a cross-agency list of all related contracts and work with the Procurement Subcommittee to implement this action item.	FY12
	11. Grants Applications	Start cost/benefit analysis and preliminary implementation plan.	Post FY12

Subcommittee	Recommendation	Response	Implemt. Date
<b>Administrative</b>  <u>Executive Summary of Recommendations</u>  <u>Detailed Recommendations Report</u>	1. Training Function and Service Consolidation	Continue with refinements to implementation plan and estimate of potential cost savings. Need to articulate a strong case for how cross agency consolidation of this function could be achieved without impairing existing training functions specific to each agency.	FY12
	2. Centralized P-Card vendor	Continue with implementation with a goal to have it completed across participating agencies before the end of FY11. Need to provide an estimate of additional rebate revenues that will be achieved through JP Morgan Chase contract.	FY11
	3. Specialized Banking Services	Continue with refinements to implementation plan and estimate of potential cost savings. The December 1 reports should address the concerns raised by MNCPPC with sharing of these services.	FY12
	4. Centralize Employee Background Investigations	Continue with refinements to implementation plan and estimate of potential cost savings. The greatest potential for savings would come from either agency wide adoption of the MCPS approach (applicant fee) &/or from outsourcing public safety background investigations. The December 1 report should address the pros/cons, cost/benefits of these alternative approaches.	FY12
	5. Consolidate Agency Security Patrol	Continue with refinements to implementation plan and estimate of potential cost savings. The December 1 report should address the pros/cons, cost/benefits of consolidating this service within one agency and the related human resource issue of moving personnel into a new agency.	FY12
	6. Centralize administration of specific functions: e.g. Payroll; Benefits; W2 Notification; banking services, Payments, etc.	Additional research is needed to determine the feasibility or potential for savings in consolidating these complex and critical activities. The December 1 report should include the Subcommittee's suggested alternative approaches for some or all of these important functions.	Post FY12
	7. Have reciprocal agreements with Montgomery County agencies to allow easier transfer and recruitment of employees (e.g. existing arrangement between MCG and the MC Circuit Court).	The Subcommittee should expedite this proposal for implementation in FY12. If employees can be transferred between agencies without disturbing participation in existing benefit plans or changing current salary levels, it would significantly facilitate other cross agency consolidations and resource sharing proposals.	FY12
	8. Centralize &/or explore contracting opportunities for alcohol and drug testing programs	The Subcommittee should consider expediting this proposal for implementation in FY12. The December 1 proposal should address why this proposal could not be implemented in FY12	FY12

Subcommittee	Recommendation	Response	Implemt. Date
<b>Administrative (Continued)</b>	<p><b>This item was moved here from IT Subcommittee</b>            9. Cross Agency Language Translation Services Cooperative - Moved here from IT Subcommittee for implementation</p>	<p>While the translation process depends heavily on sophisticated translation management software called WorldServe, from a partnership point of view, this action item can be handled by the Administrative Subcommittee in the following phases: Phase I: develop a partnership process for MCPS' Language Assistance Services Unit to handle County Government's language translation needs. Phase II: Assess the effectiveness of the partnership and determine the feasibility of expanding the partnership to other public agency. If recommended by the assessment, develop a partnership agreement/process to expand to include other county agencies. Work with IT Subcommittee to ensure smooth implementation of Phase I and appropriate planning for phase II.</p>	<p>Phase I: FY12            Phase II: FY13</p>
	<p><b>New Item added by Exec. Committee</b>            10. Implement a cross-agency cost-cutting strategy for Paper/Print/Mail use</p>	<p>The Administrative Subcommittee should develop a proposal for implementing a cross agency strategy for reducing paper usage, printing/duplicating costs, and mail costs as has been accomplished in the County Government. The Subcommittee's next report (due Dec. 1st) for this action item should include potential savings and a detailed implementation plan.</p>	<p>FY12</p>
<b>Procurement</b>  <u>Executive Summary of Recommendations</u>  <u>Detailed Recommendations Report</u>	<p>1. County Government Management of All Vehicle Purchasing</p>	<p>Expand this action item to include all contracts.  <b>GENERAL NOTE 1:</b> <i>County agencies should consolidate contracts across all functions. Agencies should compile a list of all contracts, identifying identical as well as similar contracts with the aim of consolidating duplicate contracts into single multi-agency cooperative contracts administered by one agency on behalf of all agencies .</i>            The Subcommittee's next report (due Dec. 1st) should identify opportunities/options and include potential savings and implementation plan.</p>	<p>FY12</p>
	<p>2. Public School Management of Paper Purchasing</p>	<p><b>Refer to General Note 1</b>            The Subcommittee's next report (due Dec. 1st) for this action item should include potential savings and a detailed implementation plan.</p>	<p>FY12</p>
	<p>3. Coordinated Purchasing of Environmentally Preferable Products</p>	<p><b>GENERAL NOTE 2:</b> <i>Prepare matrix identifying all environmental policies across county agencies to highlight similar policies that aide collaboration and differing policies that hinder it.</i>            The Subcommittee's next report (due Dec. 1st) should identify opportunities/options for cross-agency cost savings and resources sharing.</p>	<p>FY12</p>

Subcommittee	Recommendation	Response	Implemt. Date
<b>Procurement (Continued)</b>	4. Explore consortium purchasing of other potential goods and services such as courier and delivery services, alcohol drug testing, employee background investigations, cell phones and any other goods or services recommended by CARS committees	<b>Refer to General Note 1</b> The Subcommittee's next report (due Dec. 1st), should identify opportunities/options and include potential savings and implementation plan.	FY12
	<b>New Item added by Exec. Committee</b> 5. Cross-Training for Procurement Personnel	Implement cross-training program for procurement personnel between agencies so that staff can be exchanged to fill resource shortfalls, better facilitate cooperative contracts, and improve processes.	FY12
<b>Employees &amp; Retirees Benefit Plans</b>	1. Consolidate the Employee Benefit Plan Offerings	Since the five county agencies just jointly bid their medical, dental, vision and life insurance programs with new contracts taking effect January 1, 2011, rebidding these programs ahead of schedule is not a good idea. We recommend deferring the implementation of this action to FY13. The Subcommittee's next report (due Dec. 1st) for this action item should include potential savings and preliminary implementation plan.	FY13
<u>Executive Summary Recommendations</u>	2. Combine COBRA and Flexible Spending Plan Administration	Currently, all County agencies are working on a joint contract for COBRA and Flex plan administration that will be bid with a new contract effective January 1, 2012. However, more competitive pricing will result from all agencies placing the business with common vendors. The Subcommittee's next report (due Dec. 1st) should include potential savings and draft RFP language changes regarding "common vendors" requirement.	FY12
<u>Detailed Recommendations Report</u>	3. Consolidate and Bring Payment of Retiree Benefits In House	The County government is planning to bring payment of retiree benefits in house in the April/May 2011 timeframe. MCPS (and possibly Montgomery College) would achieve savings by outsourcing this function to the County. The Subcommittee's December 1st report for this action item should include cost/benefit analysis, potential savings and a detailed implementation plan. It appears that, for now, it would be either complicated or cost prohibitive for MNCPPC, WSSC and HOC to outsource this function to the County; but can be revisited in the future.	FY12
	4. Consolidate defined benefit retirement programs of county agencies under one program.	Consolidation of the defined benefit retirement plans is a significant undertaking and would take a great deal of study before can be consolidated. Significant legal and logistic challenges would need to be addressed. The Subcommittee should continue additional research and further study.	TBD

Subcommittee	Recommendation	Response	Implemt. Date
<b>Employees &amp; Retirees Benefit Plans (Continued)</b>	5. Consolidate the Employee Benefit Plan Offerings (medical, dental, vision, prescription, life insurance, Flexible Spending Administration, COBRA administration, etc.) of County Agencies under one Administrative Unit that supports all county agencies.	This is a longer term initiative that should be studied in detail before pursuing. The Subcommittee should continue additional research and further study.	Post FY12
	6. Jointly develop Wellness and Disease Management strategies.	The recent medical plan bid asked vendors to assist the agencies in leveraging opportunities for wellness and disease management programs. The Subcommittee should work with health plan vendors to jointly develop strategies and target opportunities. The Subcommittee's next report (due Dec.1st) for this action item should include potential savings and a detailed implementation plan.	FY12
	7. Jointly approach light duty and return to work strategies, and consider expanding the County Occupational Medical program as a resource for all County agencies.	This is a longer term initiative that should be studied in detail before pursuing. The Subcommittee should continue additional research and further study.	Post FY12
	8. Currently benefits among county agencies are "comparable" but not the same. Consider a uniform plan design across agency lines whether or not the plans are consolidated.	This is a longer term initiative that should be discussed in connection with item #5 above. The Subcommittee should continue additional research and further study.	Post FY12
	9. Consider separating benefit negotiations out of the existing labor/management model and negotiate uniform benefit with all county unions.	Not recommended at this time	TBD
	10. Consider combining drug and alcohol testing across agency lines, and explore the possibility of leveraging the contracts with health insurance vendors.	Further evaluation of this option should be pursued in 2011.	Post FY12
	11. Consolidate the County and MCPS (and perhaps other agency) processes to evaluate applications for disability retirement.	The benefits staff with MCPS and the County should work together to evaluate this opportunity in greater detail. The subcommittee's next report (due Dec. 1st) for this action item should include an intial analysis and potential savings.	FY13

Subcommittee	Recommendation	Response	Implemt. Date
<b>Printing/Mail/ Documents</b>  <u>Executive Summary of Recommendations</u>  <u>Detailed Recommendations Report</u>	1. Records Management: Sharing New Knowledge and Best Practices	Incorporate other county agencies into standard practice currently employed by MCG and MCPS.	FY12
	2. Share Scanning and Conversion Policy	Refer to General Note 2 in Procurement section.	FY12
	3. Share Presorting Services/List Management	Refer to General Note 1 in Procurement section.	FY12
	4. Improve Training and Awareness Concerning Mail Shop Standards	Same as Item #1	
	5. Enterprise Purchasing of Equipment Supplies	Refer to General Note 1 in Procurement section.	FY12
	6. Sharing New Knowledge and Best Practices	Incorporate other county agencies into standard practice currently employed by MCG and MCPS.	FY12
	7. Pooling Printing Contracts	Refer to General Note 1 in Procurement section.	FY12
	8. Reduce Administrative Barriers	Provide more detail.	
	9. Reduce Redundant Rerecords	Provide more detail.	
	<b>New Item added by Exec. Committee</b> 10. Central Printing Office	Review possibility of a central printing office to serve all county agencies.	Post FY12
	<b>New Item added by Exec. Committee</b> 11. Central Printing Office	Review possibility of a central multi-agency document storage/archive center.	Post FY12

Subcommittee	Recommendation	Response	Implemt. Date
<b>Information Technology</b>	1. Mobile Data/Voice Contract Consolidation	In order to avoid the high up-front cost, we recommend implementing this in three phases. Phase I: Examine and pursue cross-agency "contracts" consolidation to a single contract for each provider. Phase II: Examine, validate and pursue cross-agency "accounts" consolidation. Phase III: Examine, validate and pursue cross-agency consolidation of warehousing, distribution, maintenance services of mobile data/voice devices.	Phase I: FY12 Phase II: mid-year FY12 Phase III: FY13
	2. IT Help Desk Services Consolidation	In order to avoid the high up-front cost, we recommend implementing this in two phases. Phase I: Examine the current IT Help Desk Service contracts of the six county agencies and conduct delineation of "service types" and "service levels" for each agency. Evaluate the information and develop an acceptable cross-agency standard for "type and level of services". Phase II: Examin the information and pursue cross-agency consolidation of IT Help Desk Services.	Phase I: FY12 Phase II: mid-year FY12
<u>Executive Summary of Recommendations</u>	3. Cross Agency Language Translation Services Cooperative	Great suggestion. While the translation process depends heavily on sophisticated translation management software called WorldServe, from a partnership point of view, this action item can be handled by the Administrative Subcommittee. IT Subcommittee should continue to provide support, as needed, to Administrative Subcommittee for successful implementation of this project.	See Administrative Subcommittee
<u>Detailed Recommendations Report</u>	4. Interagency GIS Strategic Plan 2010 Implementation Phase	Approved; but we recommend the following two phase approach. Phase I: Proceed with finalizing the Interagency GIS Strategic Plan and establish an inter-agency GIS Policy/Governance Committee. The first task of the GIS Policy/Governance Committee should be to delineate the types of data/information and their collection and storage methods by each agency. In addition, the new GIS Committee should review the current GIS information layers that are scheduled to be purchased by each agency, and coordinate expenditures on the data. The committee needs to immediately curtail the environment that allows a single agency to independently purchase expensive layers (or software) that are explicitly intended for multi-agency use. Phase II: Examine and develop a strategy to reduce cost and also maximize the "use and accessibility" of data/information for/by all agencies. In addition, the GIS committee should identify and prioritize the GIS analysis projects that offer the County the greatest potential benefit, and to assign a lead agency to each project. The fianl suggested strategy by the GIS committee should include a variety of options for the most	Phase I: FY12 Phase II: mid-year FY12
	5. Mobile and Wired Voice/Data Communications	Continue the initial work with the goal of implementing in FY13.	Post FY12

Subcommittee	Recommendation	Response	Implemt. Date
<b>Information Technology (Continued)</b>	6. Contractual and Procurement Cooperative/Consolidations	Move implementation of this effort to FY12. <b>Refer to General Note 1 in Procurement section.</b> It is understood that cooperative purchasing currently available to MCPS and Montgomery College for purchase of selected equipment/goods may result in greater savings. But all options must be evaluated.	FY12
	7. Joint Use and Data Center Consolidations	Move implementation of some aspects of this effort to FY12. We suggest a four phase approach: Phase I: The Executive Branch conduct a comprehensive Business Impact Analysis (BIA) of their current data centers. Phase II: All other agencies, in an effort to develop a joint alignment for identification of current needs/resources, use the Executive Branch BIA study model and develop a similar BIA analysis. Phase III: Use the collected data (BIAs) and develop cross-agency data center optimization or, if possible, consolidation opportunities/options. Phase IV: Select an option and define the short-term capital investment that yield the maximum long-term operational savings and develop the implementation plan.	Phase I: FY12 Phase II: mid-year FY12 Phase III: FY13 Phase IV: mid-year FY13
	8. Miscellaneous Other	Continue your cross-agency collaborative efforts with the goal of implementing new cost saving ideas in FY13 and beyond.	Post FY12
<b>Facilities</b>	1. Sharing Existing Resources	Greater detail is necessary identifying what resources are being considered. In addition, refer to General Note 2 in Procurement section. Specific opportunities should be identified to cross train and share staff resources as well as joint contracting for common services such as grounds maintenance and IDIQ consulting services.	FY12
<u>Executive Summary of Recommendations</u>	2. Implementing Best Management Practices for Real Property Assets	To what end? How is this a benefit related to collaboraton? Shouldn't this already be taking place?	
<u>Detailed Recommendations Report</u>	3. Evaluate building new facilities versus renovating existing facilities	Include analysis of sharing existing facilities in lieu new projects and leases.	FY12
	4. Simplifying Project Approval Process	This is an issue that Subcommittee members want to jointly pursue with permitting and planning authorities to improve the process but is not necessarily related to consolidation or resource sharing. This effort is encouraged but may not be germane to the CARS initiative.	
	<b>New Item added by Exec. Committee</b> 5. Expanded design and construction of Shared infrastructure support facilities	Pursue expanded design and construction of shared infrastructure support facilities (warehouses, maintenance shops, office buildings) similar to that being implemented at the Multi-Agency Service Park (Webb Tract). The Subcommittee's next report (due Dec. 1st) for this new action item should include a preliminary implementation plan and potential savings.	Post FY12

Subcommittee	Recommendation	Response	Implemt. Date
<b>Space Utilization</b>	1. Establish Quarterly Space Utilization Meetings	Start Implementation.	Immediately
<u>Executive Summary of Recommendations</u>	2- Combined RFP for General Real Estate Services	<b>Refer to General Note 1 in Procurement section.</b> The Subcommittee's next report (due Dec. 1st), should identify opportunities/options and include potential savings and implementation plan.	FY12
<u>Detailed Recommendations Report</u>	3. Uniform Licensing Policies and Rates for Cell Phone and Fiber Tenants	Start Implementation.	Immediately
	<b>New Item added by Exec. Committee</b> 4. Consolidate Leasing	Identify opportunities that exist in the current inventory of leased space to consolidate requirements under combined multi-agency space utilization. Institute a process under which future lease requirements are shared among agencies to (1) maximize current leased space, and (2) consolidate requirements. The Subcommittee's next report (due Dec. 1st) for this action item should include potential savings and a detailed implementation plan.	Mid YearFY12

**Methodology and Data Sources**  
**Office of Legislative Oversight**

OLO submitted drafts of several issue papers to agency staff from County Government, MCPS, Montgomery College, and M-NCPPC for technical review. OLO's final report incorporates agency staff's technical comments and corrections. Throughout the study period, OLO consulted with the many knowledgeable professionals in the agencies' respective budget, finance, and human resources offices. OLO greatly appreciates the tremendous assistance received from agency staff.

For the issue papers that include calculations by OLO staff, this section describes the data sources and methodology used.

**Issue Paper A – Employee Salaries**

Data Sources

- Annual Management and Fiscal Policy Committee Packets titled *Compensation and Benefits for All Agencies*, prepared by Council Staff Director Steve Farber. Dates: 4/18/05, 4/17/06, 4/16/07, 4/21/08, 4/20/09, and 4/19/10.
- FY11 Approved Budget Data provided by agency staff to OLO for Part I of this report, presented to the Council on 11/23/10.

Option #1: Salary Rollback

- Savings calculated by multiplying the percent rollback amount (1%, 3%, or 5%) by each agency's "Estimated FY12 Cost per 1% GWA" (see option #2 below for an explanation of the "Estimated FY12 Cost per 1% GWA" calculation).

Option #2: Changes to General Wage Adjustments (GWA)

- The calculations isolate the impact of general wage adjustments on personnel costs, and assume all other personnel cost variables remain constant.
- "Estimated FY12 Cost per 1% GWA" was calculated by multiplying each agency's approved FY11 personnel costs (excluding group insurance and "other compensation") by the agency's FY05-FY10 average ratio of the cost per 1% GWA divided by total approved personnel costs (excluding group insurance and other comp). The average FY05-FY10 ratio OLO used for each agency is shown below:

County Government	MCPS	Montgomery College	M-NCPPC
0.95%	0.98%	0.88%	0.95%

- Future year GWA increase projections were calculated by adding the prior year increase into the base of personnel costs, and multiplying the new personnel costs (again excluding group insurance and "other compensation") by the same average FY05-FY10 ratio noted above to calculate a new "estimated cost per 1% GWA." The new cost per 1% GWA was then multiplied by the desired percent GWA to get the total annual cost increase.

**Option #3: Changes to Step Increases**

- The calculations isolate the impact of step increases on personnel costs, and assume all other personnel cost variables remain constant.
- “Estimated FY12 Cost per 1% Step” was calculated by multiplying each agency’s approved FY11 personnel costs (excluding group insurance and “other compensation”) by the agency’s FY05-FY10 average ratio of the cost per 1% step divided by total approved personnel costs (excluding group insurance and “other compensation”). The average FY05-FY10 ratio OLO used for each agency is shown below:

<b>County Government</b>	<b>MCPS</b>	<b>Montgomery College</b>	<b>M-NCPPC</b>
0.35%	0.48%	0.50%	0.34%

- Future year step increase projections were calculated by adding the prior year increase into the base of personnel costs, and multiplying the new personnel costs (again excluding group insurance and “other compensation”) by the same average FY05-FY10 ratio noted above to calculate a new “estimated cost per 1% step.” The new cost per 1% step was then multiplied by the desired percent step increase to get the total annual cost increase.

