ED COMMITTEE #1&2
April 30, 2012
Worksession

MEMORANDUM

April 27, 2012

TO: Education Committee

FROM: Essie McGuire, Senior Legislative Analyst

SUBJECT: **Worksession – FY13 Operating Budget, Montgomery County Public Schools, and Supplemental Appropriation to the MCPS FY12 Capital Budget and Amendment to the FY11-16 Capital Improvements Program, $1,339,200 for Education Rate (E-Rate) Program for the Technology Modernization Project (Source: Federal Funds)**

Today the Education Committee will continue its review of the FY13 Operating Budget for the Montgomery County Public Schools (MCPS). In addition, the Committee will consider a Supplemental Appropriation to the MCPS FY12 Capital Budget and Amendment to the FY11-16 Capital Improvements Program, $1,339,200 for Education Rate (E-Rate) Program for the Technology Modernization Project as part of the Board of Education's request for the Technology Modernization Project in the FY13-18 CIP.

The following individuals are expected to participate in this worksession:

- Shirley Brandman, President, Board of Education
- Christopher Barclay, Vice President, Board of Education
- Joshua Starr, Superintendent
- Frieda Lacey, Deputy Superintendent
- Larry Bowers, Chief Operating Officer
- Sherwin Collette, Chief Technology Officer
- Marshall Spatz, Director of Management, Budget, and Planning, MCPS

This packet is divided into four sections:

I. **Technology Modernization**
II. **FY13 Compensation**
III. **Employee Benefit Trust Funds**
IV. **State Legislative Update**

I. Technology Modernization

1. FY12 Supplemental Appropriation

The Board requested this supplemental appropriation of Federal E-rate funds on November 11, 2011. The County Executive recommended approval of the appropriation of Federal funds and also recommended a transfer of current revenue from the Technology Modernization project to the Relocatable Classrooms project. Council staff concurred with this recommendation. The Committee met on February 6 to review this issue, and unanimously recommended approval of the appropriation and transfer.

A full Council vote on this item was deferred because it was decided that more time was needed to consider this transfer in the context of full CIP discussions and larger budget affordability issues. Subsequently, on April 10 the Council approved a supplemental appropriation of $4 million in current revenue to fund the Board's FY12 request for the Relocatable Classrooms project. This action was necessary to meet the pressing capacity needs of the school system; approving the appropriation in the spring is critical to the school system's ability to have the relocatables in place in time for the start of the next school year.

The Council introduced a new FY12 supplemental appropriation resolution for E-rate funds on April 24, and is tentatively scheduled to hold a public hearing and take action on May 15 (draft approval resolution is attached at circles 1-3). **Council staff continues to recommend approval of the appropriation of Federal funds to make the final payment on the interactive technology initiative. The affordability question remains, however, of whether there is sufficient current revenue in FY12 and FY13 to support the school system's request to add this amount to the FY12 appropriation, or whether the school system will need to reprioritize technology expenditures between the two fiscal years to free up current revenue resources.**

2. FY13-18 CIP Request

Project: Technology Modernization

	Total	Through FY10	Total 6 Years	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	Beyond 6 Years
FY11-16 Amended	**216,755**	79,304	**137,451**	18,878	18,178	21,847	25,313	26,393	26,842	n/a	n/a	
FY13-18 BOE Proposed	**266,100**	79,304	**149,740**	18,878	18,178	21,847	25,456	26,805	26,358	23,997	25,277	
change from amended	49,345	-	12,289	n/a	n/a	-	143	412	(484)	n/a	n/a	
percent change from amended	22.8%		8.94%	n/a	n/a	0.0%	0.6%	1.6%	-1.8%	n/a	n/a	

The Board of Education's request for FY13-18 is a significant increase ($12.3 million) in the six-year period, but is consistent with the approved funding assumptions for FY13-16 (circle 4). For FY10-12, the Council reduced the funding in this project to reflect a one-year increase to the computer replacement cycle, from four to five years. At that time, the Council indicated its intent to return to a four-year replacement cycle in FY13, contingent on improved fiscal conditions, and programmed funding in FY13-16 consistent with that approach.