**Issue Paper B – Health Benefits for Active Employees**

**Data Sources**

- All Agencies – Approved FY11 Budget documents

**County Government**

- Plan Enrollment (by medical and prescription plan and coverage type: self, self+1, family), July 1, 2010
- 2010 and 2011 Bi-Weekly Employee Rates
- Six Year Forecast – Active Employee Plans, July 1, 2010 – June 30, 2016

**MCPS**

- Plan Enrollment (by medical and prescription plan and coverage type: self, self+1, family), July 1, 2010
- 2010 and 2011 Bi-Weekly Employee Rates
- MCPS Preliminary Projections for Selected Employee Benefits and Insurance, July 30, 2010

**Montgomery College**

- Plan Enrollment (by medical and prescription plan and coverage type: individual and family), August 2010
- 2010 and 2011 Bi-Weekly Employee Rates

**M-NCPPC**

- Plan Enrollment (by medical and prescription plan and coverage type: self, self+1, family), August, 2010
- 2010 and 2011 Bi-Weekly Employee Rates

Assumptions:

- Plan enrollment held constant through FY16
- Projected Increase in Premium Rates, as used in OLO's Part I Report. For the College, OLO used the MCPS projected rate of increase divided by two because the College has historically had lower annual cost increases compared to other agencies. For M-NCPPC, OLO used the MCPS projected rate of increase.

Agency	CY12	CY13	CY14	CY15	CY16
County Government	9.3%	10.2%	10.1%	10.1%	10.0%
MCPS	9.8%	8.5%	8.5%	8.5%	8.5%
Montgomery College	4.9%	4.25%	4.25%	4.25%	4.25%
M-NCPPC	9.8%	8.5%	8.5%	8.5%	8.5%

To Calculate Baseline Estimate Used in All Options (Employer cost with no change in cost share):

- FY11 Cost:
  - Multiply employer premium rates for each plan times the number of enrollees (Employer Premium rates \* Enrollment = Total Cost)
  - Use calendar year 2010 rates for the first 6 months and calendar year 2011 rates for the last 6 months to get total cost for FY11.
- FY12-16 Annual Costs:
  - Increase each agency's FY11 cost by the projected annual increases in premium rate through FY16.

Option #1: Change Premium Cost Share to a 70/30 Split

- FY11 Cost uses the same value as baseline as this amount will not change under any scenario.
- FY12 Cost:
  - If implemented, scenario would take effect halfway through FY12, in January 2012. For first 6 months of FY12, cost is same as baseline.
  - For last 6 months, adjusted the cost share to 70/30 for all plans and groups in each agency (unless the cost share was already greater than 30% for employees in any particular group or plan) and calculated the resulting 6-month agency costs.
- FY13-16: Increased each agency's cost by the projected increase in premium costs described above and with the new 70/30 cost split, then divided the calendar years total in half years to convert to fiscal years.
- For the 70/30 phase-in scenario, increased cost split paid by employees in all plans and groups in each agency by 5% per year until the split reached 70/30. All calculations follow the same format as described above.
- The calculations for the projected costs assume current plan designs and no enrollment changes.

### Option #2: Change to Fixed Employer Contribution

- FY11 Cost uses the same value as baseline as this amount will not change under any scenario.
- FY12 Cost:
  - If implemented, scenario would take effect halfway through FY12, in January 2012. For first 6 months of FY12, cost is same as baseline.
  - For last 6 months, adjusted the cost share to a fixed contribution of 75% of the premium for each agency's lowest cost plan in FY11 and calculated the resulting 6 month agency costs.
- FY13-16: Increased each agency's cost by the projected increase in premium costs described above and with the new 75% of lowest plan cost share, then divided the calendar years total in half years to convert to fiscal years.
- The calculations for the projected costs assume current plan designs, no enrollment changes, and the each agency's FY11 lowest cost plan remains the lowest cost plan in future years.

### Option #3: Higher Cost Share for Self+1 and Family Coverage

- FY11 Cost uses the same value as baseline as this amount will not change under any scenario.
- FY12 Cost:
  - If implemented, scenario would take effect halfway through FY12, in January 2012. For first 6 months of FY12, cost is same as baseline.
  - For last 6 months, adjusted the cost share to decrease the agency contribution by 2.5% for all Self+1 enrollees and by 5% for all Family enrollees. Calculated the resulting 6-month agency costs under this new structure.
- FY13-16: Increased each agency's cost by the projected increase in premium costs described above and with the new cost splits for Self+1 and Family coverage, then divided the calendar years total in half years to convert to fiscal years.
- The calculations for the projected costs assume current plan designs and no enrollment changes, i.e., current Self+1 and Family enrollees stay in those coverage categories.

### Option #4: Higher Cost Share for Part-Time Employees

- FY11 Cost uses the same value as baseline as this amount will not change under any scenario.
- FY12 Cost:
  - If implemented, scenario would take effect halfway through FY12, in January 2012. For first 6 months of FY12, cost is same as baseline.
  - For last 6 months, adjusted the cost share to 60/40 for all part-time employees (excluding any employees who already pay more than 40%). Calculated the resulting 6-month agency costs under this new structure.
- FY13-16: Increased each agency's cost by the projected increase in premium costs described above and with the new cost share for part-time employees, then divided the calendar years total in half years to convert to fiscal years.
- The calculations for the projected costs assume current plan designs and no enrollment changes.

## MEMORANDUM

April 12, 2010

TO: Management and Fiscal Policy Committee

FROM: Stephen B. Farber, Council Staff Director *SBF*

SUBJECT: Update of Pay Changes since FY01: Montgomery County and Bi-County Agencies, Other Regional Local Governments and School Systems, the State, and the Federal Government

The attached tables, prepared by Legislative Analyst Amanda Mihill, update the annual pay changes since FY01 for the County and Bi-County agencies, other regional local governments and school systems, the State, and the Federal Government. OLO developed the format in 1994. Data are updated here for FY11 recommended.

The tables place pay changes in four categories:

- Increments (or step increases) provided to employees not at top of grade;
- General wage adjustments (COLAs);
- Lump-sum payments; and
- Adjustments made to the top of salary ranges.

An index to the tables is on the next page. When reviewing the tables, please keep in mind the following points about the format and content of the data provided:

1. For FY01-10, the tables report the pay changes that were actually implemented.
2. A hyphen (-) indicates that there was no change to that component of pay in that year. A blank space indicates that the information was not available.
3. For the Montgomery County and Bi-County agencies, the tables include increment amounts by bargaining unit. For units that have a variable as opposed to a fixed increment amount, the table reports the weighted average received by employees that year unless otherwise indicated.
4. For the non-Montgomery County jurisdictions, we have again attempted to provide more specific information on increments or steps, despite the diverse approaches to providing them. Where such information was not available, "Yes" indicates that increments were provided; a hyphen indicates that increments were not provided.
5. For the non-Montgomery County jurisdictions, a notation under the title indicates whether compensation is subject to collective bargaining.

Thanks are due once again this year to the budget and human resources staff of the five County and Bi-County agencies and our neighboring jurisdictions for their contributions to this compilation of data.

**MONTGOMERY COUNTY GOVERNMENT**

	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	REC FY11(v)
<b><u>Police (FOP)</u></b>											
Increment	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	0.0%
General adjustment (COLA)	2.7%	(b)	(d)	2.0%	2.0%(g)	2.75%	(m)	-	4.0%	0.0%	0.0%
Lump-sum payment	-	-	-	-	-	-	-	-	-	-	-
Top of range adjustment	-	-	-	-	(h)	-	-	-	-	-	-
Other	-	-	-	-	-	(k)	-	(o)	-	-	-
<b><u>Fire (IAFF)</u></b>											
Increment	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	0.0%
General adjustment (COLA)	2.9%	(c)	5.0%	3.5%	3.5%	(l)	(n)	5.0%	2%+2%(s)	0.0%	0.0%
Lump-sum payment	-	-	-	-	-	-	-	-	-	-	-
Top of range adjustment	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	(e)	(e)	-	-	-	-	(t)	-
<b><u>Office, Professional, and Technical Bargaining Unit/Service, Labor, and Trade Bargaining Unit (MCGEO)</u></b>											
Increment	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	0.0%
General adjustment (COLA)	(a)	3.25%	3.5%	3.75%(f)	2.0%(g)	2.75%	(m)	4.0%	4.5%	0.0%	0.0%
Lump-sum payment	-	-	-	-	-	-	-	-	-	-	-
Top of range adjustment	-	-	-	-	(i)	-	-	(p)	-	(u)	-
<b><u>Non-Represented</u></b>											
Increment	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	0.0%
General adjustment (COLA)	(a)	3.25%	3.5%	2.0%	2.0%(g)	2.75%	(m)	4.0%	4.5%	0.0%	0.0%
Lump-sum payment	-	-	-	-	-	(q)	(q)	(q)	(q)	-	-
Top of range adjustment	-	-	-	-	(j)	(r)	(r)	(r)	(r)	-	-

- (a) 2.0% effective 7/2/00; 1.0% effective 1/14/01.
- (b) Effective 7/1/01, a flat dollar amount of \$2800 per employee and effective 1/13/02 an additional flat dollar amount of \$600 per employee.
- (c) 2.0% effective 7/1/01; 1.0% effective 1/13/02.
- (d) 3.0% effective 7/02; 1.0% effective 1/03.
- (e) Pay plan adjustment equal to 3.5%.
- (f) Effective 11/30/03.
- (g) Effective 9/5/04.
- (h) Return to uniform pay plan starting 1/9/05 for unit members with 20 years of completed service.
- (i) Starting 1/9/05 employees who have completed 20 years of service and are at the maximum of their pay grade will receive a longevity increment of 2%.
- (j) Range expansion of 1.75%, 3.75% for employees in the Management Leadership Service.
- (k) Effective 1/8/06 current min/max salary schedule will be converted to a matrix based step schedule.
- (l) 3% effective 7/10/05; 1% effective 1/8/06.

- (m) 3.0% effective 7/9/06; 1.0% effective 1/7/07.
- (n) 4.0% effective 7/9/06; 1.0% effective 1/7/07.
- (o) Increase wage rate of Step 0, Year 1, by \$3,151 with promotions and increments calculated from that point. Equals an adjustment of 7.5%.
- (p) Increase longevity percentage by 1.0%, effective 1/6/08.
- (q) Performance lump sum award: 2% for exceptional and 1% for highly successful.
- (r) Longevity/performance increment 2 years of consecutive exceptional or highly successful: 1% added to base pay and effective 1/7/07, 2% added to base pay.
- (s) 2.0% effective 7/6/08; 2.0% effective 1/4/09.
- (t) A new longevity adjustment at 28 years of service in July 2009 and additional steps on the salary in July 2010.
- (u) 3.0% longevity increase.
- (v) There will be no GWAs, longevity pay, or service increments for FY2011.

**MONTGOMERY COUNTY PUBLIC SCHOOLS**

	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	REC FY11
<b>Teachers (MCEA)</b>											
Increment	1.5-3.9%	1.5-3.9%	1.5-3.9%	1.5-3.9%	1.5-3.9%	1.5-3.9%	1.5-3.9%	1.5-3.9%	1.5-3.9%	1.5-3.9%	1.5-3.9%
Increment-weighted average (a)	1.6%	1.7%	1.9%	1.9%	1.9%	2.0%	1.9%	2.2%	2.3%	2.1%	2.1% (v)
Negotiated salary schedule increase	5.0%(g)(i)	4.0% (g)	4.0% (g)	4.0% (g)	2.0%	2.75%	4.0%(o)	4.8%(p)	5.0%(q)	0.0%(t)	0.0%(u)
Lump-sum payment (b)	\$300	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400
Top of range adjustment	(h)	-	-	-	-	-	-	-	-	-	-
<b>Admin. and Supervisory Personnel (MCAAP)</b>											
Increment	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.00%	3.00%
Increment-weighted average (a) (d)	1.0%	1.0%	0.9%	0.8%	0.9%	1.1%	0.9%	1.1%	1.2%	1.1%	.9% (v)
Negotiated salary schedule increase	5.125%(i)	3.0%	3.0%	3.0% (j)	2.0%(m)	2.0%(n)	4.0%(o)	4.8%(p)	5.0%(q)	0.0%(t)	0.0%(u)
Lump-sum payment	-	-	-	-	\$1,500(l)	\$1,500(l)	\$1,500-	\$1,500-	\$1,500-	\$1,500-	\$1,500-
Top of range adjustment	-	-	-	-	-	-	\$3,000(l)	\$3,000(l)	\$3,000(l)	3,000(l)	3,000(l)
<b>Business and Operations Administrators (MCBOA)</b>											
Increment									(r)	3.00%	3.00%
Increment-weighted average									(r)	1.6%	1.8% (v)
Negotiated salary schedule increase									(r)	0.0%(t)	0.0%(u)
Lump-sum payment									-	-	-
Top of range adjustment									(r)	\$1,500-	\$1,500-
										\$4,500(s)	\$4,500(s)
<b>Supporting Services Employees (SEIU Local 500)</b>											
Increment	1.9-5.5%	1.7-5.5%	1.7-5.6%	1.6-5.6%	1.6-5.6%	1.6-5.6%	1.9-5.6%	1.9-5.6%	1.9-5.5%	1.9-5.5%	1.9-5.5%
Increment-weighted average (a)	1.6%	1.7%	1.8%	1.9%	1.8%	1.9%	1.6%	1.9%	1.8%	1.7%	1.4% (v)
Negotiated salary schedule increase	5.0%(i)	3.0%	3.0%	3.0% (k)	2.0%	2.75%	4.0%(o)	4.8%(p)	5.0%(q)	0.0%(t)	0.0%(u)
Lump-sum payment (c)	\$100	\$100	\$100	\$100	\$100	\$200	\$200	\$200	\$200	\$200	\$200
Top of range adjustment	-	-	-	-	-	-	-	-	-	-	-
<b>Non-Represented</b>											
Increment	All non-represented employees (except 22 nonscheduled employees including Executive staff, Board staff, and the chief negotiator) receive the same increments and other salary adjustments as the bargaining units for which these positions are covered.										
Negotiated salary schedule increase											
Lump-sum payment											
Top of range adjustment											

- (a) The number provided in the chart represents the weighted average increase received by eligible employees. It is based on the number of employees who receive the step increment at various points (anniversary dates) in the year. An average annual cost of the salary increments is used for this analysis.
- (b) For FY 1996 through FY 1999, a bonus payment of \$300 was provided to any substitute teacher who worked 100 or more days. Beginning FY 2002, an incentive payment of \$400 is provided to any substitute teacher who works 45 or more days within a semester. In conjunction with this change, the retiree substitute incentive plan was eliminated in FY 2002.
- (c) A lump sum net payment of \$100 each year for employees with 22 or more years of service. This amount increased to \$200 for FY 2006.
- (d) The negotiated agreement with MCAAP provided for the addition of one step on salary scales N through Q beginning July 1, 1997 (FY 1998) and July 1, 1999 (FY 2000). The amount of this impact is included in the increment-weighted average for each year.
- (e) In FY 2000, the negotiated agreement with MCEA provided salary scale changes for an average increase in the salary schedule of 3%. Beginning FY 2000, the agreement also provides a \$2,000 salary supplement to teachers who achieve and maintain a national certification standard.
- (f) In FY 2000, the negotiated agreement with MCAAP provided for a salary increase of 2% effective November 27, 1999, resulting in a 1% salary impact.

- (g) The negotiated agreement with MCEA provided salary scale changes for an average increase in the salary schedule of 5.0% for FY 2001 and 4.0% for FY 2002 while an additional 1.0% from the State was applied to this salary schedule each year for a net increase of 6.0% for FY 2001 and 5.0% for FY 2002. For FY 2003 and FY 2004, the negotiated agreement with MCEA provided salary scale changes for an average increase in the salary schedule of 4.0% and added two more days to the work year for 10-month employees for an equivalent of an additional 1.0% applied to the salary schedule for a net increase of 5.0% for each year. The FY 2004 negotiated agreement with MCEA provided for a salary schedule increase of 4.0% implemented on 10/31/03 for 12-month unit members and 12/1/03, for 10-month unit members, resulting in a 3.66% salary impact.
- (h) In FY 2001, a 2.25% longevity payment was negotiated for teachers who have been at the top of the scale for 6 years.
- (i) In FY 2001, the salary increase was funded in part through a change in the employee benefits program and structure for a net budgetary increase of 5% for salary.
- (j) For FY 2004, the negotiated agreement with MCAAP provided for a salary schedule increase of 3.0% implemented on 10/7/03, for 12-month unit members and 11/8/03, for 11-month assistant school administrators, resulting in a 1.87% salary impact.
- (k) For FY 2004, the negotiated agreement with SEIU Local 500 provided for a salary schedule increase of 3.0% implement on 10/7/03 for 12 month unit members and 11/8/03, for all other unit members, resulting in a 2.05% salary impact.
- (l) Effective October 1, 2004, the negotiated agreement with MCAAP provided an annual longevity supplement of \$1,500 for each unit member who completed ten or more years as an administrator and/or supervisor with MCPS. Effective December 1, 2006, the negotiated agreement with MCAAP provided an annual longevity supplement of \$1,500 for each unit member who completed five or more years as an administrator and/or supervisor with MCPS. Subsequent to that date, the negotiated agreement with MCAASP provided an annual longevity supplement of \$3,000 for each unit member who completed ten or more years as an administrator and/or supervisor with MCPS.
- (m) For FY 2005, the negotiated agreement with MCAAP provided for a salary schedule increase of 2.0% implemented on 10/2/04, for 12-month unit members and 11/13/04, for 11-month assistant school administrators, resulting in a 1.49% salary impact.
- (n) For FY 2006, the negotiated agreement with MCAAP provided for a 2% salary schedule increase and salary scale adjustments equivalent to an average of an additional 0.75%.
- (o) For FY 2007, the negotiated agreement with MCEA and SEIU Local 500 provided for a salary schedule increase of 3.0% on 7/1/06 and an additional 1.0% effective mid-year, resulting in a 3.5% salary impact. The negotiated agreement with MCAAP provided for a salary schedule increase of 4.0% and scale adjustments effective November 1, 2006, resulting in a 3.5% average salary impact.
- (p) For FY 2008, the negotiated agreement with MCAAP, MCEA, and SEIU Local 500 provided for a 4.8% salary schedule increase and other compensation changes equivalent to an average of an additional 0.2% for a total of 5.0%.
- (q) For FY 2009, the negotiated agreement with MCAAP, MCEA, and SEIU Local 500 provides for a 5.0% salary schedule increase.
- (r) During FY 2008, the BOE approved the formation of a fourth bargaining unit - The Montgomery County Business and Operations Administrators (MCBOA). In FY 2009, the compensation for these employees was included in the SEIU salary numbers.
- (s) Unit members will receive a \$1,500 longevity supplement at 5, 10, and 15 years of service.
- (t) The 2008-2010 contracts with MCAAP, MCBOA, MCEA, and SEIU Local 500 included, for FY 2010, a 5.3% COLA and other salary-related improvements. Due to the fiscal situation, the unions have agreed to forgo the FY 2010 COLA and salary-related improvements.
- (u) Due to the fiscal situation, there is no COLA budgeted for FY 2011. MCPS is currently in negotiations with all unions on a new contract.
- (v) The FY 2011 Board of Education budget request contains increases for increments. However, due to the fiscal situation, this is subject to current negotiations with all unions on a new contract.

**MONTGOMERY COLLEGE**

	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	REC FY11
<b>Faculty (AAUP)</b>											(m)
Increment	\$2,000	-	-	\$1,167	-	-	-	-	-	-	-
General adjustment (COLA)	(a)	6.0%(c)	6.5%(d)	3.625%(f)	1.6%	2.75%	3.75%	5.3%	5.5%	-	-
Lump-sum payment	-	-	-	-	\$1,879	\$1,931	\$2,019	\$2,125	\$2,242	\$2,372(l)	-
Top of range adjustment	(a)	-	-	(g)	1.6%(i)	2.75%(j)	3.75%(k)	5.3%	5.5%	-	-
<b>Administrators</b>											
Increment	4.75%	6.0%	4.0%- 6.25%	2.5%- 4.25%	3.65%- 4.15%	4.75%- 5.5%	3.75%	4.75%- 7.5%	4.75%- 7.0%	TBD	-
General adjustment (COLA)	-	-	-	-	-	-	-	-	-	-	-
Lump-sum payment	-	-	-	(h)	-	-	-	-	-	-	-
Top of range adjustment	2.75%	4.0%	4.0%	3.6%	2%	2.75%	3.75%	4.75%	5.0%	-	-
<b>Staff - Non-Bargaining and Bargaining</b>											(m)
Increment	(b)	2.25%	(e)	2.0%	3.25%	2.75%	2.75%	3.0%	3.0%	3.0%	-
General adjustment (COLA)	2.75%	4.0%	4.0%	3.6%(f)	2.0%	2.75%	3.75%	4.75%	5.0%	-	-
Lump-sum payment	-	-	(e)	-	-	-	-	-	-	\$500(l)	-
Top of range adjustment	2.75%	-	-	3.6%	2.0%	2.75%	3.75%	4.75%	5.0%	-	-

- (a) 2% effective at start of academic year, to maximum salary of \$68,542. 1% effective January 2001, to maximum salary of \$69,227.
- (b) Non-Bargaining employees received 2.0% increment and \$30 for each year of service. Bargaining employees received 2.5% increment.
- (c) Faculty earning the maximum salary received a 5% increase to \$72,689. Faculty below the maximum received an increase of 3.6% plus \$1,870 up to a new maximum of \$72,689.
- (d) Faculty earning the maximum salary received a 5% increase to \$76,323. Faculty below the maximum received an increase of 3.71% plus \$1,964 up to a new maximum of \$76,323.
- (e) Non-bargaining support staff received \$1,190; AFSCME staff received an increment of 2.25% instead.
- (f) Delayed by 4.6 months of fiscal year.
- (g) Not to exceed \$79,090.
- (h) Up to \$2,000 based on performance for those at top of range.
- (i) Not to exceed \$80,355 or \$81,955 for those eligible for a one-time longevity increase.
- (j) Not to exceed \$82,565 or \$84,165 for those eligible for a one-time longevity increase.
- (k) Not to exceed \$85,661 or \$87,261 for those eligible for a one-time longevity increase. COLA – 3% effective 7/1/06 plus 1.5% effective 1/1/07.
- (l) Staff- lump sum one-time payment of \$500 for employees at top of scale; faculty – lump sum one-time payment ranging from \$500-1,000 depending on salary; base pay increase of \$2,372 is delayed until October 23, 2009.
- (m) AFSCME agreement signed for no salary improvement; AAUP is still open.

MARYLAND-NATIONAL CAPITAL PARK AND PLANNING COMMISSION

	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	REC FY11
<b>Non-Represented</b>											
Increment	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	(n)
General adjustment (COLA)	(a)	(c)	(d)	2.5% (f)	2.7%	2.8%	3.0%	3.25%	3.25%	0%	(n)
Lump-sum payment	-	-	-	-	-	-	-	-	-	-	-
Top of range adjustment	-	-	-	-	-	-	(i)	-	-	-	-
<b>Service/Labor, Trades, and Office/Clerical Bargaining Units (MCGEO, Local 1994)</b>											
Increment	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	(m)	(m)(n)
General adjustment (COLA)	(a)	(c)	(d)	2.5% (f)	2.7%	2.8%	3.0%	3.25%	3.25%	(m)	(m)(n)
Lump-sum payment	-	-	-	-	-	-	-	-	-	-	-
Top of range adjustment	-	-	-	-	-	-	(i)	(i)	-	-	-
<b>Park Police (FOP, Lodge 30)</b>											
Increment	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	(l)(n)
General adjustment (COLA)	(b)	(b)	(e)	(e)	(g)	(h)	(j)	(k)	(l)	(l)	(l)(n)
Lump-sum payment	-	-	-	-	-	-	-	-	-	-	-
Top of range adjustment	-	-	-	-	(g)	-	-	-	-	-	-

- (a) 2.5% COLA effective 7/9/00; .5% COLA effective 1/7/01.
- (b) 2.25% COLA effective from 2/1/01 to 1/31/02; 3% from 2/1/02; 1% from 11/1/02.
- (c) 2.6% COLA effective 7/8/01; 0.5% COLA effective 1/6/02.
- (d) 2.5% COLA effective 7/02; .75% COLA effective 10/02.
- (e) 2.5% COLA effective 02/03; 2.75% effective 02/04.
- (f) COLA was effective 9/14/2003.
- (g) 2.5% COLA for officers below the rank of Sergeant effective 5/2005. Sergeants were granted a 5.0% COLA effective 5/2005. One 2.5% step added for Sergeants (P05) only.
- (h) 2.5%COLA effective 7/05. Additionally, in exchange for officers covered by Long Term Disability or the Comprehensive Disability Benefit Program increasing their premium from 15% to 100% or 20% to 80%, respectively, a 1% COLA is provided effective 4/06.
- (i) The primary pay scale for non-represented employees was elongated by the equivalent of two 3.5% step increases. The IT scale was elongated by 3.5%, pending a salary survey to determine whether the special pay scale should continue. The pay scales for MCGEO employees were elongated by 3.5% in both FY07 and FY08.
- (j) 3.5% effective 7/06, plus an additional 1% increase in 7/06, predicated again on increasing the officers' percentage share of disability premiums.
- (k) 3.5% effective 7/07, plus an additional 1% increase in 7/07, predicated as above.
- (l) 3.25% COLA effective first pay period after July 1, 2008; 3.75% COLA effective first pay period after July 1, 2009; and 4% COLA effective first pay period after August 1, 2010 based on a ratified three-year contract (FY09-11) with the FOP.
- (m) FY10: replacing a normal COLA and merit, a \$1,420 (pro-rated) wage adjustment instead will be provided to each MCGEO member (applied up to, but not beyond the top of the grade), effective first pay period following July 1, 2009. Of the \$1,420, \$640 is distributed to every MCGEO member, and the rest \$780 (maximum assuming satisfactory performance rating) will be pro-rated based on anniversary date and adjusted based on performance rating. FY11: 2.25% COLA effective first pay period after Oct. 1, 2010; 3.5% merit (increment) for qualified employees not on top of grade based on anniversary dates.
- (n) Commission is projected to determine the COLA and merit for non-represented, MCGEO, and FOP employees by June. The Commission started re-openers of the two existing contracts with MCGEO and FOP, and is uncertain about the potential negotiation results as well as the two County Councils' budget decisions on compensation in May 2010. The proposed budget included funding for potential merit and COLA based on ratified contracts for MCGEO & FOP with same assumptions for non-represented employees as MCGEO employees.

November 2009

# **Montgomery County Employees' Retirement System**

**2009 Actuarial Valuation Report**  
Census Data as of June 30, 2009  
Plan Year Beginning July 1, 2009

Contribution To Be Made During the  
Fiscal Year Ending June 30, 2011

## **MERCER**



MARSH MERCER KROLL  
GUY CARPENTER OLIVER WYMAN

## **SECTION V — Summary of Plan Provisions**

The following is a summary of the major plan provisions used to determine the plan's financial position. It should not be used in determining plan benefits.

### 1. Effective Date of the Plan

August 15, 1965. Latest changes to the plan were made for group A, group E, group F, group G, and group H members in FY08 and were reflected in the 2009 actuarial valuation. All of the changes were effective July 1, 2009.

### 2. Employee Eligibility Requirements

- A. Optional non-integrated retirement plan: Employees enrolled prior to July 1, 1978 who do not elect to join the integrated retirement plan.
- B. Optional integrated plan: Employees enrolled prior to July 1, 1978 who elect to join the integrated retirement plan.
- C. Mandatory integrated retirement plan: Employees enrolled on or after July 1, 1978. The Plan is closed to Non-Public Safety employees hired or rehired after September 30, 1994.

### 3. Membership Groups and Eligibility

- Group A: Any employee who is not eligible for coverage under another membership group.
- Group B: Any correctional officer, fire prevention officer, or deputy sheriff appointed or promoted to the position on or before June 30, 1978 who has not elected to transfer to another membership group.
- Group D: Any full-time police officer appointed on or before August 15, 1965, who has been continuously employed as a police officer and has not elected to transfer to any other membership group.
- Group E: The chief administrative officer, the director of the council staff, the hearing examiners, the county attorney, and each head of a principal department, office or agency of the county government, if appointed before July 30, 1978, or a member having held such position on or before October 1, 1972. Any sworn deputy sheriff, and such correctional staff as designated by the chief administrative officer.
- Group F: Any sworn police officer who is not eligible for coverage under another membership group.
- Group G: Any paid firefighter, paid fire officer, or paid rescue service personnel not eligible for coverage under another membership group.
- Group H: Any member, including any probationary employee, who holds a bargaining unit position, unless the member is eligible for membership in Groups B, D, E, F or G.

## **SECTION V — Summary of Plan Provisions** *(continued)*

### 4. Member Contributions

Effective July 1, 1989, interest shall be credited annually on each member's accumulated contributions at a 4.0% annual rate.

#### A. Optional non-integrated plan:

- Group A: 6% of regular base earnings.
- Group B: 7% of regular base earnings.
- Group D: 7½% of regular base earnings.
- Group E: 8½% *(effective 7/1/2001; previously 7½%)* of regular base earnings.
- Group F: 8½% *(effective 7/1/2001; previously 7½%)* of regular base earnings.
- Group G: 8½% *(effective 7/1/2001; previously 7½%)* of regular base earnings.
- Group H: 6% of regular base earnings.

#### B. Optional integrated plan:

- Group A: 4% *(effective 7/1/2001; previously 3%)* of regular base earnings up to the maximum Social Security wage base plus 6% of the excess.
- Group B: 4½% *(effective 7/1/2001; previously 3½%)* of regular base earnings up to the maximum Social Security wage base plus 7% of the excess.
- Group D: Not applicable.
- Group E: 4¾% of regular base earnings up to the maximum Social Security wage base plus 8½% of the excess *(effective 7/1/2001; previously 3¾% of regular base earnings up to the maximum Social Security wage base plus 7½% of the excess)*.
- Group F: 4¾% of regular base earnings up to the maximum Social Security wage base plus 8½% of the excess *(effective 7/1/2001; previously 4% of regular base earnings up to the maximum Social Security wage base plus 8% of the excess)*.
- Group G: 5½% of regular base earnings up to the maximum Social Security wage base plus 9¼% of regular earnings that exceed the wage base; member contributions revert back to 4¾% up to the maximum Social Security wage base and 8½% of regular earnings that exceed the wage base after 25 years of credited service *(effective 7/1/2007; previously 4¾% of regular base earnings up to the maximum Social Security wage base plus 8½% of the excess)*.
- Group H: 4% *(effective 7/1/2001; previously 3%)* of regular base earnings up to the maximum Social Security wage base plus 6% of the excess.

## SECTION V — Summary of Plan Provisions (continued)

### C. Mandatory integrated plan:

- Group A: 4% (effective 7/1/2001; previously 3%) of regular base earnings up to the maximum Social Security wage base plus 6% of the excess.
- Group B: Not applicable.
- Group D: Not applicable.
- Group E: 4¾% of regular base earnings up to the maximum Social Security wage base plus 8½% of the excess (effective 7/1/2001; previously 3¾% of regular base earnings up to the maximum Social Security wage base plus 7½% of the excess).
- Group F: 4¾% of regular base earnings up to the maximum Social Security wage base plus 8½% of the excess (effective 7/1/2001; previously 4% of regular base earnings up to the maximum Social Security wage base plus 8% of the excess).
- Group G: 5½% of regular base earnings up to the maximum Social Security wage base plus 9¼% of regular earnings that exceed the wage base; member contributions revert back to 4¾% up to the maximum Social Security wage base and 8½% of regular earnings that exceed the wage base after 25 years of credited service (effective 7/1/2007; previously 4¾% of regular base earnings up to the maximum Social Security wage base plus 8½% of the excess).
- Group H: 4% (effective 7/1/2001; previously 3%) of regular base earnings up to the maximum Social Security wage base plus 6% of the excess.

### 5. Credited Service

A member's credited service is the total service rendered under the Employees' Retirement System of Montgomery County, plus credited service earned under State of Maryland and/or Montgomery County Police Relief and Retirement Fund Law or any other Maryland Public Plan, plus any purchased prior service or granted.

- A. Full-time: Full-time members receive one year of credited service for rendering the full normal working time in a 12-month period.
- B. Part-time: Part-time members working less than the normal scheduled workweek for full-time employees on a continuing basis shall receive one year of credited service for each 12-month period.
- C. Combined part-time and full-time: Combined part-time and full-time employees will receive one month of credited service for 176 hours worked each fiscal year. Accumulated hours of 88 to 176 or 15 days or more in any calendar month will equal one month of credited service.
- D. Sick Leave: Any employee whose retirement is effective on or after May 1, 1970 will have 176 hours of accumulated sick leave equivalent to one month of credited service up to a maximum of 4,224 hours. Accumulated sick leave of less than 11 days shall not be credited; 11 to 22 days shall be credited as one month for retirement purposes. Any member who vests on or after October 1, 1971 may have sick leave credited for vesting purposes on the same basis.

## **SECTION V — Summary of Plan Provisions (continued)**

### **6. Average Final Earnings**

For members enrolled on or before June 30, 1978, average final earnings are equal to the regular earnings for the 12-month period immediately preceding retirement, or any consecutive 12-month period, if greater.

For members enrolled on or after July 1, 1978, average final earnings are equal to the average of regular annual earnings for the 36-month period immediately preceding retirement, or any consecutive 36-month period, if greater.

### **7. Social Security Wage Base**

For any particular year, the maximum amount of earnings creditable for benefit computation purposes under the Old Age, Survivors, and Disabilities Insurance Program established by the Federal Social Security Act (\$106,800 in 2009).

### **8. Social Security Maximum Compensation Level**

The maximum dollar amount of earnings upon which Social Security benefits are based, assuming: (1) an employee's annual compensation is at least as great as the taxable wage base each year, for a 35-year period through the year in which the employee attains Social Security Retirement Age, (2) the employee remained in covered employment during each calendar year, (3) the taxable wage base stays level from date of retirement to Social Security Retirement Age.

### **9. Social Security Retirement Age**

- Age 65 for employees born prior to January 1, 1938.
- Age 66 for employees born on or after January 1, 1938 and prior to January 1, 1955.
- Age 67 for employees born on or after January 1, 1955.

### **10. Regular Earnings**

Gross pay for actual hours worked, excluding overtime.

### **11. Benefits**

#### **A. Normal Retirement Date:**

##### *Age and Service Requirement:*

- Group A: Age 60 and five years of credited service, or age 55 and 30 years of credited service (*after June 30, 2002, age 50 and 30 years of credited service for members who are Police Telecommunicators*).
- Group B: Age 55 and 15 years of credited service, or age 51 and 30 years of credited service.

## SECTION V — Summary of Plan Provisions *(continued)*

- Group D: The requirements contained in the police relief and retirement fund law of the county.
- Group E: Age 55 and 15 years of credited service, or age 46 and 25 years of credited service.
- Group F: Age 55 and 15 years of credited service, or 25 years of credited service *(effective July 1, 2008; previously, age 55 and 15 years of credited service, or age 46 and 25 years of credited service)*.
- Group G: Age 55 and 15 years of credited service, or any age with 20 years of credited service *(effective July 1, 2007; previously age 55 and 15 years of credited service, or any age with 25 years of credited service)*.
- Group H: Age 60 with five years of credited service, or age 55 with 30 years of credited service *(after June 30, 2002, age 50 and 30 years of credited service for members who are Police Telecommunicators or members of the Service, Labor, and Trades (SLT) bargaining unit)*.

### B. Benefit Amount:

1. Optional non-integrated plan: All groups other than Group E, F, or G – 2% of average final earnings multiplied by years of credited service, up to a maximum of 36 years, plus sick leave credits.
  - Group E: 2.4% of average final earnings for each of the first 25 years of credited service, plus 2% of average final earnings for each year of credited service after 25 years up to a maximum of 31 years, plus sick leave credits. Sick leave credit in excess of 25 years is credited at 2% of average final earnings.
  - Group F: 2.4% of average final earnings for each year of credited service, up to a maximum of 30 years, plus sick leave credits. Sick leave credit in excess of 30 years is credited at 2% of average final earnings.
  - Group G: 2.5% of average final earnings for each of the first 20 years of credited service, plus 2% of average final earnings for each year of credited service after 20 years up to a maximum of 31 years, plus sick leave credits *(effective July 1, 2007; previously 2% of average final earnings for each of the first 20 years of credited service, plus 3% of average final earnings for each year of credited service from 21st year through 24th year, plus 8% of average final earnings for the 25th year of credited service, plus 2% of average final earnings for each year of credited service after 25 years up to a maximum of 31 years, plus sick leave credits)*.
2. Integrated plans:
  - a. From date of retirement to Social Security Retirement Age:
    - For groups other than Groups E, F or G: 2% of average final earnings multiplied by years of credited service, up to a maximum of 36 years, plus sick leave credits.

## SECTION V — Summary of Plan Provisions *(continued)*

- Group E: 2.4% of average final earnings for each of the first 25 years of credited service, plus 2% of average final earnings for each year of credited service more than 25 years up to a maximum of 31 years, plus sick leave credits.
  - Group F: 2.4% of average final earnings multiplied by years of credited service, up to a maximum of 36 years of service including sick leave credits. *(effective 7/1/2008; previously 2.4% of average final earnings for each year of credited service, up to a maximum of 30 years, plus sick leave credits. Sick leave credit in excess of 30 years is credited at 2% of average final earnings).*
  - Group G: 2.5% of average final earnings for each of the first 20 years of credited service, plus 2% of average final earnings for each year of credited service after 20 years up to a maximum of 31 years, plus sick leave credits *(effective 7/1/2007; previously 2% of average final earnings for each of the first 20 years of credited service, plus 3% of average final earnings for each year of credited service from 21st year through 24th year, plus 8% of average final earnings for the 25th year of credited service, plus 2% of average final earnings for each year of credited service after 25 years up to a maximum of 31 years, plus sick leave credits).*
- b. From attainment of Social Security Retirement Age:
- For Groups A, B or H: 1.25% of average final earnings up to Social Security maximum covered compensation plus 2% of average final earnings above Social Security maximum covered compensation, multiplied by years of credited service up to 36 years, plus sick leave credits.
  - Group D: 1% of average final earnings up to Social Security maximum covered compensation plus 2% of average final earnings above Social Security maximum covered compensation, multiplied by years of credited service up to 36 years, plus sick leave credits.
  - Group E: 1.25% *(effective 7/1/2009: 1.65%)* of average final earnings up to Social Security maximum covered compensation for each year of credited service up to a maximum of 31 years plus sick leave credits, plus 2.4% of average final earnings above Social Security maximum covered compensation for each of the first 25 years, and 2% of average final earnings above Social Security maximum covered compensation for each year of credited service after 25 years up to a maximum of 31 years, plus sick leave credits. Sick leave credits used for years in excess of 25 years is credited at 2% of average final earnings above Social Security maximum covered compensation.