The County Executive recommends level funding for the Technology Modernization project across the six-year period in FY13-18, and states that this funding level assumes that MCPS will maintain the project on the currently approved five-year cycle (circle 5). The table below shows the Board's request compared to the Executive's recommendation.

	FY13	FY14	FY15	FY16	FY17	FY18	6-year total
BOE Rqst	21,847	25,456	26,805	26,358	23,997	25,277	149,740
CE Rec Red	-3,129	-6,738	-8,087	-7,640	-5,279	-6,559	-37,432
CE Rec Total	18,718	18,718	18,718	18,718	18,718	18,718	112,308

MCPS prepared a table on circles 6-7 that shows the breakdown of funding in the Board's request for FY13-14. The Board's request primarily consists of funds related to the replacement program, and resumes a four-year replacement cycle. It also supports 20.5 FTE to implement the program.

On circle 7 MCPS states that even if the system remained on a five-year cycle, the Executive's recommendation would leave a deficit in each fiscal year, beginning with a nearly $3 million deficit in FY13-14 combined.

The school system's response identifies two additional technology efforts that it intends to support through this project.

- The first (circle 8) is the installation of wireless networks in all schools. MCPS estimates that it will cost $5.4 million to complete this effort at the remaining 126 schools without these networks. MCPS further states that this effort is critical to support both current and future classroom technologies.
- The second is the continued expansion of Promethean Board interactive systems to elementary schools. MCPS anticipates dedicating future E-rate funds to continue to support these purchases.
- MCPS staff emphasizes that these two efforts are closely related in increasing schools' technology infrastructure and will form a critical foundation to support student access to curriculum.
- Council staff notes that the Board's request includes funding for the wireless network installation effort, but does not reflect projected E-rate dollars for the Promethean Board purchases.

Council staff is concerned that the Executive's recommendation may reduce this project below even the current level of effort, and would reduce the project's ability to support a five-year replacement cycle in conjunction with any other technology infrastructure priorities. While E-rate funds could make up some of the difference, at the current rate of $1.2-$1.4 million per year they would not sustain the program near the requested level.

In past years the Council has taken an approach to be generally consistent in funding replacement cycles across the County agencies. The County Government received a funding increase for its desktop modernization program in FY12 and is currently slated to receive a funding increase again in FY13. Council staff understands that these funding adjustments are intended to phase-in a return to a four-year cycle. The College received additional funding in FY11-12 following previous reductions. At this time Council staff understands that the Council is considering some funding for the College's replacement program above the Executive's FY13 recommendation and that the College has funds to carry over to support purchases in FY13.

Council staff also acknowledges that current revenue is at a premium as reflected in the Executive's recommendation for MCPS Technology Modernization, and that the Council still has a funding gap to close relative to its CIP reconciliation. While the Board's request is not unreasonable and is consistent with the approved assumptions for FY13-16, it may not be affordable in the current fiscal environment.

Council staff recommends the following approach for FY13-14:

- That the Committee consider restoring some of the Executive's reduction;
- That in determining the amount of current revenue available for this project the Committee assume that the school system will be able to add E-rate funds to the yearly project appropriation each year in FY13-14; and
- That the Committee not specify in FY13-14 whether the level of funding is associated with a specific replacement cycle or technology initiative. This will allow the school system to manage its competing technology infrastructure priorities in the next two years within all available funds.