## SECTION V — Summary of Plan Provisions (continued)

- Group F: 1.65% of average final earnings up to Social Security maximum covered compensation for each year of credited service up to a maximum of 36 years including sick leave credits, plus 1.25% of average final earnings up to Social Security maximum covered compensation for each year of credited service in excess of 36 years including sick leave credits, and 2.4% of average final earnings above Social Security maximum covered compensation for each year of credited service up to a maximum of 36 years including sick leave credits. *(effective 7/1/2008; previously 1.65% of average final earnings up to Social Security maximum covered compensation for each year of credited service up to a maximum of 30 years, plus 1.25% of average final earnings up to Social Security maximum covered compensation for each year of credited service in excess of 30 years, plus sick leave credits, and 2.4% of average final earnings above Social Security maximum covered compensation for each year of credited service up to a maximum of 30 years, plus sick leave credits. Sick leave credits used for years in excess of 30 years is credited at 2% of average final earnings above Social Security maximum covered compensation).*
- Group G: 68.75% of the aggregate benefit percentage that applies pre-Social Security Retirement Age for average final earnings up to Social Security maximum covered compensation plus the aggregate benefit percentage that applies pre-Social Security Retirement Age for average final earnings above Social Security maximum covered compensation.
  - For members of the optional integrated plan: The minimum benefit is 2% of average final earnings multiplied by years of credited service as of July 1, 1978 to a maximum of 36 years less the benefit attributable to contributions plus interest to that date.
  - For members of the mandatory integrated plan: The normal retirement benefit plus primary Social Security benefit must not exceed 90% of member's average final earnings.

### 12. Early Pension

#### A. Age and service requirements:

- Group A: Age 50 and 15 years of credited service, or age 45 and 20 years of credited service.
- Group B: Age 45 and 15 years of credited service.
- Group D: Not applicable.
- Group E: Age 45 and 15 years of credited service, or age 41 and 20 years of credited service.
- Group F: Age 45 and 15 years of credited service, or age 41 and 20 years of credited service.
- Group G: Only normal retirement is allowed *(effective 7/1/2007, previously age 45 and 15 years of credited service, or age 41 and 20 years of credited service).*

*Employees' Retirement  
Pension System*

*October 2009*

*Understanding Your Retirement  
Retirement Benefits, Process, and Forms*



ROCKVILLE, MARYLAND



Employee & Retiree Service Center  
7361 Calhoun Place, Suite 190, Rockville, MD 20850  
301-517-8100  
[www.montgomeryschoolsmd.org/department/ersc](http://www.montgomeryschoolsmd.org/department/ersc)

## Eligibility for Retirement

Type of Retirement	Retirement System			Pension System
Normal Retirement	30 years of credited service—at any age or age 60 with 5 years of credited service			30 years of eligibility service—at any age or age 62 with 5 years of eligibility service
Early Retirement	25 years of credited service—any age			15 years of eligibility service AND age 55
Penalty for Early Retirement		MCPS	State	6 % per year (.5% for each month prior to age 62)
	1 year	2%	6%	
	2 years	5%	12%	
	3 years	9%	18%	
	4 years	14%	24%	
	5 years	20%	30%	

**Pension system**—In the Pension system, eligibility service is used to qualify for retirement benefits. Each year an employee works at least 500 hours, the employee earns one year of eligibility service. Prior to July 1, 1998, 700 hours were required to earn one year of eligibility service. Effective July 1, 1998, the requirement was changed to 500 hours per fiscal year.

**Disability Retirement**—In addition to normal and early retirement, disability retirement is available to plan participants who are unable to work due to a medical condition. You should contact ERSC and speak with a benefits specialist about disability retirement options.

### ***What if I leave MCPS before I am eligible to retire?***

If you have five or more years of service and you terminate employment with MCPS, you are vested and eligible to receive a future retirement benefit based on your service and earnings at time of termination. Your benefit will be paid to you at your normal retirement date—age 60 or 62 depending on your plan membership. In lieu of receiving a benefit, you may elect to receive a lump sum refund of your contributions and interest. If you choose to receive a refund of your contributions and interest, you will not be eligible for a future retirement benefit.

## Benefit Amount

Formulas: Both the Retirement and Pension systems are defined benefit plans—your retirement benefit is based on a formula. Your benefit is comprised of two portions, a core benefit and a supplemental benefit. Employees enrolled in the MCPS Employees' Retirement/Pension system receive both their core and supplemental benefit from MCPS. Employees enrolled in the State Teachers' Retirement/Pension system receive their core benefit from the State and a supplemental benefit from MCPS. Each system has its own formula for benefits as shown in the following chart:

### Retirement System:

Core Benefit	$1.8181\% \times \text{AFS} \times \text{Credited Service}$
Supplemental Benefit	$.18181\% \times \text{AFS} \times \text{Credited Service}$

### Pension System:

<b>Core Benefit</b>
Calculate <i>the greater of</i> $.008 \times \text{AFS}$ up to the SSIL <i>plus</i> $.015 \times \text{AFS}$ in excess of the SSIL multiplied by years of credited service prior to 7/1/98 <i>Or</i> $.012 \times \text{AFS} \times \text{years of credited service prior to 7/1/98}$ .
<i>Plus</i> $.018 \times \text{AFS} \times \text{years of credited service after 7/1/98}$
<b>Supplemental Benefit</b>
$.0008 \times \text{AFS}$ up to the SSIL <i>Plus</i> $.0015 \times \text{AFS}$ in excess of the SSIL Multiplied by years of credited service to 7/1/98 <i>Plus</i> $.002 \times \text{AFS} \times \text{years of credited service after 7/1/98}$ .

**Note:** SSIL is the Social Security Integration Level. The SSIL for 2009 is \$53,900. The projected SSIL is \$56,600 for 2010 and \$59,300 for 2011.

Retirement benefits are based on formulas that use two key components.

One component of the formula is average final salary (AFS). The AFS is an average of your earnings over a specified period of time. The period of time used is determined by your membership in the Retirement or Pension system as follows:

Retirement system—The highest 3 years of salary during your career

Pension system—The highest 3 *consecutive* years of salary during your career

Example: Joe Black is retiring July 1<sup>st</sup>. His three years of salary were \$57,000, \$58,710, and \$60,471. His average final salary is \$58,727 ( $[\$57,000 + \$58,710 + \$60,471] \div 3$ ).

Another component of the formula is credited service. Employees earn credited service based on membership in the retirement or pension system. A year for most employees is defined as 10 months from September to June.

Retirement system—You earn credited service based on your scheduled hours. For employees enrolled in the MCPS Retirement System prior to July 1, 1976, one year of credited service is earned for both full-time and part-time work. For employees enrolled on or after July 1, 1976, credited service is pro-rated for part-time work.

For employees enrolled in the State Teachers' Retirement System, full-time credited service is given for part-time work .5 FTE or greater.

Pension system—Pension system members earn two types of service, eligibility service and credited service. Eligibility service is used to determine *when* you are eligible to retire, and credited service is used in the calculation of your retirement benefit.

Example	Full-time hours	Part-time hours
	(40/week)	(20/week)
	1 year of eligibility service	1 year of eligibility service
	1 year of credited service	.5 years of credited service

You may file and receive an estimate of your retirement benefit with both ERSC and the State Retirement Agency on an annual basis provided **you are within one year of eligibility for retirement**. The estimate forms are available on the ERSC website or you may call ERSC at 301-517-8100.

Each September, employees receive a yearly retirement statement from MCPS. The retirement statement contains a summary of your retirement benefits as of June 30, and includes a publication that addresses information in the statement, provides definitions, provides a summary of key information, and addresses common questions about employee pension benefits at retirement.

### **Additional Service Credits**

You may be eligible to apply for credit or purchase of additional service. Increased service will increase the amount of your retirement benefit and may permit you to retire at an earlier date.

### **Active Duty Military Service – Granted Service**

After 10 years of service, you may receive up to five years of service credit for active duty military service if you are not claiming this same service with any other retirement or pension system. If you have qualifying military service, you should request *MCPS Form 455-18* and *State Form MSRS 43*, from ERSC. Return the forms to ERSC with a copy of your discharge papers that show the dates and type of military service. Credit for active duty military service will be added to your account at no cost to you.

**Service that may be purchased:**

An employee may purchase a minimum of one month, up to a maximum of 10 years if previously employed as follows:

**Previous Service**

- Federal Government
- Out-of-State Municipality
- Non-Participating Maryland Municipality
- Private, Parochial, or Out-of-State school (teaching positions only)

An employee pays the full cost of purchasing these types of service. The cost depends on age, final salary, and the amount of service purchased. Typically purchasing these types of service is very expensive and *can only be purchased in your year of retirement.*

Previous service may be purchased for leave periods for the following types of qualified approved leaves:

**Leave of Absences**

- Personal Illness
- Professional Improvement Leave
- Academic Leave
- Maternity/Paternity Leave
- Adoption Leave
- Government Sponsored or Subsidized Employment
- Service in a Professional or Employee Organization

If an employee is on an unpaid qualified leave of absence, he/she can purchase the period of leave after returning to work. Purchasing leave of absence time is less costly when it is purchased immediately upon returning to work. The employee must repay any contributions missed during the approved leave (plus interest) to be eligible for retirement credit.

**Procedure to Purchase Service**

Please contact the Employee and Retiree Service Center at 301-517-8100 or via e-mail at [ERSC@mcpsmd.org](mailto:ERSC@mcpsmd.org) for detailed instructions.

**Credit for Sick Leave**

At the time of your retirement, you receive two separate benefits based on your earned unused sick leave balance:

1. You will receive termination pay for unused sick leave equal to your final hourly rate of pay for 25 percent of the earned sick leave balance. The 25 percent sick leave payoff has increased to 30 percent for employees with 30 years of MCPS service at retirement and who are represented by SEIU, MCBOA, or MCAAP. Employees represented by MCEA will receive the 30 percent payment only if they elect to retire July 1, 2009, or any July 1 thereafter and submit final retirement forms to ERSC by April 1. MCEA unit members do not have to have 30 years of service to be eligible

for the higher benefit. MCEA members electing to retire at any other time or who do not submit the paperwork for a July 1 retirement by April 1 will be paid 25 percent of their earned sick leave.

2. The sick/annual leave payoff will be paid approximately six weeks after you retire. Some employees elect to shelter from tax all or a portion of their sick leave payoff using their 403(b) or 457(b) retirement savings account(s). The amount you can shelter is subject to the IRS maximum annual plan contribution limits. Arrangements for the deposit of the sick leave payoff into a tax-deferred account must be made prior to retirement and the form(s) must be received in ERSC 30 days prior to retirement.

**Note:** *Mandatory FICA taxes in addition to some Federal and State taxes must be withheld from the leave payment.*

3. Earned unused sick leave is automatically converted to additional credited service at retirement and the additional service is included when your retirement benefit amount is calculated. You receive one month of additional credited service for every 22 days (176 hours) of unused earned sick leave, up to a maximum of 20 months or 2 years credit.

**Note:** For all pension plan members, eligibility service determines when you qualify for a retirement benefit. Credited service is used to determine the amount of your benefit. Unused sick leave does not count toward eligibility service, and cannot be used to accelerate your retirement eligibility. Similarly, additional credited service based on earned sick leave cannot be used to accelerate retirement eligibility for retirement system members.

Conversion of sick leave to credited service is on a graduated scale, as shown on the following chart. Please consult ePaystub where your hours of earned sick leave are displayed. Compare your total earned hours to the hours listed in the "Sick Leave in Hours" column in the chart below to determine the amount of additional credited service you will receive. Please note that ten months equals one year of credited service.

November 2009

# **Montgomery County Employees' Retirement System**

**2009 Actuarial Valuation Report**  
Census Data as of June 30, 2009  
Plan Year Beginning July 1, 2009

Contribution To Be Made During the  
Fiscal Year Ending June 30, 2011

## **MERCER**



MARSH MERCER KROLL  
GUY CARPENTER OLIVER WYMAN

**SECTION III — Plan Liabilities and Contributions (continued)**

**Schedule of Amortization Bases as of July 1, 2009**

Type (1)	Date of Establishment (2)	Initial Amortization Base (3)	Initial Amortization Period (4)	Outstanding Balance (5)	Remaining Amortization Period (6)	Annual Payment (7)
<b>a. Charges</b>						
Initial Unfunded Actuarial Liability	June 30, 1975	N/A		\$52,690,686	15	\$5,699,843
N/A	June 30, 1976	N/A	40	5,813,634	7	1,033,926
N/A	June 30, 1977	N/A	40	2,497,386	8	402,390
N/A	June 30, 1978	N/A	40	13,130,251	9	1,946,194
N/A	June 30, 1979	N/A	40	16,862,805	10	2,326,905
N/A	June 30, 1980	N/A	40	13,215,718	11	1,714,082
N/A	June 30, 1981	N/A	40	17,758,701	12	2,181,934
N/A	June 30, 1982	N/A	40	9,319,510	13	1,091,780
N/A	June 30, 1983	N/A	40	3,250,690	14	365,094
N/A	June 30, 1984	N/A	40	6,467,243	15	699,594
N/A	June 30, 1985	N/A	40	2,130,835	16	222,900
Actuarial Loss	June 30, 1988	\$57,914,504	40	46,520,176	19	4,485,219
Actuarial Loss	June 30, 1990	34,819,340	40	29,248,642	21	2,703,662
Actuarial Loss	June 30, 1994	72,258,133	40	64,684,645	25	5,610,721
Assumption Changes	June 30, 1995	33,514,000	40	30,381,331	26	2,602,305
Actuarial Loss	June 30, 1995	16,196,226	40	14,682,316	26	1,257,609
Change in Asset Valuation Method	June 30, 1997	51,860,075	40	56,160,089	28	4,705,430
Other FOP Plan Changes	June 30, 1999	16,968,798	40	16,019,897	30	1,317,598
IAFF Plan Changes	June 30, 1999	36,638,276	40	34,589,442	30	2,844,900
Plan Changes	June 30, 2001	121,889,595	40	116,884,913	32	9,464,920
Actuarial Loss	June 30, 2002	122,203,119	40	117,994,021	33	9,488,864
Actuarial Loss	June 30, 2003	151,672,593	40	147,377,538	34	11,777,120
IAFF Plan Changes	June 30, 2004	11,435,318	40	11,176,354	35	887,933
Actuarial Loss	June 30, 2004	130,299,954	40	127,349,175	35	10,117,570
IAFF Plan Changes	June 30, 2005	27,484,387	40	27,006,315	36	2,134,116
Actuarial Loss	June 30, 2005	137,895,563	40	135,496,963	36	10,707,356
Assumption Changes	June 30, 2005	1,027,123	40	1,009,259	36	79,754
Actuarial Loss	June 30, 2006	83,285,550	40	82,241,848	37	6,466,981
Plan Changes	June 30, 2008	94,993,794	40	14,502,512	39	1,130,459
RIP Early Retirement Window	June 30, 2008	18,343,779	10	17,077,517	9	2,531,263
Plan Change - Imputed Pay	June 30, 2009	67,227,011	40	67,227,011	40	5,220,063
Actuarial Loss	June 30, 2009	56,163,099	40	56,163,099	40	4,360,969
<b>Total Charges</b>				<b>\$1,356,930,522</b>		<b>\$117,579,054</b>

**SECTION III — Plan Liabilities and Contributions** (continued)

**Schedule of Amortization Bases as of July 1, 2009**

Type (1)	Date of Establishment (2)	Initial Amortization Base (3)	Initial Amortization Period (4)	Outstanding Balance (5)	Remaining Amortization Period (6)	Annual Payment (7)
<b>b. Credits</b>						
Combined Actuarial Gain and Group Annuity Purchase	June 30, 1986	(\$43,474,897)	40	(32,985,017)	17	(\$3,348,269)
Actuarial Gain	June 30, 1987	(644,889)	40	(5,038,252)	18	(497,770)
Actuarial Gain	June 30, 1989	(16,236,391)	40	(13,367,712)	20	(1,260,676)
Actuarial Gain	June 30, 1991	(9,138,354)	40	(7,817,262)	22	(709,578)
Actuarial Gain	June 30, 1992	(28,212,761)	40	(24,537,168)	23	(2,190,673)
Actuarial Gain	June 30, 1993	(32,886,924)	40	(29,132,898)	24	(2,562,022)
Actuarial Gain	June 30, 1996	(4,734,110)	40	(4,341,286)	27	(367,596)
Actuarial Gain	June 30, 1997	(75,266,469)	40	(69,752,845)	28	(5,844,313)
Actuarial Gain	June 30, 1998	(100,422,700)	40	(93,970,108)	29	(7,797,652)
Actuarial Gain	June 30, 1999	(104,935,212)	40	(99,067,179)	30	(8,148,041)
Actuarial Gain	June 30, 2000	(78,586,205)	40	(74,798,036)	31	(6,102,085)
Assumption Changes	June 30, 2000	(8,695,143)	40	(8,276,002)	31	(675,163)
Actuarial Gain	June 30, 2001	(17,209,707)	40	(16,503,097)	32	(1,336,304)
Assumption Changes	June 30, 2006	(54,558,233)	40	(53,874,529)	37	(4,236,354)
Actuarial Gain	June 30, 2007	(56,555,609)	40	(56,101,516)	38	(4,391,447)
Actuarial Gain	June 30, 2008	(14,375,594)	40	(14,320,102)	39	(1,116,240)
Plan Change - Addition of GRIP	June 30, 2009	(2,453,246)	40	(2,453,246)	40	(190,490)
<b>Total Credits</b>				<b>(\$606,336,255)</b>		<b>(\$50,774,673)</b>
<b>c. Total</b>				<b>\$750,594,267</b>		<b>\$66,804,381</b>

An annual amortization amount of \$66.8 million with an Unfunded Actuarial Liability for \$750.6 million results in an average of 23.2 years to pay off the UAL in full.

*Note: The remaining amortization period for the initial amortization base was rounded to the nearest whole year.  
The change in the asset valuation method is amortized over a 40-year period with a five-year phase-in.*

## Source of County Government ERS Contribution Increases, 2000-2009

Between 2000 and 2009, the County Government's annual contributions (as a percent of employees' salary) to the ERS for public safety members and non-public safety members increased by 17 percentage points and 19 percentage points, respectively. Contributions for public safety members increased by 11 percentage points due to pension plan enhancements and by 6 percentage points due to other factors. Other factors include, among other things, pay increases, market gains and losses, changes in actuarial assumptions, and timing of contributions. At the same time, the County Government's contributions for non-public safety members increased by 9 percentage points due to plan enhancements and by over 10 percentage points due to other factors.