At this time, Council staff recommends that the Committee consider the following funding:

- **Restore the full Board request by $3.13 million in FY13. To reach this level, assume that $1.3 million of FY13 E-rate funds will be available during the year, and at this time add $1.829 million in current revenue in FY13.**
- **Restore half of the Executive's reduction in each year FY14-18. Assume that in FY14 MCPS will be able to add FY14 E-rate funds to the appropriation.**

Council staff notes that this recommendation is subject to final CIP reconciliation on May 17. The table below shows the Council staff recommendation in comparison to the Board request and Executive recommendation. *It does not include projected E-rate dollars.*

	FY13	FY14	FY15	FY16	FY17	FY18	6 year total
BOE Rqst	21,847	25,456	26,805	26,358	23,997	25,277	149,740
CE Rec Red	-3,129	-6,738	-8,087	-7,640	-5,279	-6,559	-37,432
CE Rec Total	18,718	18,718	18,718	18,718	18,718	18,718	112,308
CS Rec Addtn	1,829	3,370	4,040	3,820	2,640	3,280	18,979
CS Rec Total	20,547	22,088	22,758	22,538	21,358	21,998	131,287

Council staff also recommends approval of the FY12 E-rate appropriation and a corresponding reduction of $1.3 million in current revenue in FY12. This will leave the total FY12 appropriation unchanged, and will require the school system to reprioritize technology expenditures across FY12-13.

II. FY13 COMPENSATION

1. Salary increases

The Board's budget identifies a total amount of $20.6 million in additional dollars over the FY12 base compensation level for increased employee compensation. The exact elements of this compensation increase are not fully identified. As of April 11, the Board and the employee associations state that they need to delay action on contract negotiations at this time due to uncertainty about the State budget (circle 9).

While the budget indicates an increase of $20.6 million for this purpose, the total budgeted expenditure for salary increases is $47 million. This total consists of the following two elements:

- The Board's budget states that employees will receive **step and longevity increases**, which range on average approximately 2-3% per employee and are an addition to the base salary going forward. **The total cost to fund step increases is $35 million.**

  MCPS identifies that of this total cost, $6.2 million is for longevity increases and $28.1 million is for step increases.

- The Board's budget also includes **$12 million as a placeholder** to "offset costs of future negotiated agreements with employee unions". There has been no comment to date as to how these funds might be allocated.

It is important to remember that of the 11 major appropriation categories, eight have funds for positions. Personnel dollars are thus spread out among the largest categories (except Category 12, Fixed Charges), and the marginal salary increase in any of these categories will be a relatively small amount of the category total. As a result, the Board has a great deal of latitude as to how to allocate personnel costs within categories.

Similarly, the Board is not required to finalize any element of its budget until after the Council takes final action on the appropriation resolution. **Thus, while the Board has identified this $47 million (or net $20.6 million) amount for salary increases at this point, the final outcome for employees could be higher or lower than what is stated at this time.**

The amount MCPS has currently set aside for compensation increases in FY13 represents 3.2 percent of total tax-supported payroll costs.

2. Lapse and Turnover Savings

The Board's FY13 operating budget request assumes a net increase of only $20.6 million for salary increases because it assumes that a $26.4 million surplus in FY12 salary costs would offset a portion of the FY13 cost of compensation increases. MCPS states the following about its recent experience in lapse and turnover savings:

- Overall, the school system sees more savings in turnover than in lapse because it often must use temporary or substitute dollars to fill position functions rather than hold positions totally unfilled.

- Turnover savings, which result when more expensive, senior employees are replaced by less expensive, newer employees, have been higher in recent years. MCPS reports a record number of retirements (over 500) in FY11, and may be on pace to see a high number again in FY12.

- MCPS states that the year-to-year lapse and turnover savings from FY12 to FY13 is a one-time correction that does represent budget savings going into FY13 but may not recur and cannot easily be predicted.

Council staff notes the following:

- **Savings in lapse and turnover or other personnel costs could be used toward any purpose and do not in and of themselves reduce the total expenditure for personnel.**

- **This one-time correction in personnel costs is a savings that helps the school system allocate funds toward part of the first year costs of step and longevity increases within a Maintenance of Effort (MOE) budget request. However, step and longevity increases add to the salary base going forward.**

- **MCPS does not predict that these lapse and turnover savings will recur on this scale. MCPS will not be able to fund future years' costs without either exceeding MOE or making reductions in the base budget to accommodate salary increases within future MOE levels.**

Council staff acknowledges that because negotiations are not complete this is a preliminary budget assumption at this time; nonetheless, it is important to note that the current structure of the MCPS budget in FY13 accommodates these salary increases within MOE. **The Committee may want to ask MCPS to comment on how it anticipates supporting the future costs of the step and longevity increases assumed in its budget.**

III. Employee Benefit Trust Funds

As recommended in the November 2011 Office of Legislative Oversight (OLO) report "A Review of Montgomery County Public Schools' Budget Category 12", the Council requested that the Board of Education provide a semi-annual report on key revenue and expenditure trends in Category 12, Fixed Charges, related to the school system's employee benefit trust funds. On April 4, Board President Brandman transmitted the first report to the Council (circles 10-30).

Below Council staff highlights certain key aspects of this report. **In sum, MCPS anticipates a low funded ratio for its pension fund and high fund balances in its group insurance funds. The Committee will want to understand from Board members and MCPS staff how these recent trends will affect budgeted and anticipated Category 12 expenditures in FY12 and FY13.**

1. Pension Fund

MCPS makes an annual fund contribution to pay for cost of: (1) the "core" pension benefit offered employees who do not participate in the State-run plan; and (2) the "supplemental" benefit for all permanent employees. **For FY13, MCPS must contribute $70.5 million to meet its required pension fund contribution. This amount is projected to increase to $81 million by FY15.** The cost of future pension fund contributions will depend on future Board of Education decisions regarding employee pay increases and workforce size.

The "funded ratio" of a pension plan is a term that describes the percentage of the plan's liabilities covered by the current actuarial value of the plan's assets. As of the end of FY11, the MCPS pension fund had a funded ratio of 70%. In other words, the MCPS pension fund currently holds 70 cents of assets for every dollar of liability. Among the four County agencies, MCPS currently has the lowest funded pension ratio, with the County Government the next lowest at 77%.

The report states (circle 11) that the Board does not currently have another funding goal to reach a specific ratio. To improve this ratio, MCPS would have to raise additional assets from employer contributions, employee contributions, and/or investment income. For example, to increase the funded ratio to 80% by FY18, MCPS would have to raise its annual pension fund contribution by an additional $7.5 million in each year from FY14 through FY18.

2. Active and Retiree Group Insurance Funds

MCPS maintains separate fund accounts for active and retired employees.

For active employees:

- MCPS ended FY11 with a fund balance of $21.6 million in its group insurance fund for active employees; this amount is 8.6% of expenditures.
- MCPS currently projects an FY12 year-end fund balance of $22.7 million or 8.7%, an increase of $1.1 million from FY11.
- MCPS notes that claims in FY12 are running below projections and there is a slight increase in fund revenue.
- For FY13, the Board's budget request includes an increase of $13.8 million in its employer contribution to the active employee group insurance fund.

For retired employees:

- MCPS ended FY11 with an \$8.8 million fund balance in its group insurance fund for retired employees; this amount is 12.2% of expenditures.
- MCPS currently projects an FY12 year-end fund balance of \$13.6 million or 17.5%, an increase of \$4.8 million from FY11.
- MCPS reports that a factor in the projected FY12 fund balance increase is that under-65 retiree enrollment has decreased by 9%. When retirees reach age 65, Medicare becomes their primary health plan and the MCPS plan becomes a supplement, reducing costs for MCPS.
- For FY13, the Board's budget request includes an increase of \$1.2 million in its employer contribution to the retired employee group insurance fund.

This report shows that both group insurance funds are anticipated to end FY12 with healthy and increased fund balances. County Government is also experiencing this trend, and includes in its FY13-18 Fiscal Projection for the group insurance fund a plan to draw down the fund reserves over two years.

The Committee may want to discuss the following issues with Board members and MCPS staff.