**Table 1. County Government ERS Contributions as a Percent of Salary, 2000-2009\*\***

Year Ended June 30	Public Safety (% of Salary)			Non-Public Safety (% of Salary)		
	Increase (Decrease) Due To Plan Changes	Other Factors <sup>^</sup>	Annual Contribution <sup>+</sup>	Increase (Decrease) Due To Plan Changes	Other Factors <sup>^</sup>	Annual Contribution <sup>+</sup>
2000			20.5%			8.6%
2001	4.5%	(0.8%)	24.2%	5.2%	(0.5%)	13.3%
2002	—	0.6%	24.8%	—	2.1%	15.4%
2003	—	3.8%	28.6%	—	3.2%	18.6%
2004	0.9%	2.4%	32.0%	—	2.6%	21.2%
2005	2.8%	4.4%	39.1%	—	2.1%	23.3%
2006	—	(0.9%)	38.2%	—	1.1%	24.4%
2007	—	(3.7%)	34.5%	—	(1.2%)	23.2%
2008	0.9%	(0.3%)	35.0%	1.6%	(0.5%)	24.3%
2009	2.3%	0.4%	37.7%	2.2%	1.7%	28.1%
<b>Total</b>	<b>11.4%</b>	<b>5.8%</b>		<b>8.9%</b>	<b>10.5%</b>	

\* For employees hired after July 1, 1978.

<sup>^</sup> Other factors include pay increases, market gains and losses, changes in actuarial assumptions, timing of contributions.

<sup>+</sup> Annual increases or decreases may not add to "Annual Contribution" due to rounding.

Sources: Montgomery County Employee Retirement Plans CAFRs

**Agencies and Municipalities that Participate in Montgomery County  
Employees' Retirement System (ERS) and Retirement Savings Plan (RSP)**

Housing Opportunities Commission of Montgomery County  
Independent Fire/Rescue Corporations  
Montgomery County Employees Federal Credit Union  
Montgomery County Revenue Authority  
Strathmore Hall Foundation, Inc.  
Town of Chevy Chase  
Washington Suburban Transit Commission

Certain employees of the:

State Department of Assessments and Taxation  
District Court of Maryland

Source: Montgomery County Employee Retirement Plans CAFR for the Year Ending June 30, 2009

**Agencies and Municipalities that Participate in Montgomery County  
Group Insurance Plans**

Arts and Humanities Commission  
Maryland Department of Assessments and Taxation – Montgomery  
County Assessment Office  
Bethesda Urban Partnership  
Chevy Chase View  
Circuit Court Judges  
District Court of Maryland Employees and Judges  
Housing Opportunities Commission  
Mont County Television  
Maryland Department of Public Safety and Correctional Services –  
Parole and Probation Office  
Montgomery County Revenue Authority  
State’s Attorney’s Office  
Strathmore Hall Foundation, Inc.  
Town Of Somerset  
Village of Friendship Heights  
Washington Suburban Transit Commission

Note: The County invoices participating agencies 100% of agency employees’ premiums. The County only pays for these enrollees if the cost of their claims exceeds the premiums for the self-insured plans.

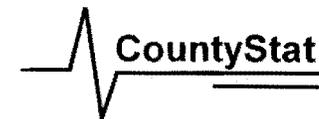
Source: Belinda Fulco, OHR, 9/9/10

# County Health and Retirement Benefits

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Office of Human Resources

3/2/2010



## (C) Health Benefits - Comparison of medical plan components (Active Employees)

Organization	Medical Plan			
	Plans Offered	Plan w/ Highest Enrollment	Co-pays*	
			Office Visit	ER
Montgomery Co	POS-2; HMO-2	Carefirst High Option POS	In-network - \$10 Out of network - 20% after deductible	In-network - \$25 (In service area) Out of network - 20% after deductible
MCPS	POS-2; HMO-3	United Healthcare Select HMO	In-network - \$5 Out of network - n/a	In-network - \$50 Out of network - n/a
MNCPPC	POS-1; HMO-2	CareFirst POS	In-network - \$10 Out of network - 20% after deductible	In-network - \$35 Out of network - 20% after deductible
Montgomery College	POS-1; PPO-1; HMO-1	CIGNA Healthcare POS	In-network - \$10 Out of network - 30% coinsurance after deductible	In-network - \$100 Out of network - \$100
Anne Arundel Co	PPO-1; HMO-2	CIGNA Open Access Plus HMO	In-network - \$5 Out of network - n/a	In-network - \$25 Out of network - n/a
Prince George's Co	POS-1; HMO-2	CIGNA Healthcare HMO	In-network - \$15 Out of network - n/a	In-network - \$50 Out of network - n/a
Howard Co	PPO-1; HMO-2	Aetna Select Open Access HMO	In-network - \$10 Out of network - n/a	In-network - \$100 Out of network - n/a
Baltimore Co	POS-1; HMO-2	United Healthcare Choice Open Access HMO	In-network - \$15 Out of network - n/a	In-network - \$50 Out of network - n/a
Fairfax Co	PPO-1; POS-1; HMO-1	Carefirst POS	In-network - \$10 Out of network - 30% coinsurance after deductible	In-network - \$50 Out of network - 30% coinsurance after deductible

\*Note: For plan w/ the highest enrollment

Source: OHR, Health Benefits Jurisdictional Comparison, 1/5/10

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## (D) Health Benefits - Percent of medical premium paid by employer

Organization		Single	Employee + Spouse	Family
Montgomery Co	All Plans	80%	80%	80%
MCPS	HMO	95%	95%	95%
	PPO	90%	90%	90%
MNCPPC	All Plans	85%	85%	85%
Montgomery College	All Plans	75%	75%	75%
Anne Arundel Co	HMO	90%	90%	90%
	PPO	80%	80%	80%
Prince George's Co	HMO	78%	78%	78%
	PPO	73%	73%	73%
Howard Co	HMO	90%	90%	90%
	PPO	85%	85%	85%
Baltimore Co	HMO	90%	82.5%	80%
	POS	80%	77%	77%
Fairfax Co	All Plans	85%	75%	75%
Natl Compensation Survey (Bureau of Labor Statistics)	State & Local Govt - 2008	90%	--	73%
Natl Compensation Survey (Bureau of Labor Statistics)	Private Industry - 2008	81%	--	71%



Source: (1) OHR, Health Benefits Jurisdictional Comparison, 1/5/10  
 (2) U.S. Bureau of Labor Statistics, National Compensation Survey  
 Health & Retirement Benefits

## (E) Health Benefits - Average monthly employer premium

(1) Average monthly premium across all offered plans  
 (2) Monthly premium for plan with highest enrollment

Organization		Single	Employee + Spouse*	Family
Montgomery Co	(1)	597.69	1,106.93	1,756.78
	(2)	685.53	1,236.87	1,989.00
MCPS	(1)	474.10	932.92	1,329.65
	(2)	493.72	945.47	1,444.82
MNCPPC	(1)	369.76	741.87	1,107.31
	(2)	364.50	725.53	1,087.57
Montgomery College	(1)	359.22	970.43	970.43
	(2)	393.71	1,061.45	1,061.45
Anne Arundel Co	(1)	427.02	910.59	1,178.42
	(2)	385.91	824.85	1,066.26
Prince George's Co	(1)	362.09	725.82	1,001.19
	(2)	328.01	656.44	892.22
Howard Co	(1)	438.06	1008.05	1,282.89
	(2)	435.98	1,002.62	1,288.87
Baltimore Co	(1)	441.22	861.94	1,227.59
	(2)	372.92	726.26	1,008.47
Fairfax Co	(1)	399.83	743.66	1,031.89
	(2)	402.40	700.54	1,036.28



\* Not all organizations split employee + 1 into "employee + spouse" and "parent + child."

Premiums reflect the total cost of health, prescription, dental and vision coverage. For those with Rx, dental and vision carve-outs, those supplemental premiums have been added in. Where more than 1 option exists, the plan that most closely matched the highest enrollment supplemental plan for Montgomery County was chosen. Source: (1) OHR, Health Benefits Jurisdictional Comparison, 1/5/10

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## (G) Health Benefits - Comparison of Rx plan components (Active Employees)

Organization		Prescription			
		Separate Rx Premium	Rx Deductible	Retail Co-pays Generic/Preferred/Non-Pref.	Mail Order Co-pays Gen/Pref/Non-Pref.
Montgomery Co	Caremark High	Yes	No	\$4/ n.a. / \$8	\$4/ n.a. / \$8
	Caremark Stand.	Yes	\$50	\$10/ \$20/ \$35	\$10/ \$20/ \$35
MCPS	Kaiser (HMO)	No	No	\$5 (\$15*)	\$5
	Caremark	Yes	No	\$5/ \$10/ \$25	\$0/ \$10/ \$25
MNCPPC	Kaiser (HMO)	Yes	No	\$5 (\$10*)	\$5
	Caremark	Yes	No	\$8/ \$16/ \$25	\$16/ \$32/ \$40
Montgomery College	CIGNA POS	No	No	\$10/ \$20/ \$40	\$20/ \$40/ \$80
	CIGNA PPO	No	\$150	\$10/ \$20/ \$40	\$20/ \$40/ \$80
	Kaiser (HMO)	No	No	\$15(\$16*)/ n.a./ \$30(\$37*)	\$15/ n.a./ \$30
Anne Arundel Co	Blue Choice	No	No	\$5/ \$15/ \$25	\$10/ \$30/ \$50
	Caremark (HMO)	No	No	\$5/ \$12(\$15*)/ \$22 (\$25)	\$10/ \$30/ \$50
Prince George's Co	MedCo	Yes	\$50/ person	\$10/ \$20/ \$40	\$20/ \$40/ \$80
Howard Co	Aetna	No	No	\$10/ \$30/ \$50	\$10/ \$30/ \$50
	Kaiser (HMO)	No	No	\$10(\$30*)/ \$30(\$50*)/ \$50(\$75)	\$10(\$30*)/ \$30(\$50*)/ \$50(\$75)
Baltimore Co	Express Scripts	Yes	No	\$5/ \$20/ \$35	\$15/ \$60/ \$105
	Kaiser (HMO)	No	No	\$5(\$11)/ n.a./ \$15(\$27)	\$5/ n.a./ \$15
Fairfax Co	Carefirst	No	No	\$10/\$20/\$35	\$20/\$40/\$70



\*Note: Price at a non-preferred participating pharmacy

Source: OHR, Health Benefits Jurisdictional Comparison, 1/5/10

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## (H) Health Benefits - Comparison of Rx plan components (Active Employees)

Organization		Prescription		
		Mandatory Generic Provision	Mandatory Mail Order Provision	Fourth-tier Drugs Co-pay
Montgomery Co	Caremark High	No	Yes	No
	Caremark Standard	No	Yes	No
MCPS	Kaiser (HMO)	n.a.	n.a.	n.a.
	Caremark	Yes	Yes	No
MNCPPC	Kaiser (HMO)	Yes	Yes	No
	Caremark	Yes	Yes	Yes
Montgomery College	CIGNA POS	No	Yes	No
	CIGNA PPO	No	Yes	No
	Kaiser (HMO)	No	No	No
Anne Arundel Co	Blue Choice	Yes	Yes	No
	Caremark (HMO)	Yes	Yes	No
Prince George's Co	MedCo	No	Yes	No
Howard Co	Aetna	Yes	No	No
	Kaiser (HMO)	No	No	No
Baltimore Co	Express Scripts	Yes	No	No
	Kaiser (HMO)	No	No	No
Fairfax Co	Carefirst	No	No	No



Source: OHR, Health Benefits Jurisdictional Comparison, 1/5/10

## (A) Health Benefits - Take-up rate in County health plans – FY09

Percent take-up in County health plans is the rate of workers with access who participate in those plans

Plan	Employee Access	Employee Participation	Employee Take-up	Natl Compensation Survey State & Local Govt - 2008 (Bureau of Labor Statistics)	Natl Compensation Survey Private Industry - 2008 (Bureau of Labor Statistics)
	Number	Number	Percent	Percent	Percent
<b>Medical</b> (Kaiser Permanente, United Healthcare, CareFirst BlueCross Blue Shield)	<b>9,378</b>	<b>8,188</b>	<b>87%</b>	<b>83%</b>	<b>75%</b>
<b>Dental</b>	<b>9,378</b>	<b>8,558</b>	<b>91%</b>	<b>85%</b>	<b>79%</b>
<b>Vision</b>	<b>9,378</b>	<b>8,029</b>	<b>87%</b>	<b>81%</b>	<b>78%</b>
<b>Prescription</b>	<b>9,378</b>	<b>7,045</b>	<b>75%</b>	<b>83%</b>	<b>75%</b>

Source: (1) OHR, Enrollment Summary, 2-1-2010

(2) U.S. Bureau of Labor Statistics, National Compensation Survey, Mar '08



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## (C) Retirement Benefits (Civilian) - Comparison of components, FY09

Organization	Age & Service Reqs	Employee Contribution
Montgomery Co	RSP – Age 62 Empl Retirement System for Co. Employees – Age 60 w/ 5 YOS Empl Retirement System for SHF & DOCR – Age 55 w/ 15 YOS or age 46 w/ 25 YOS	RSP – 4%, 8% on amounts over Social Security wage base (SSWB) ERS (Co. Empl) – 4%, 6% on amts over SSWB ERS (SHF & DOCR) – 4.75%, 8.5% on amts over SSWB
MCPS	Age 62 w/ 5 YOS or 30 YOS regardless of age	Core benefit: 5%; Supplemental: 0.5%
MNCPPC	Age 60 w/ 5 YOS or 30 YOS regardless of age	3%, 6% on amounts over SSWB
Montgomery College	MD Pension: Age 62 w/ 5 YOS, 63 w/ 4 YOS, 64 w/ 3 YOS, 65 w/ 2 YOS, or 30 YOS regardless of age	MD Pension: 5%
Anne Arundel Co	Before 7-1-99: Age 60 or 30 YOS regardless of age After 7-1-99: Age 60 w/ 5 YOS or 30 YOS regardless of age	No contribution
Prince George's Co	MD Pension: Age 62 w/ 5 YOS, 63 w/ 4 YOS, 64 w/ 3 YOS, 65 w/ 2 YOS, or 30 YOS regardless of age Supplemental Plan: Age 55 w/ 15 YOS, or age 62 w/ 5 YOS, or 30 YOS regardless of age	MD Pension (Non-Contributory System): 5% on compensation that exceeds SSWB
Howard Co	30 YOS regardless of age, or when age + service = 67 and the retiree has reached 62 w/ at least 2 YOS	2%
Baltimore Co	Before 1-1-07: Age 60 w/ 5 YOS, or 30 YOS regardless of age After 1-1-07: Age 67 w/ 10 YOS, or 35 YOS regardless of age	Before 1-1-07: Varies according to age when hired After 1-1-07: 6%
Fairfax Co	Age 65 w/ 5 YOS, or at least age 50 when age + service = 80	Plan A: 4%, 5.333% on amts over SSWB Plan B: 5.333% of salary

Source: OHR, Retirement Benefits Jurisdictional Comparison, 1/5/10

YOS: Years of Service

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## (D) Retirement Benefits (Police) - Comparison of components, FY09

Organization	Age & Service Reqs	Employee Contribution
Montgomery Co	Age 55 w/ 15 YOS, or regardless of age with 25 YOS	Non-integrated: 8.5% Integrated: 4.75%, plus 8.5% above SSWB
Maryland State Police	Age 50, regardless of service, or 22 YOS regardless of age	8%
MNCPPC	Age 50, regardless of service, or 22 YOS regardless of age	8%
Montgomery College	Age 55 w/ 5 YOS, or regardless of age with 25 YOS	No information
Anne Arundel Co	Age 50 w/ 5 YOS, or regardless of age with 20 YOS	5%
Prince George's Co	Age 55 or after 20 YOS	Before 7/1/95: 5.5% After 7/1/95: 8% in 1 <sup>st</sup> 5 YOS, 7% in 5-10 YOS, and 5.5% in all subsequent years
Howard Co	Age 62 with 5 YOS, or 20 YOS regardless of age	11.6%
Baltimore Co	Before 1-1-07: After 20 YOS regardless of age After 1-1-07: Age 60 w/ 10 YOS, or 25 YOS regardless of age	Before 1-1-07: Rate varies After 1-1-07: 7%
Fairfax Co	Age 55 with 5 YOS, or after 25 YOS regardless of age	10%

Source: OHR, Retirement Benefits Jurisdictional Comparison, 1/5/10

YOS: Years of Service

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# Appendix: Health Benefits - Monthly employer premium Detail (1 of 2)

Organization		Single	Employee + Spouse	Parent + Child	Family
<b>Montgomery Co</b>	Carefirst High POS	685.53	1,236.87	1,236.87	1,989.00
	Carefirst St POS	661.50	1,195.29	1,195.29	1,919.07
	UHC HMO	654.48	1,249.11	1,249.11	1,952.64
	Kaiser HMO	389.25	746.46	746.46	1,166.40
<b>MCPS</b>	Carefirst Open POS	522.41	1,044.62	1,044.62	1,397.76
	UHC Select Plus POS	512.6	1,024.92	1,024.92	1,371.05
	Carefirst Blue Choice HMO	407.27	782.86	782.86	1,178.06
	Kaiser HMO	434.48	866.73	866.73	1,256.58
	<b>UHC Select HMO</b>	<b>493.72</b>	<b>945.47</b>	<b>945.47</b>	<b>1,444.82</b>
<b>MNCPPC</b>	Carefirst POS	364.50	725.53	725.53	1,087.57
	UHC Select EPO HMO	359.62	719.64	719.64	1,082.64
	Aetna Select HMO	385.15	780.44	780.44	1,151.72
<b>Montgomery College</b>	CIGNA PPO	376.55	1018.36	1018.36	1018.36
	CIGNA HealthCare POS	393.71	1061.45	1061.45	1061.45
	Kaiser HMO	307.39	831.48	831.48	831.48

**Bold = Plan with the highest enrollment**

*Premiums reflect the total cost of health, prescription, dental and vision coverage. For those with Rx, dental and vision carve-outs, those supplemental premiums have been added in. Where more than 1 option exists, the plan that most closely matched the highest enrollment supplemental plan for Montgomery County was chosen.*

Source: (1) OHR, Health Benefits Jurisdictional Comparison, 1/5/10



## Appendix: Health Benefits - Monthly employer premium Detail (2 of 2)

Organization		Single	Employee + Spouse	Parent + Child	Family
Anne Arundel Co	Blue Choice Triple Choice PPO	471.99	1,005.25	794.82	1,301.73
	Blue Choice HMO	423.15	901.68	756.02	1,167.27
	CIGNA Open Access Plus HMO	385.91	824.85	1,895.60	1,066.26
Prince George's Co	CIGNA Healthcare POS	415.30	836.57	836.57	1,148.16
	CIGNA Healthcare HMO	328.01	656.44	656.44	892.22
	Kaiser HMO	342.97	684.44	684.44	963.19
Howard Co	Aetna Open Choice PPO	496.70	1,143.99	870.65	1,417.66
	Aetna Select Open Access HMO	435.98	1,002.62	813.23	1,288.87
	Kaiser HMO	381.50	877.53	722.36	1,142.14
Baltimore Co	Carefirst BCBS Triple Choice POS	517.62	1,064.24	745.85	1,512.17
	Kaiser Select HMO	433.12	795.33	615.37	1,162.14
	United Healthcare Choice HMO	372.92	726.26	515.96	1,008.47
Fairfax Co	CIGNA Open Access Plus PPO	337.18	583.19	583.19	875.55
	Blue Choice POS	402.40	700.54	700.54	1,036.28
	Blue Preferred PPO	467.56	813.53	813.53	1,202.49
	Kaiser HMO	392.17	877.38	877.38	1,013.24

*Premiums reflect the total cost of health, prescription, dental and vision coverage. For those with Rx, dental and vision carve-outs, those supplemental premiums have been added in. Where more than 1 option exists, the plan that most closely matched the highest enrollment supplemental plan for Montgomery County was chosen.*

Source: (1) OHR, Health Benefits Jurisdictional Comparison, 1/5/10

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# Survey of Public Pension Benefits in Maryland

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 **BOLTON**  
**PARTNERS, INC.**



Bolton Partners was asked by the MACo to provide a survey of pension benefits for local governments in Maryland. Many of these plans are our clients and the timing was such that we thought that a quick survey would be of interest. Why now? Almost all governmental employees in Maryland are covered by mature defined benefit plans. Mature plans with common investment approaches have suffered material investment losses over the last few years. Those losses are being reflected in gradual (but significant) contribution increases often covering the period FY10-FY15. At the same time tax revenues have been hard hit. Some employers have responded already by raising both employer and employee contributions (e.g. Anne Arundel County, Baltimore County and City of Baltimore).