- ***Revised projection:*** The FY13 budget document was prepared in the fall of 2011, well before the most recent FY12 trend information on group insurance was available. Now that MCPS has the benefit of the FY12 claim information and fund balance projection, does it plan to revise its FY13 group insurance fund contributions?

- ***Fund balance:*** In FY12, MCPS reduced its employer contribution to the group insurance fund to meet the Council's reduced Category 12 appropriation. How does MCPS anticipate using the projected group insurance fund balance at this time? Does MCPS have a multi-year plan to reduce the fund balance to a lower percent of total expenditures?

- ***Pension fund:*** As noted above, the pension fund has a low funded ratio, while the group insurance funds have high fund balances at this time. Has the Board considered using any of the FY13 budgeted amount for the group insurance contribution to bolster pension fund assets?

IV. State Legislative Update

It is too soon for the Committee and Council to make a final recommendation on the MCPS FY13 operating budget because significant funding factors remain outstanding as a result of the inconclusive end to the General Assembly session. At this time, it appears there may be a special session in May to resolve budget issues; however, as of this writing a date has not been set. The Council will continue to monitor these developments carefully as they clearly have the potential for significant impact on the FY13 budget for the County as a whole and MCPS in particular. Below is a brief summary of two major outstanding funding issues related to MCPS.

1. Teacher Pensions

The General Assembly had reached a plan to shift a portion of the State's teacher retirement costs to local school boards; however, this plan did not pass before the Assembly adjourned. At this juncture it is unclear whether pension costs will shift in FY13 or if so, what form the shift would take.

The most recent conference committee plan called for a four-year phase-in of the normal costs only of teacher retirement, with the local board responsible for payment. This amount, approximately $27 million in FY13, would then be an added requirement for counties to fund above MOE for the phase-in period. Following the phase-in, the full amount of the shift, currently estimated at $44 million, would be rolled into MOE, increasing the per pupil base going forward.

2. "Doomsday" Budget Elements

If the General Assembly does not return or is otherwise unable to pass Budget Reconciliation and Financing Act (BRFA), a set of "doomsday" budget reductions will go into effect on July 1 for FY13 in order to balance the State budget. For Montgomery County, the bulk of these reductions would affect MCPS.

If the contingent budget reductions go into effect, MCPS would receive approximately $41 million less in State Aid than currently anticipated in the Board's request. These reductions consist of:

- Elimination of GCEI: -$32.7 million
- Reduce per pupil funding: -$8.3 million

There appears to be some question as to whether the reduced per pupil funding could go into effect as it may require additional statutory changes.

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Resolution No.:	
Introduced:	April 24, 2012
Adopted:	

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

By: County Council

SUBJECT: Special Appropriation to the FY12 Capital Budget and Amendment to the FY11-16 Capital Improvements Program
Montgomery County Public Schools
Technology Modernization (No. 036510)
Federal Education Rate (E-Rate) Program, $1,339,200

Background

1. Section 308 of the County Charter provides that a special appropriation is an appropriation which states that it is necessary to meet an unforeseen disaster or other emergency, or to act without delay in the public interest. Each special appropriation shall be approved by not less than six Councilmembers. The Council may approve a special appropriation at any time after public notice by news release. Each special appropriation shall specify the source of funds to finance it.

2. Section 302 of the County Charter provides that the Council may amend an approved capital improvements program at any time by an affirmative vote of six Councilmembers.

3. The Board of Education requested a special appropriation for the Montgomery County Public Schools' Technology Modernization FY12 capital project as follows:

Project Name	Project Number	Amount	Source of Funds
Tech Mod	036510	$1,339,200	Federal E-Rate Program
TOTAL		$1,339,200	Federal E-Rate Program

4. The Board of Education requested a supplemental request of $1,339,200 in E-Rate funds for the Technology Modernization Project. The E-Rate funds from the Federal Communication Commission's Schools and Libraries Program provide incentives for the use of technology in schools by providing rebates on Internet and telecommunication service costs. MCPS has been using these funds toward a lease/purchase agreement with Dell Marketing, LP to acquire Promethean Boards and learning/response systems for

secondary schools. MCPS is planning to use this supplemental request to complete their fourth and final payment for the interactive technology systems.

5. Notice of public hearing was given and public hearing was held.

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

Action

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

A special appropriation to the FY12 Capital Budget and an amendment to the FY11-16 Capital Improvements Program are approved for the Montgomery County Public Schools as follows and as shown on the attached project description form.

Project Name	Project Number	Amount	Source of Funds
Tech Mod	036510	$1,339,200	Federal E-Rate Program
TOTAL		$1,339,200	Federal E-Rate Program

This is a correct copy of Council action.

Linda M. Lauer, Clerk of the Council

Technology Modernization -- No. 036510

Category	Montgomery County Public Schools	Date Last Modified	June 09, 2011
Subcategory	Countywide	Required Adequate Public Facility	No
Administering Agency	MCPS	Relocation Impact	None
Planning Area	Countywide	Status	On-going

EXPENDITURE SCHEDULE ($000)

Cost Element	Total	Thru FY10	Rem. FY10	Total 6 Years	FY11	FY12	FY13	FY14	FY15	FY16	Beyond 6 Years
Planning, Design, and Supervision	216,755	60,407	18,897	137,451	18,878	18,178	21,847	25,313	26,393	26,842	0
Land	0	0	0	0	0	0	0	0	0	0	0
Site Improvements and Utilities	0	0	0	0	0	0	0	0	0	0	0
Construction	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0
Total	216,755	60,407	18,897	137,451	18,878	18,178	21,847	25,313	26,393	26,842	0

FUNDING SCHEDULE ($000)

Funding Source	Total	Thru FY10	Rem. FY10	Total 6 Years	FY11	FY12	FY13	FY14	FY15	FY16	Beyond 6 Years
Current Revenue: General	125,487	11,780	5,525	108,182	2,326	5,578	21,730	25,313	26,393	26,842	0
Current Revenue: Recordation Tax	83,941	48,627	11,572	23,742	13,052	10,573	117	0	0	0	0
Federal Aid	~~7,327~~ 8,666	0	1,800	~~5,527~~ 6866	3,500	~~2,027~~ 3366	0	0	0	0	0
Total	216,755	60,407	18,897	137,451	18,878	18,178	21,847	25,313	26,393	26,842	0

DESCRIPTION

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

An FY 2005 appropriation was approved to roll-out the implementation of the technology modernization program. This project will update schools' technology hardware, software, and network infrastructure on a four-year replacement cycle, with a 5:1 computer/student ratio. The County Council, in the adopted FY 2005-2010 CIP reduced the Board of Education's request for the outyears of the FY 2005-2010 CIP by $10.945 million. An FY 2006 appropriation and amendment to the FY 2005-2010 CIP was approved to continue the rollout plan. An FY 2007 appropriation was approved to continue this level of effort project. The expenditures for FY 2007 reflect three years of finance payments, as originally planned, in addition to the current year refreshment costs. The expenditures in the outyears represent the ongoing costs of a four-year refreshment cycle. An FY 2008 appropriation was approved to continue this project.

The Board of Education, in the Requested FY 2009 Capital Budget and FY 2009-2014 CIP, included additional funding for new initiatives for the Technology Modernization program. On May 22, 2008, the County Council approved an FY 2009 appropriation as requested by the Board of Education; however, the County Council reduced the expenditures earmarked for the Middle School Initiative program for FY 2010-2014. In FY 2009, MCPS purchased and installed interactive classroom technology systems in approximately 2/3 of all secondary classrooms. The total cost is projected at $13.3 million, financed over a four-year period ($3.4M from FY 2009-2012). The funding source for the initiative is anticipated to be Federal e-rate funds. The Federal e-rate funds programmed in this PDF consist of available unspent e-rate balance: $1.8M in FY 2010, $1.8M in FY 2011, and $327K in FY 2012. In addition, MCPS projects future e-rate funding of $1.6M each year (FY 2010-2012) that may be used to support the payment obligation pending receipt and appropriation. No county funds may be spent for the initiative payment obligation in FY 2010-2012 without prior Council approval.