If an employer wants to change benefits it needs to consider whether they will be competitive after the change. In a time like now it might not take as much to be competitive but a pension (even a defined contribution pension) is a long term plan that needs to be competitive over the long term. The balance between being competitive and prioritizing fiscal needs is one that elected officials must decide.

Attached are three charts. The first is a basic comparison chart of plans for police officers. The second is a similar chart for general employees. The third is a graphic representation of the value of employer and employee provided benefits for police officers. Each of these is described below:

### **Benefit Comparison for Police Officers**

We compared the benefits offered by the following nine jurisdictions. All provide defined benefit plans for their police officers:

1. Anne Arundel County
2. Baltimore County
3. Calvert County
4. City of Baltimore
5. Howard County
6. LEOPS (State administered plans for local governments covering police officers)
7. Montgomery County
8. Prince George's County
9. State Police

One thing to understand about a survey like this is that we almost always focus on the benefit offered to new hires. Many of these groups have higher benefits for "closed" groups of employees. However, if the question is whether or not what you offer is going to attract new employees, only the new "tier" of benefit is relevant. So for example, City of Baltimore just changed its benefits 7/1/2010 and these changes are reflected in this chart.

**Features Surveyed:**

1. First we looked at how many jurisdictions also have Social Security coverage for their police officers. The answer is mixed but most are not covered by Social Security.
2. Next we looked at the basic benefit formula. All groups have benefits tied to an average of pay over their last few years of credited service (CS). The period of time over which the average final compensation (AFC) is determined varies but 36 months is the most common.
3. All of the plans only consider base pay. None include overtime (which avoids the types of large “spiking” issues found in other plans). However, the exact definition of base pay does vary some. For example, some include shift differential and some do not.
4. The “Normal Retirement Age” varies from plan to plan. In every case a police officer age 50 with 25 years has reached his/her Normal Retirement Age. However, some officers can reach this age in their 40’s under the plans’ “20 and out” or “25 and out” benefit (the State Police have a “22 and out”).
5. All of these plans require employee contributions. Generally these contributions are made on a pre-tax basis. As noted above, many plans have been increasing these amounts recently. Those in Social Security would also be contributing an additional 6.2% of their salaries up to the Social Security Wage Base (SSWB).
6. All of the plans have some type of COLA provision. The variation in the COLA designs is material.
7. The final item is the “Form” of payment. This is the normal form of payment. Often the benefit produced by the pension formula is paid just for the life of the retiree. However, in some cases (particularly when the officers are not covered by Social Security) the normal form comes with a survivor benefit. When this is not provided, there is almost always an option to take a reduced benefit in order to provide a survivor benefit.

These are some of the key features employers and unions would want to compare. However, they are not the only important features of plans. Other factors which might be important include disability benefits, DROP provisions, credit for pre-employment military service and early retirement/vesting provisions.

## Benefit Comparison for General Employees

We did a similar chart comparing benefits for general employees. Two of the counties (Calvert and Montgomery) provided defined contribution plans and not defined benefit plans for their general employees. This probably parallels the national situation where (1) defined contribution plans are more common for general employees than public safety employees but (2) even for general employees coverage under a defined benefit plan is still more common. In the private sector, defined contribution plans are more common.

## Value of Benefits for Police Officers

Is there an easy way to combine all of these key features into a simple comparison of benefits? Ideally you probably need to look at combinations of age and service when people would retire since not everyone is hired at the same time nor do they all retire at the same time. However, we can look at one reasonable retirement age. Attached is a chart comparing police officer benefits based on retirement at age 50 with 25 years of service. The blue portion of the bar is the employer provided portion of the benefit and the red portion of the bar is the employee provided portion of the benefit. The bars include Social Security for those covered by Social Security. The table is ranked from the highest employer provided benefit (State Police) to the lowest (City of Baltimore). The largest total benefit is probably Howard County but employees pay for a large share of the benefit.

As we noted at the beginning, many employers are looking at the benefits they are offering. The Governmental Accounting Standards Board (GASB) accounting rules are also changing. It is unclear whether these changes will lead to benefit changes. But GASB is a subject for another article.

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The following abbreviations are used in the benefit comparison charts found on the next four pages:

AFC = Average final compensation

CPI = Consumer price index

CS = Credited service

J&X% = Joint and survivor benefit with percentage (X%) continued to spouse upon retiree's death

SS Integration Level = IRS-prescribed average of the last 35 years of social security wage bases

SSNRA = Social security normal retirement age (67 for people born after 1959)

SSWB = Social security wage base (\$106,800 for 2010)

*\* The information contained in this survey was obtained from publicly available sources and/or documentation provided directly to Bolton Partners by a jurisdiction. If any information is incorrect or out of date, please forward corrections to the author.*

## Benefit Comparison for Police Officers

	County	Prince Georges	Prinns	Prince Georges	Prinns
<b>Social Security</b>	No	No	Yes	No	Yes
<b>Plan Formula</b>	2½% x AFC x CS up to 20 plus 2% x AFC x CS above 20  Maximum: 70% x AFC	2½% x AFC x CS up to 20 plus 2% x AFC x CS from 20 to 25 plus 3% x AFC x CS above 25 for each year above 25 earned after 2007  2% is used if less than 20 yrs	2.4% x AFC x CS up to 20 plus 2% x AFC x CS above 20  Maximum: 27 yrs CS	2½% x AFC x CS up to 20 plus 2% x AFC x CS above 20	2.5% x AFC x CS up to 20, graded thereafter based on chart (75% after 25 years, 80% after 30 years)
<b>Earnings Include</b>	Base Pay	Base Pay	Base Pay	Base Pay	Base Pay
<b>Average Period (for AFC)</b>	High 3 of last 5 years	Highest 12 months	Highest 36 consecutive months	Highest 36 consecutive months	Highest 36 consecutive months
<b>When Full Benefits Paid (Normal Retirement Age)</b>	20 years of service or age 50 with 5 years	25 years of service or age 60 with 10 years	20 years of service or age 55	25 years service or age 55 with 15 years	20 years service or age 62 with 5 years
<b>Employee Contributions</b>	5% of pay (7.75% for some)	8.0% of pay (effective 07/10)  8.5% of pay (effective 07/11)	8% of pay	Effective % of pay 07/10 7% 07/11 8% 07/12 9% 07/13 10%	11.6% of pay, up to 30 years of service
<b>Cost-of-Living Increases</b>	60% CPI to a maximum of 2½%	Depends on investment performance, 3% maximum (0% if service < 20)	100% of CPI up to 3%	0% pre 55, 1%/year from 55 to 65, 2% after 65	100% of CPI up to 2%
<b>Form Valued</b>	Unreduced J&100% benefit with 5 year guarantee	Benefit is J&50% for married employees with 25 years of service	Life Annuity (guaranteed return of employee contributions)	Benefit is J&50% for married employees	Life Annuity

### Benefit Comparison for Police Officers (cont.)

		Yes	No	No
<b>Social Security</b>	Depends on Employer	Yes	No	No
<b>Plan Formula</b>	2.3% x AFC x CS up to 30 plus 1% x AFC x CS above 30	Pre 67 (SSNRA): 2.4% x AFC x CS up to 36  Post 67 (SSNRA): 1.65% x (AFC up to SS Integration Level) x CS up to 36 plus 2.4% x (AFC above SS Integration Level) x CS up to 36  (slightly different after 36 yrs)	3% x AFC x CS up to 20 plus 2.5% x AFC x CS above 20	2.55% x AFC x CS  Maximum: 28 yrs CS
<b>Earnings Include</b>	Base Pay Earning increase of over 20% (non promotion) may not be counted without Trustee approval	Base Pay	Base Pay	Base Pay Earning increase of over 20% (non promotion) may not be counted without Trustee approval
<b>Average Period (for AFC)</b>	Highest 36 consecutive months	Highest 36 consecutive months	Highest 2 years	Highest 36 consecutive months
<b>When Full Benefits Paid (Normal Retirement Age)</b>	25 years of service or age 50	Age 55 with 15 years, or 25 years of service	Age 55 or 20 years of service	Age 50 or 22 years of service
<b>Employee Contributions</b>	4% of pay	4.75% of regular base to SSWB, plus 8.5% in excess	8% first five years, 7% next 5 years, 5.5% thereafter	8% of normal salary
<b>Cost-of-Living Increases</b>	100% of CPI up to 3%	100% first 3% of CPI, plus 60% in excess, not to exceed 7.5%	\$35 per month unless asset return is greater than 8%	100% CPI
<b>Form Valued</b>	Benefit is J&50% for married employees	Life Annuity (guaranteed return of employee contributions)	Life Annuity	Benefit is J&80%

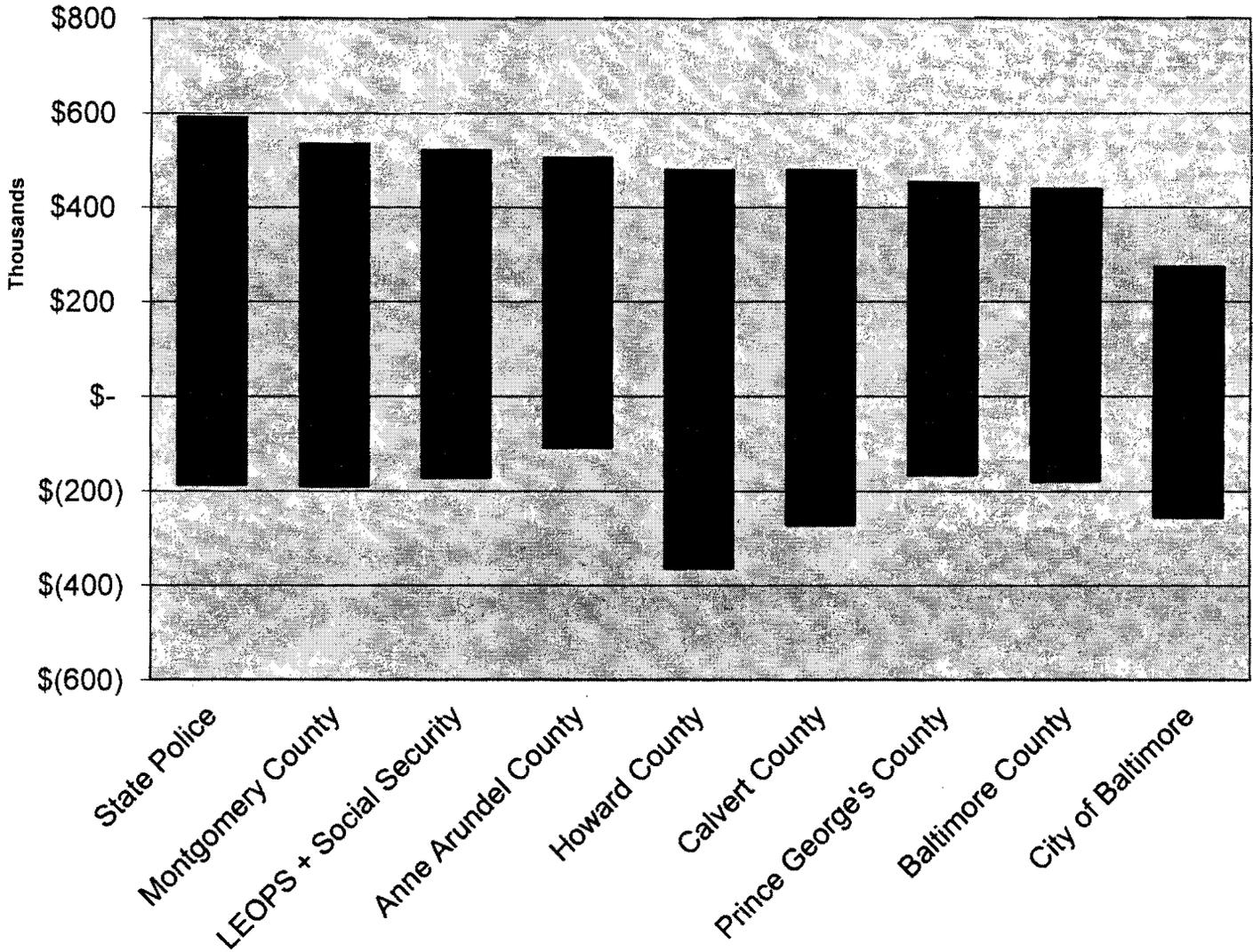
## Benefit Comparison for General Employees

	Yes	Yes	Yes	Yes
<b>Social Security</b>	Yes	Yes	Yes	Yes
<b>Plan Formula</b>	2% x AFC x CS  Maximum: 60% x AFC	1/70 x AFC x CS (1.43% per year)	Defined Contribution plan. Employer contributes 5% of pay	1.6% x (AFC up SS Integration Level) x CS up to 30 plus 1.85% x (AFC above SS Integration Level) x CS up to 30 plus 1.85% x AFC x CS above 30 yrs
<b>Earnings Include</b>	Base Pay	Annual Earnable - same as Base Pay for all but AFSCME employees	Base Pay	Base Pay
<b>Average Period (for AFC)</b>	High 3 of last 5 years	Highest 36 months	NA	Highest 3 years (January 1 rates)
<b>When Full Benefits Paid (Normal Retirement Age)</b>	30 years of service or age 60 with 5 years	35 years of service or age 67 with 10 years	NA	30 years of service or age 65 with 5 years
<b>Employee Contributions</b>	4% of pay	6.5% of pay (effective 7/10)  7.0% of pay (effective 7/11)	3% of pay	None
<b>Cost-of-Living Increases</b>	60% CPI to a maximum of 2.5%	Depends on investment performance, 3% max (0% if service < 20 yrs)	NA	Minimum of 1.5%. Additional increases depend on investment performance
<b>Form Valued</b>	Life Annuity (guaranteed return of employee contributions)	Life Annuity (guaranteed return of employee contributions)	Lump Sum or Rollover	Benefit is J+40% for married employees

### Benefit Comparison for General Employees (cont.)

	Howard County	Montgomery County	Prince George's County	State
<b>Social Security</b>	Yes	Yes	Yes	Yes
<b>Plan Formula</b>	1.55% x AFC x CS (some at 1.66% effective 7/1/2011)	Defined Contribution plan. Employer contributes 8%  Limited option to put money in defined benefit plan and be credited with 7.25% (cash balance style benefit)	In State plan (non-contributory system)  0.8% x (AFC up to SS Integration Level) x CS plus 1.5% x (AFC above SS Integration Level) x CS  Supplemental Plan: 1% x AFC x CS up to 30	1.8% x AFC x CS
<b>Earnings Include</b>	Base Pay	Base Pay	Base Pay  Supplemental Plan: All Pay	Base Pay
<b>Average Period (for AFC)</b>	Highest 36 months	NA	Highest 36 consecutive months	Highest 36 consecutive months
<b>When Full Benefits Paid (Normal Retirement Age)</b>	30 years of service or age 62 with 2 years and sum of age and service equals at least 67	NA	30 years of service or age 62 with 5 years (grading up to 65/2)  Supplemental Plan: Age 55 with 15 years or State plan NRA	30 years of service or age 62 with 5 years (grading up to 65/2)
<b>Employee Contributions</b>	2% of pay (some at 3% effective 7/1/2011)	4% of pay up to SS wage base and 8% of pay in excess of SS wage base	5% of pay in excess of SS wage base  Supplemental Plan: 3.24% of pay	5% of pay
<b>Cost-of-Living Increases</b>	100% CPI up to a maximum of 3%	NA	100% CPI up to a maximum of 3% (based on initial benefit)  Supplemental Plan: None	100% CPI to a maximum of 3%
<b>Form Valued</b>	Life Annuity	Lump Sum or Rollover	Life Annuity	Life Annuity

**Value of Benefits at Retirement for Police Officers  
(Blue = Employer Provided, Red = Employee Provided)**



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## Case Studies of Changes to Employee Retirement and Health Benefits in Other Jurisdictions

In recent years, many state and local governments across the country have taken action to curb the rising costs of employee retirement and health benefits. This synopsis summarizes cost containment changes made in other jurisdictions related to:

- Retirement Plan Reform;
- Active Employee Health Benefits Reform; and
- Retiree Health Benefits Reform.

Each section summarizes findings from recent studies that examine the increasing cost and funding challenges related to employee retirement and/or health care benefits followed by case studies that describe specific changes made by employers (mostly state and local governments) to address these challenges. For each jurisdiction (or organization) listed below, the case studies summarize changes, dates of implementation, and estimated savings (if available):

Topic	Case Study	
<b>Retirement Plan Reform</b>	Alaska Cobb County, GA Colorado Ft. Lauderdale, FL Georgia Gwinnett County, GA Houston, TX Illinois	Michigan Michigan Teachers Minnesota Nebraska New Jersey Oregon Philadelphia, PA Utah
<b>Active Employee Health Benefits Reform</b>	Alabama Delaware Manatee County, FL Milwaukee Public Schools	Nevada South Carolina Tennessee
<b>Retiree Health Benefits Reform</b>	Gainesville, FL Harris County, TX Illinois Kentucky North Carolina Oakland County, MI Ohio Oregon	Pennsylvania South Carolina Thousand Oaks, CA United Auto Workers Utah West Virginia 3M

## Retirement Plan Reform

The impact of the financial crisis in recent years has reduced state and local jurisdictions' ability to adequately fund their retirement and/or pension systems. An analysis conducted by the Pew Center on the States estimated that (as of 2008) state pension plans had more than \$2.8 trillion in long-term liabilities and only \$2.3 trillion set aside to cover those costs, leaving a gap of approximately half a trillion dollars. While more than half of state pension systems had sufficient assets to pay for all pension liabilities in 2000, data as of 2008 showed that only four states had fully funded plans.

In 2008, the Wisconsin Legislative Council published a comparative study on significant features of major state and local public employee retirement systems. The report surveyed 87 state and local government retirement plans, including 83 defined benefit plans. Highlights of the study include:

- **Retirement Age** – 84 of the 87 plans surveyed allow normal retirement at age 62 or earlier; more than a third of plans allow retirement at age 55 with 30 years of service.
- **Early Retirement** – 54 of the plans allow early retirement and ten of the plans do not.
- **Employee Contribution** – The majority of plans surveyed require employee contributions; 46 plans require contributions of more than 5% of salary, and 30 plans require contributions of 5% or less.
- **Vesting Period** – Only two plans in the survey allow employees to immediately vest in a retirement benefit; the most common vesting period is five years (51 plans), followed by 10 years (17 plans).
- **Social Security Integration** – Employees in 70 of the 87 plans surveyed also participate in Social Security.
- **Final Average Salary** – The two most common calculations for determining final average salary are the average of the final three years of service (55 plans), and five years of service (18 plans).
- **Annual Benefit Increases** – 35 of the 87 plans surveyed provide annual post-retirement pension adjustments (COLAs) indexed to the Consumer Price Index, 26 plans provide automatic increases, 19 plans provide increases on an ad hoc basis, five plans base adjustments on investment surplus, and two plans do not provide increases.

### Case Studies

State and local governments across the country have implemented a variety of approaches to address insufficient funding for employee retirement benefits. Typically, approaches fall into the following categories:

- Changes to the types of plans offered;
- Reducing benefits in current plans;
- Changing eligibility requirements for retirement plan participation; and/or
- Increasing employees' cost of plan participation.

This table summarizes changes made in recent years to curb costs in 16 retirement plans.

Case Study	Begins on ©	Changes to...						
		Plan Type	Eligibility	Plan Formulas Changes			Employee Contribution	Other
				Retirement Age or Vesting	Final Salary Calculation	COLAs		
Alaska	121	✓		✓			✓	✓
Cobb County, GA	122	✓		✓				✓
Colorado	122		✓	✓	✓	✓	✓	✓
Ft. Lauderdale, FL	123	✓						
Georgia	123	✓	✓		✓	✓		✓
Gwinnett County, GA	123	✓	✓					
Houston, TX	124						✓	✓
Illinois	124		✓	✓	✓	✓		✓
Michigan	125	✓						
Michigan Teachers	125	✓	✓	✓	✓	✓		✓
Minnesota	126			✓		✓	✓	
Nebraska	126	✓						
New Jersey	127		✓	✓	✓	✓	✓	
Oregon	127	✓		✓			✓	✓
Philadelphia, PA	128	✓						
Utah	128	✓		✓	✓	✓	✓	✓

New Defined Contribution Plan State of Alaska	
<b>Date of Implementation</b>	2005
<b>Summary of Changes</b>	<p>The State of Alaska switched to a mandatory defined contribution plan for new state government employees and teachers hired after July 1, 2006. Under the new plan, employees contribute 8% of salary, and the state contributes 5% for general employees and 7% for teachers. Employees vest in the State contributions on a sliding scale beginning at two years, with full vesting after five years.</p> <p>In addition, in 2008, Alaska approved \$5 billion in pension obligation bonds to pay down unfunded actuarial liabilities.</p>
<b>Savings Data</b>	Not available

<b>New Hybrid Plan Cobb County, Georgia</b>	
<b>Date of Implementation</b>	January 1, 2010
<b>Summary of Changes</b>	<p>Cobb County, Georgia instituted a new hybrid retirement plan with defined benefit and a defined contribution components for all new hires in their Government Employees Pension Plan. All new hires will be automatically enrolled in the Defined Benefit portion of the plan; the Defined Contribution portion is voluntary. Current non-vested employees were given the option to switch to the new hybrid plan.</p> <p>In the defined benefit component, employees will contribute 5% of salary and will become vested after 10 years. The pension formula has a multiplier of 1% and average final salary is calculated based on the highest five years of salary from the final ten years of service. The current employer contribution is 10% of salary, which is expected to increase to 11.5% by 2015.</p> <p>In the defined contribution component, employees may contribute a part of their salaries up to IRS limits. The County will match half of an employee's contribution, up to 2% of an employee's salary. Employees vest in employer contributions on a sliding scale beginning the first year, with full vesting after five years.</p>
<b>Savings Data</b>	Not available

<b>Defined Benefit Reform State of Colorado</b>	
<b>Date of Implementation</b>	2010
<b>Summary of Changes</b>	<p>The State of Colorado implemented the following changes to its defined benefit plan, the Public Employee Retirement Association (PERA):</p> <ul style="list-style-type: none"> <li>• Increased contribution rates for certain employees by 2.5% for fiscal year 2011, and decreased the State's contribution by the same amount;</li> <li>• Increased employer contributions in PERA's state, school and Denver Public Schools divisions;</li> <li>• Reduced post-retirement cost-of-living adjustments;</li> <li>• Raised age and service requirements for normal retirement; and</li> <li>• Capped at 8% the amount of salary increases from one year to the next that will be counted toward the calculation of highest average salary.</li> </ul> <p>A lawsuit has been filed challenging the retirement plan changes.</p>
<b>Savings Data</b>	The one-year modification to the contribution rates is expected to save \$37 million in FY2011. Savings data on other reforms is not known.

<b>New Defined Contribution Plan City of Fort Lauderdale, Florida</b>	
<b>Date of Implementation</b>	September 1, 2007
<b>Summary of Changes</b>	Fort Lauderdale, FL closed its defined benefit plan and created a defined contribution plan for eligible new hires. The City contributes 9% of employees' salary. Employees do not contribute to the plan and they vest immediately in the City's contributions.
<b>Savings Data</b>	Not available

<b>New Hybrid Plan State of Georgia</b>	
<b>Date of Implementation</b>	2008
<b>Summary of Changes</b>	<p>The State of Georgia established a hybrid retirement plan for new state employees hired after January 1, 2009. The plan includes a defined benefit portion that provides about half of the benefit of the former plan and a defined contribution portion with a 1% employee contribution rate. Employees may opt out of the defined contribution plan at any time. Defined benefit reforms for employees hired after July 1, 2009 include:</p> <ul style="list-style-type: none"> <li>• Prohibiting benefit increases to any new members of the retirement system;</li> <li>• Eliminating "spiking" of retirement benefits by eliminating retirement benefits for salary increases in excess of 5% during the 12 months before an employee's retirement; and</li> <li>• Prohibiting "double dipping" by not allowing employees who retired and are re-employed by the State to receive retirement benefits until all service is complete.</li> </ul>
<b>Savings Data</b>	Not available

<b>New Defined Contribution Plan Gwinnett County, Georgia</b>	
<b>Date of Implementation</b>	January 1, 2007
<b>Summary of Changes</b>	<p>Gwinnett County, GA closed its defined benefit plan and created a mandatory defined contribution plan for new employees. Employees contribute 2.5%, 5%, or 7.5% of their salary to the plan (employee's choice) and the County contributes 7% for all employees. Employees who contribute at least 2.5% of pay to a deferred compensation plan receive an additional 1% County contribution to their defined contribution plan.</p> <p>In the County's defined contribution plan, retirees who return to work for the County can only work up to 1,040 hours per year. These employees cannot receive pension payments while they are reemployed by the County.</p>
<b>Savings Data</b>	Not available

<b>Defined Benefit Reform City of Houston, Texas</b>	
<b>Date of Implementation</b>	January 1, 2008
<b>Summary of Changes</b>	<p>The City of Houston created a new group in its defined benefit plan for employees hired after January 1, 2008 and closed the existing groups to new members. At the same time, it reduced defined benefit multipliers for existing employees in the defined benefit plan.</p> <p>Pensions in the new group will be based on a multiplier of 1.8% for the first 25 years of service (1% thereafter). The multipliers for existing employees were lowered to 2.5%, down from between 2.75% and 4.25%. Employees in the new group do not have to contribute to the plan.</p>
<b>Savings Data</b>	Not available

<b>Defined Benefit Reform State of Illinois</b>	
<b>Date of Implementation</b>	2010
<b>Summary of Changes</b>	<p>The State of Illinois implemented state retirement plan reforms that will change benefits for new employees hired after January 1, 2011.</p> <ul style="list-style-type: none"> <li>• Retiree cost-of-living adjustments (COLA) are limited to 3% total or 50% of CPI, whichever is less (but not less than zero). COLA payments will be lump sum payments that will not increase the amount of base pensions.</li> <li>• Normal retirement age changed to age 67 with 10 years of service, increasing from age 60 with 8 years of service. An “Alternative Plan” for state police and firefighters allows retirement as early as age 50.</li> <li>• The final average salary used to calculate pensions will be the average of the highest consecutive 96 months (8 years) of the employee’s last 120 months (10 years), but will not take into account any salary in excess of \$106,800.</li> <li>• Employees who retire and return to work will have retirement benefits suspended.</li> </ul> <p>The State also authorized the issuance of \$3.5 billion in bonds to fund part of the State's FY10 required contribution to statewide retirement systems.</p>
<b>Savings Data</b>	Estimated at \$119 billion over the next 35 years

<b>New Defined Contribution Plan State of Michigan</b>	
<b>Date of Implementation</b>	March 1997
<b>Summary of Changes</b>	Beginning in 1997, all new State of Michigan employees join a defined contribution plan. The state automatically contributes 4% of an employee's salary to a defined contribution account and matches employee contributions up to an additional 3%. Employees may also contribute to a deferred compensation account.
<b>Savings Data</b>	By 2009, about half of the state workforce was in the defined contribution plan rather than the defined benefit plan. The amount of savings from this shift is not available.

<b>New Hybrid Plan for New Teachers Michigan Public School Employees' Retirement System (MPSERS)</b>	
<b>Date of Implementation</b>	July 2010
<b>Summary of Changes</b>	<p>As of July 1, 2010, new teachers are enrolled in a hybrid defined benefit/defined contribution plan. The defined benefit plan has the following variables:</p> <ul style="list-style-type: none"> <li>• New employees contribute 9.4% of salary to the pension fund.</li> <li>• Final average salary is based on an average of the highest five consecutive years of salary instead of the highest three years.</li> <li>• Employees are eligible for a pension at age 60 with 10 years of service instead of at age 46 with 30 years of service.</li> <li>• The plan will no longer provide cost-of-living adjustments.</li> </ul> <p>New employees are also in a defined contribution plan. Employees automatically contribute 2% of salary, but may contribute more or less. Employers automatically match half of employee contributions up to 1% of salary with the option of matching up to 3% of employees' salary. Employees vest in employer contributions on a sliding scale beginning at two years, with full vesting after four years.</p> <p>Retirees rehired by an MPSERS employer may continue collecting pensions and retiree health benefits if their new salary is one third or less of their final average compensation. Retirees, however, cannot receive these benefits if they perform services for an MPSERS employer but are employed by a third party.</p>
<b>Savings Data</b>	Not available

<b>Defined Benefit Reform State of Minnesota</b>	
<b>Date(s) of Implementation</b>	1989, 2006, and 2011
<b>Summary of Changes</b>	<p>In 1989, the State of Minnesota raised its retirement age from 65 to 66 for new employees in several State retirement systems. The state has increased employee and employer contributions multiple times since 2001 and will do so again in 2011. In 2006, the State capped annual pension adjustments at 5% beginning in 2010.</p> <p>In 2010, Minnesota approved a number of changes to state pension plans that go into effect January 1, 2011. Specifically, these reforms:</p> <ul style="list-style-type: none"> <li>• Temporarily reduce or eliminate post-retirement pension adjustments (COLAs) until plans have 90% of the assets needed to pay for the plans' liabilities; and</li> <li>• Increase the vesting period for MSRS and PERA plans.</li> </ul> <p>The reduction/elimination of post-retirement rate increases has been challenged in court.</p>
<b>Savings Data</b>	Since 1989, the State saved \$360 million by increasing the retirement age by one year.

<b>New Cash Balance Plan State of Nebraska</b>	
<b>Date of Implementation</b>	2003
<b>Summary of Changes</b>	<p>The State of Nebraska created a "cash balance plan" to replace its defined contribution retirement plan. Under the cash balance plan – similar to Montgomery County's GRIP – employees contribute between 4.3% and 4.8% of salary and the State contributes 7.5% of salary to a retirement account. The State guarantees an annual investment return of at least 5% (can be higher under the formula).</p> <p>New employees are required to join the cash balance plans and State and county employees hired before 2003 were given the option of joining in 2003 and 2007. Nebraska educators, judges and state patrol employees participate in separate defined benefit plans.</p>
<b>Savings Data</b>	Not available

<b>Defined Benefit Reform State of New Jersey</b>	
<b>Date of Implementation</b>	May 2010
<b>Summary of Changes</b>	<p>The State of New Jersey approved changes to the pension benefits of all new hires enrolling in State retirement plans. Part-time workers will no longer be eligible to join a defined benefit plans but will be enrolled in a defined contribution plan instead. For all State retirement plans, members will be treated as a new member if, after May 21, 2010, a member has a break in service or a retiree returns to service.</p> <p>For state and local police and firefighters, the salary on which pension contributions are calculated is capped at the Social Security wage base. For salary above that amount, employees will participate in a defined contribution plan with employees contributing 5.5% of salary and employers contributing 3%. Pension benefits are calculated based on the highest three fiscal years of salary.</p> <p>For teachers and other public employees, employees must work a minimum number of hours per week to be eligible to join the defined benefit plans: at least 35 hours per week for general employees and at least 32 hours per week for teachers. The benefits formula reverted to a pre-2001 formula and employees' average final salary is calculated based on the last five years of service or any five fiscal years that provide the greatest benefit.</p>
<b>Savings Data</b>	Not available

<b>New Hybrid Plan State of Oregon</b>	
<b>Date of Implementation</b>	2003
<b>Summary of Changes</b>	<p>The State of Oregon developed a hybrid plan with a defined benefit and a defined contribution portion for new participating public employees hired after August 29, 2003. Employees hired before that date retained their defined benefit plan, but pay their future contributions into a defined contribution account. Provisions of the new plan include:</p> <ul style="list-style-type: none"> <li>• Normal retirement at age 65 for general employees instead of age 60, and at age 60 for public safety employees instead of age 55;</li> <li>• Lower benefit multipliers: 1.5% for general employees instead of 1.67%; 1.8% for public safety employees instead of 2%.</li> </ul> <p>Employees contribute 6% of salary to a defined contribution account.</p>
<b>Savings Data</b>	Pension system liabilities are currently growing an average of 3% per year compared to average growth before the 2003 changes of 10-12% a year.

<b>New Defined Contribution Plan City of Philadelphia, Pennsylvania</b>	
<b>Date of Implementation</b>	January 1, 2010
<b>Summary of Changes</b>	Philadelphia created a new defined contribution plan for certain new employees. The City will match half of employee's contributions to the defined contribution plan, up to 1.5% of employee's annual compensation. Defined contribution plan members become vested in employer contributions after five years.
<b>Savings Data</b>	Not available

<b>New Hybrid or New Defined Contribution Plans State of Utah</b>	
<b>Date of Implementation</b>	July 2011
<b>Summary of Changes</b>	<p>In the State of Utah, employees hired on or after July 1, 2011 must choose between a new defined contribution plan or a new hybrid plan, instead of the previous defined benefit plan. In the new defined contribution plan, employers will contribute 12% of salary for public safety officers and firefighters or 10% of salary for all other employees.</p> <p>In the new hybrid plans, employers will contribute up to a maximum amount annually (12% of salary for public safety, 10% of salary for non-public safety) to fund the defined benefit plan. If the plan requires additional funding in a given year, employees must contribute the difference. If the employer's required contribution is below 12% or 10% in a given year, the balance will be put into an employee's defined contribution plan.</p> <p>In the new hybrid plan, non-public safety employees can retire after 35 years at any age (up from 30 years) and new public safety employees can retire after 25 years at any age (up from 20 years). The plans also have a multiplier of 1.5% (down from 2.5% for public safety and 2% for non-public safety).</p> <p>For all new employees, final average salary is based on an average of the highest five consecutive years of salary instead of the highest three years, and cost of living adjustments are capped at 2.5% (down from 4%). Cost of living adjustments in all plans are given as lump sum payments, instead of adding to the pension base.</p>
<b>Savings Data</b>	Employers will contribute 10% or 12% of salary for employees hired after July 1, 2011 instead of 14.22% for non-public safety employee and 30.18% for public safety employees.

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## Active Employee Health Benefits Reform

For many years, health benefit costs have increased annually at rates that exceed the annual rate of inflation. In response to these cost pressures, many state and local governments have made changes to their health benefit offerings. The cost containment strategies implemented include shifts in cost sharing, plan design changes, changes to eligibility rules, and wellness programs.

This section begins with a summary of recent health benefit studies, followed by case studies of health benefit plan reforms implemented in other jurisdictions.

**Overview of Health Benefits Offered in Counties Across the Country.** A 2009 National Center for the Study of Counties study compiled survey data on employee health benefits offered by 273 counties. Almost all (99%) of the counties surveyed provided employee health benefits. The following tables summarize selected data from the survey.

**Table 1. Comparison of Plan Characteristics in Surveyed Counties: 2009 Data**

Percent of Counties with Selected Plan Characteristic	
98%	Contribute to Premiums
96%	Offer prescription drug coverage
65%	Offer separate dental coverage
51%	Offer separate vision coverage
53%	Offer benefits to part-time employees
78%	Offer benefits to employees' spouses and children
8%	Offer benefits to opposite-sex domestic partners
7%	Offer benefits to same-sex domestic partners
45%	Offer 2 or more plans
41%*	Percentage of county health plans that are self-insured

\*46% among large counties ( $\geq 200$  employees)

**Table 2. Types of Health Plans Offered by Large Counties, 2009**

	Indemnity	HMO	PPO	POS	HD	EPO
Surveyed Large Counties ( $\geq 200$ employees)	21%	32%	80%	16%	20%	8%

Note: HMO – Health Maintenance Organization, PPO – Preferred Provider Organization, POS – Point of Service, HD – High Deductible, EPO – Exclusive Provider Organization

**Table 3. Average Monthly Premium for Single and Family Coverage, 2009**

	Single coverage	Family Coverage
All Surveyed Counties	\$464	\$1,087
Large Counties	\$469	\$1,118
Self-funded counties	\$482	\$1,104
Counties with unions	\$476	\$1,083

\* Average of premiums for all plans offered, not based on actual enrollment

**Table 4. Average Percent of Premium Paid by Employer for Single and Family Coverage, 2009**

	Single coverage	Family Coverage
All Surveyed Counties	88%	68%
Large Counties	87%	73%
Self-funded counties	90%	66%
Counties with unions	87%	75%

**Other Surveys/Data on Health Insurance Premium Cost Share.** Bureau of Labor Statistics data show that private sector employers pay, on average, 70% of insurance premiums for family coverage in 2010. This mirrors data from the Kaiser Family Foundation's Employer Health Benefits 2010 Annual Survey, which also shows that employers pay 70% of insurance premiums in 2010 for family coverage.

### Case Studies

The table below summarizes changes undertaken in each jurisdiction. The case studies follow.

Case Study	Begins on ©	Cost Share Shifting	Plan Changes	Eligibility Changes	Wellness Program	Smoking Surcharge
Alabama	133				✓	
Delaware	133				✓	
Manatee County, FL Schools	134				✓	
Milwaukee Public Schools	134	✓				
Nevada	135	✓	✓	✓		
South Carolina	135					✓
Tennessee	136		✓		✓	

**Wellness Premium Discount Program****State of Alabama**

<b>Date of Implementation</b>	January 1, 2010
<b>Program Summary</b>	<p>The State of Alabama increased employee insurance premiums by \$25 per month. In 2010, employees can earn an offsetting discount of \$25 per month by completing a health assessment that screens blood pressure, cholesterol, glucose, and body mass index. Beginning in 2011, employees at low risk based on the screening automatically receive the discount. Employees with health risks may receive the discount if they:</p> <ul style="list-style-type: none"><li>• Receive a doctor's certification that they have been counseled regarding their health risks or have a medical condition that prevents them from improving their health risk;</li><li>• Complete an approved wellness program;</li><li>• Show improved risk levels through self-health management.</li></ul> <p>Employees' health risk is re-evaluated annually.</p>
<b>Incentives</b>	\$25 per month discount on health premiums
<b>Savings Data</b>	Not available

**"DelaWell" Cash Reward Program****State of Delaware**

<b>Date of Implementation</b>	October 1, 2010
<b>Program Summary</b>	<p>The DelaWell program gives employees the opportunity to earn wellness credits through activities such as a health screenings, wellness assessments, online seminars, and fitness challenges.</p>
<b>Incentives</b>	Cash reward of \$100 or \$200 based on points earned
<b>Savings Data</b>	Not available

<b>“Health Vantage” Program</b> <b>School District of Manatee County, Florida</b>	
<b>Date of Implementation</b>	September 2008
<b>Program Summary</b>	<p>The Health Vantage wellness program provides worksite wellness screenings, exercise/weight loss programs, on-site flu immunizations, an online wellness assessment, and wellness education seminars.</p> <p>An evaluation showed that during the 2008-2009 school year, program participants improved their health (lower blood pressure, cholesterol, resting heart rate, and weight loss) more than employees who did not participate. The evaluation also showed a 12% decrease in employee absenteeism compared to the previous school year and a decrease in claims related to back pain.</p>
<b>Incentives</b>	Screenings offered on-site, low cost exercise classes
<b>Savings Data</b>	Recent data show a \$1.3 million decrease in spending on medical and prescription services for January – June 2010 compared to January – June 2009 attributed to preventive efforts including the wellness program.

<b>Cost Share Changes</b> <b>Milwaukee, Wisconsin Public Schools</b>	
<b>Date of Implementation</b>	Proposed August 1, 2011
<b>Summary of Changes</b>	<p>Currently, Milwaukee Wisconsin Public School teachers do not pay a premium for health benefits. If a tentative labor contract is approved, beginning in the 2011-2012 school year, teachers will pay 1% of their salary for health benefits regardless of which health plan they choose.</p> <p>In addition, out-of-network deductibles, coinsurance, and out-of-pocket maximums will increase and in-network deductibles will decrease in the PPO plan. The HMO plan will require a deductible for the first time.</p>
<b>Savings Data</b>	Not available

<b>Introduction of a High-Deductible Medical Plan</b> <b>State of Nevada</b>	
<b>Date of Implementation</b>	Expected July 1, 2011
<b>Summary of Plan Changes</b>	<p>The State of Nevada plans to implement several changes to health coverage beginning July 1, 2011 to address a \$111.2 million gap in funding for group insurance for active employees and retirees. The State will replace the current PPO with a high-deductible PPO medical plan that:</p> <ul style="list-style-type: none"> <li>• Increases the deductible from \$800 to \$1,600 for individuals and \$2,000 to \$4,000 for families.</li> <li>• Increases out-of-pocket maximums from \$3,700 to \$3,900 for individuals and from \$7,400 to \$7,800 for families.</li> <li>• Decreases co-insurance from 80% to 75%.</li> </ul> <p>Additionally, the State will add Health Savings Accounts for active employees and Health Reimbursement Arrangements for retirees. The State will contribute \$600 per primary participant and \$200/per dependent (up to a maximum of \$1,200) per year to these accounts.</p> <p>Nevada will also eliminate vision coverage except for annual eye exams; eliminate certain lab tests performed at hospitals; eliminate dental coverage except for preventive care; eliminate health coverage for spouses/domestic partners with access to other employer-based insurance; and allow 90-day supplies of certain drugs.</p>
<b>Savings Data</b>	Not available

<b>Smoker Surcharge</b> <b>State of South Carolina</b>	
<b>Date of Implementation</b>	January 1, 2010
<b>Program Summary</b>	Citing \$75 million in annual health plan costs for tobacco-related illnesses, South Carolina began a \$25 per month tobacco surcharge for employees (or spouses or covered dependents) who have used tobacco in the last six month. Employees covered under the South Carolina Employees Insurance Program must fill out a Tobacco Use Certification Form indicating whether they have used any tobacco product in the last six months.
<b>Incentives/Penalty</b>	Currently \$25/month. The surcharge will increase to \$40/month for an individual or \$60/month for a family on January 1, 2011. All health plans offered by the state include free tobacco cessation programs.
<b>Savings Data</b>	Not available
<b>Other</b>	States with similar programs include West Virginia, Kentucky, Alabama, Georgia, Indiana, Kansas, Missouri, North Carolina, and South Dakota.

**“Partnership Promise” Group Insurance Program  
State of Tennessee**

<b>Date of Implementation</b>	Expected January 1, 2011
<b>Summary of Plan Changes</b>	<p>Beginning in 2011, the State of Tennessee Health Insurance Program (covering state, local education, and local government employees) will replace its HMO, PPO, and POS plans with only two PPO plans: the Standard PPO or the Partnership PPO. The two plans will provide the same coverage, but employees in the Partnership PPO must complete a health questionnaire, do a health screening, and participate in activities to lower their health risks. These employees will have lower premiums, annual deductibles, pharmacy co-pays, and out-of-pocket maximums.</p> <p>Employees in the Partnership PPO who do not fulfill the “Partnership Promise,” must enroll in the Standard PPO for one year before returning to the Partnership PPO.</p>
<b>Incentives</b>	Lower out-of-pocket health care costs.
<b>Savings Data</b>	Not available

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## Retiree Health Benefits Reform

Governmental Accounting Standards Board standards issued in 2004 require governments to account for the long-term liability of retiree health benefits (commonly referred to as Other Post-Employment Benefits or “OPEB”) for current employees, but do not currently require pre-funding of this long-term liability. Nonetheless, many state and local governments are beginning to pre-fund these benefits, similar to pre-funding for future retirees’ pension benefits.

The recent recession and continuing slow recovery negatively impacted state and local governments’ ability to pre-fund OPEB obligations. According to a study by the Pew Center on the States, the total unfunded OPEB liability (for states and the largest local governments) exceeded \$530 billion in 2009.

Many state and local governments, as well as private sector employers, have taken steps in recent years to reduce their cost of retiree health benefits. Examples of cost containment strategies include reducing eligibility, reducing the employer’s premium contribution, or eliminating benefits.

This section begins with a summary of recent studies of retiree health benefits, followed by case studies of retiree health benefit reforms implemented in other jurisdictions.

**Survey of Government Reform Efforts.** According to a recent survey,<sup>1</sup> 87% of large state and local governments (200+ workers) that offer health insurance to active employees also offered retiree health benefits in 2010. In contrast, only 28% of large firms (200+ workers) that offer health benefits for active employees also offered retiree health coverage in 2010. Large firms that did offer retiree coverage were more likely to offer benefits to early retirees than to Medicare-age retirees (93% vs. 75%).

Another recent survey gauges the likelihood that state and local governments will alter retiree health benefits in the next five years. The table on the next page summarizes local governments’ responses.<sup>2</sup>

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<sup>1</sup> The Kaiser Family Foundation and Health Research and Educational Trust, Employer Health Benefits Annual Survey, 2010.

<sup>2</sup> *At a Crossroads: The Financing and Future of Health Benefits for State and Local Government Retirees*, The Center for State and Local Government Excellence, July 2009.

**Table 5. Likelihood of Local Governments to Change Retiree Health Benefits in the Next Five Years\***

In the next five years, how likely is your jurisdiction to...	Approach Currently Used	Likely		Unlikely	
		Very	Somewhat	Somewhat	Very
<b>Eligibility</b>					
Limit subsidy for future retirees	7%	8%	16%	22%	27%
Terminate health care for future retirees	5%	4%	9%	25%	39%
Terminate all subsidies for current retirees	3%	1%	3%	23%	49%
<b>Cost Sharing</b>					
Increase retiree contribution premiums	44%	34%	22%	12%	18%
Increase dependent contribution premiums	37%	31%	19%	10%	20%
Increase retiree deductible amounts	27%	16%	31%	19%	15%
Increase family deductible amount	22%	15%	28%	19%	17%
Increase coinsurance rates	17%	13%	26%	20%	17%
Increase co-payment amounts	27%	15%	32%	17%	15%
Increase co-payment for prescription drugs	37%	18%	31%	16%	15%
Increase cap on employee out-of-pocket expenses	6%	5%	14%	25%	31%
<b>Future Cost Shedding</b>					
Eliminate prescription drug coverage	2%	2%	5%	33%	46%
Increase age at which retirement health care is available	3%	4%	9%	26%	37%
Increase years of service required for vesting	8%	7%	10%	25%	36%
Implement a catastrophic plan with a retiree medical savings account	2%	3%	15%	25%	33%

\* Responses from 2,136 of 8,044 jurisdictions surveyed

Source: *At a Crossroads: The Financing and Future of Health Benefits for State and Local Government Retirees*, July 2009

## Case Studies

The table below summarizes reforms to retiree health benefits currently underway in 13 state and local governments across the country plus two private industry companies.

Case Study	Begins on ©	Lower Government Contribution	Increase Retirement Age and/or Years of Service	Terminate Certain Benefits	Consolidate with Other Jurisdictions/Medicare	Other
Gainesville, FL	140	✓				
Harris County, TX	141	✓	✓			
Illinois	141				✓	
Kentucky	142	✓				
North Carolina	142		✓			
Oakland County, MI	142	✓	✓			
Ohio	143	✓				
Oregon	143			✓		✓
Pennsylvania	144	✓				✓
South Carolina	144	✓				
United Auto Workers	144					✓
Utah	145					✓
West Virginia	145	✓		✓		✓
3M	145			✓		

<b>Fixed Employer Contribution City of Gainesville, Florida</b>	
<b>Date of Implementation</b>	2009
<b>Program Summary</b>	Gainesville, FL changed from contributing a specified percentage of retirees' health insurance premium to contributing a fixed dollar amount based on a retiree's years of service and age when benefits began.
<b>Savings Data</b>	The savings is estimated to be \$6 million/year, or about 12% of total costs.

<b>Reduced County Contribution and Changed Eligibility Harris County, Texas</b>	
<b>Date of Implementation</b>	2007
<b>Program Summary</b>	<p>The County developed a three-tiered system by increasing the years of service required to be eligible for retiree health benefits and reducing the government's contribution toward the premium.</p> <p><b>Employees hired before March 2007 and eligible to retire before February 2011.</b> For retirees whose age and years of service equals 75, with a minimum of 10 years of service, the County pays 100% of the premium for "retiree only coverage" and 50% for dependent coverage. Younger employees or those with fewer years of service pay a greater portion of plan costs. Employees with fewer than 4 years of service pay 100% of plan costs.</p> <p><b>Employees hired before March 2007, and eligible to retire after February 2011.</b> For retirees whose age and years of service equals 80 and who have a minimum of 10 years of service <u>or</u> retirees who are at least age 65 (or Medicare eligible) and have a minimum of 10 years of service, the County pays 100% of the premium for "retiree only coverage" and 50% for dependent coverage.</p> <p><b>New employees (hired after February 28, 2007).</b> Employees will receive a County contribution for their health care premium if the sum of their age and years of service equals 80 and they have a minimum of 20 years of service, <u>or</u> they are at least age 65 (or Medicare eligible) and have a minimum of 15 years of service. The County determines the amount of the subsidy on an annual basis.</p>
<b>Savings Data</b>	Not available

<b>Incentive to Drop State Coverage State of Illinois</b>	
<b>Date of Implementation</b>	2006
<b>Program Summary</b>	The State of Illinois offered non-Medicare retirees eligible for State retiree health coverage or eligible for coverage elsewhere (i.e., through a spouse or previous employer) \$150 per month to opt out of the state's health care coverage. These retirees cost the State about \$834 per month to insure.
<b>Savings Data</b>	Of approximately 15,000 retirees eligible for the program, 124 employees had accepted the offer as of September 30, 2007, saving the State about \$84,000 per month in 2007.

<b>Increase in Employee Contribution State of Kentucky</b>	
<b>Date of Implementation</b>	July 2010
<b>Program Summary</b>	Kentucky began requiring most members of the State's retirement system to contribute an additional 0.25% of salary to a medical insurance fund. Active employees hired on or before June 30, 2008 contribute 0.75% of salary for retiree health insurance and those hired after June 30, 2008 contribute 1.75%. Contributions will gradually increase to 3% over six years. The state will pay the net cost of medical insurance for new retirees who are not Medicare eligible.
<b>Savings Data</b>	Not available

<b>Increase in Required Years of Service State of North Carolina</b>	
<b>Date of Implementation</b>	2006
<b>Program Summary</b>	For employees hired after September 30, 2006, North Carolina increased the required years of service for eligibility for retiree health benefits from 5 to 20 years. Retirees with fewer than 20 years of service have to pay between 50-100% of health insurance premiums, depending on the number of years of service.
<b>Savings Data</b>	Not available

<b>Fixed Employer Contribution Oakland County, Michigan</b>	
<b>Date of Implementation</b>	2005
<b>Program Summary</b>	<p>Oakland County began funding retirees' OPEB liability before it was required of the public sector employers. In 2005, the County discontinued its plan under which it paid for 60-100% of retirees' health premium cost. The County began a plan for new employees (hired on or after January 1, 2006) where it contributes \$1,300 per year to a retirement health savings plan for each eligible employee.</p> <p>At retirement, employees with 15 years of service can access 60% of the county's contribution to the fund and can access an addition 4% with each additional year of service up to 25 years of service, when they receive 100% of the contribution.</p> <p>The County issued \$557 million in taxable certificates in 2007 to fund OPEB liability.</p>
<b>Savings Data</b>	Estimated at \$100 million over the next 20 years.

<b>Health Plan Reform State of Ohio</b>	
<b>Date of Implementation</b>	2010
<b>Program Summary</b>	<p>The State has entered into two new contracts with deeply discounted rates and very low administrative fees – one contract to administer the retiree health care plan for Medicare-eligible retirees and one for those who are not yet Medicare-eligible. The State also modified its plan design to incrementally increase retiree costs, such as increased out of pocket maximums, deductibles, and co-pays; but not monthly premiums.</p> <p>The retirement system Board of Trustees has stated that coverage is not a guaranteed benefit and may be eliminated if funds are not available.</p>
<b>Savings Data</b>	Officials estimate that, in FY10, the State will save \$92.4 million from changes to the administrators and \$73.6 million as a result of the changes in plan design. The changes enacted for 2010 will add approximately three to four years of solvency to the health care fund.

<b>Elimination of State Retiree Health Benefit Contribution for New Employees State of Oregon</b>	
<b>Date of Implementation</b>	2003
<b>Program Summary</b>	<p>Oregon overhauled its pension system in 2003 when it created the Oregon Public Service Retirement Plan (for employees hired on or after August 29, 2003). The state eliminated its contribution to retiree health care premiums for the employees in this new retirement plan. Retirees on or after August 29, 2003 can participate in the State's retiree health insurance plans at 100% of the premium cost.</p> <p>Employee groups unsuccessfully challenged the changes in court.</p>
<b>Savings Data</b>	Not available

<b>Retired Employees Shifted to A Different Benefits Plan Commonwealth of Pennsylvania</b>	
<b>Date of Implementation</b>	2007
<b>Program Summary</b>	Pennsylvania switched the approximately 52,000 state employees who retired before July 1, 2004 to the same benefits plan as employees who retired or were hired after July 1, 2004. Under the post-July 1, 2004 benefit plan, retirees pay a three-tiered rate for prescriptions drugs (\$10/\$18/\$36) instead of \$7 for any prescription. In addition, retirees enrolled in a traditional Medicare plan switched into a plan run by a private insurer that would streamline the administrative process and conduct utilization reviews.
<b>Savings Data</b>	Estimated at \$94 million annually.

<b>Reduced Employer Premium Contribution for New Employees State of South Carolina</b>	
<b>Date of Implementation</b>	2008
<b>Program Summary</b>	For employees hired after May 1, 2008, the State will pay 100% of the premium for retirees with 25 years of service and 50% of the premium for retirees with 15 to 25 years of service. Retirees with less than 15 years of service will have access to insurance at 100% of the premium cost. The State pays approximately 71% of the premium for retirees hired before May 1, 2008 with at least 10 years of service.
<b>Savings Data</b>	Estimated at \$3.5 billion over the next 50 years.

<b>Voluntary Employees' Beneficiary Association (VEBA) United Auto Workers and General Motors</b>	
<b>Date of Implementation</b>	October 2007
<b>Program Summary</b>	As part of collective bargaining, United Auto Workers (UAW) and General Motors (GM) created a Voluntary Employees' Beneficiary Association (VEBA) for union employees where GM contributes a set dollar amount per employee into a fund managed and run by the union. GM moved approximately \$51 billion of unfunded liability to the VEBA and contributed \$32 billion in funding for the program. As of June 2010, it is the world's largest VEBA with more than \$45 billion in assets. In recent months, the VEBAs of the three big automotive companies, including GM, have become severely under-funded.
<b>Savings Data</b>	In 2007, GM estimated increased cash flow of \$2.8 billion in 2010 and \$3.3 billion in 2011.

<b>Sick Leave Transfer to Health Reimbursement Fund State of Utah</b>	
<b>Date of Implementation</b>	2005
<b>Program Summary</b>	<p>The State ended the practice of cashing out retirees unused sick leave earned after January 2006. Instead, the State would put 25% in an employee's defined contribution account and the remainder in a Health Reimbursement Account for retiree health benefits.</p> <p>The Utah Public Employees Association sued, alleging the State had illegally changed the rules of vesting and contributions. The State Supreme Court held that the legislative change was not unconstitutional and that the plaintiffs did not have a property interest in the specific use of unused sick leave.</p>
<b>Savings Data</b>	Not available

<b>Elimination of State Contribution for New Employees State of West Virginia</b>	
<b>Date of Implementation</b>	2007, 2010
<b>Program Summary</b>	<p>In 2007, the State increased current retirees' co-pays, set up an irrevocable trust for funding, and shifted retirees to a Medicare advantage prescription drug plan. For employees or teachers hired after July 1, 2010, the State will no longer provide a monthly subsidy for retiree health premiums.</p> <p>The State employee union is preparing legal action in response to these changes.</p>
<b>Savings Data</b>	The 2007 actions reduced per capita costs from \$300 per member per month to \$121 per member per month. Overall, the reform efforts reduced the state's long-term liability by more than half, to \$3.4 billion.

<b>Health Reimbursement for Retirees to Purchase Health Insurance 3M</b>	
<b>Date of Implementation</b>	2013
<b>Program Summary</b>	<p>3M (a 23,000-employee company) announced in October 2010 that it will no longer offer retirees access to health-insurance plans beginning in 2013. Retirees will instead receive an unspecified health reimbursement to purchase health care plans on the open market.</p> <p>Beginning Jan. 1, 2015, 3M will begin providing non-Medicare eligible retirees and their dependents a 3M Retiree Health Reimbursement Account.</p>
<b>Savings Data</b>	Not available

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