This PDF reflects a decrease in the FY 2010 appropriation and FY 2010-2012 expenditures as requested by the Board of Education. The decrease in expenditures will temporarily extend the MCPS desktop replacement cycle from four to five years. The County Council will reconsider how to resume the four-year replacement cycle in a future CIP. An FY 2011 appropriation was approved; however, it was $1.011 million less than the Board of Education's request. The appropriation will continue the technology modernization project and return to a four-year replacement cycle starting in FY 2013; as well as fund one additional staff position for this project. During the County Council's reconciliation of the amended FY 2011-2016 CIP, the Board of Education's requested FY 2012 appropriation was reduced by $3.023 million due to a shortfall in Recordation Tax revenue.

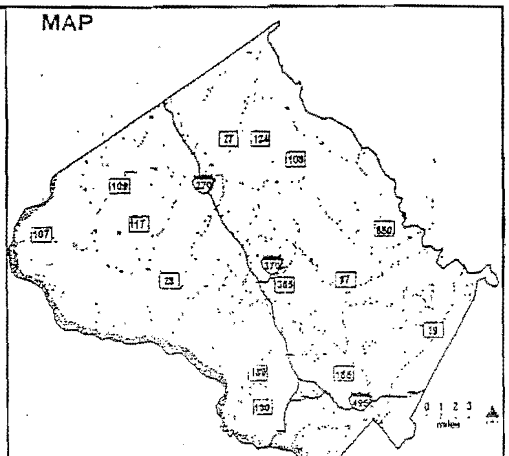
APPROPRIATION AND EXPENDITURE DATA

Date First Appropriation	FY03	($000)
First Cost Estimate Current Scope	FY00	0
Last FY's Cost Estimate		219,778
Appropriation Request	FY12	18,178
Supplemental Appropriation Request		~~0~~ 1,339
Transfer		0
Cumulative Appropriation		98,182
Expenditures / Encumbrances		84,043
Unencumbered Balance		14,139
Partial Closeout Thru	FY09	16,050
New Partial Closeout	FY10	0
Total Partial Closeout		16,050

COORDINATION

($000)	FY 11	FYs 12-16
Salaries and Wages:	1893	9465
Fringe Benefits:	807	4035
Workyears:	20.5	102.5

MAP



Board of Education Request

Technology Modernization -- No. 036510

Category	**Montgomery County Public Schools**	Date Last Modified	**November 22, 2011**
Subcategory	**Countywide**	Required Adequate Public Facility	**No**
Administering Agency	**MCPS**	Relocation Impact	**None**
Planning Area	**Countywide**	Status	**On-going**

EXPENDITURE SCHEDULE ($000)

Cost Element	Total	Thru FY11	Est. FY12	Total 6 Years	FY13	FY14	FY15	FY16	FY17	FY18	Beyond 6 Years
Planning, Design, and Supervision	266,100	98,182	18,178	149,740	21,847	25,456	26,805	26,358	23,997	25,277	0
Land	0	0	0	0	0	0	0	0	0	0	0
Site Improvements and Utilities	0	0	0	0	0	0	0	0	0	0	0
Construction	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0
Total	**266,100**	**98,182**	**18,178**	**149,740**	**21,847**	**25,456**	**26,805**	**26,358**	**23,997**	**25,277**	**0**

FUNDING SCHEDULE ($000)

Current Revenue: General	174,832	19,631	5,578	149,623	21,730	25,456	26,805	26,358	23,997	25,277	0
Federal Aid	7,327	5,300	2,027	0	0	0	0	0	0	0	0
Current Revenue: Recordation Tax	83,941	73,251	10,573	117	117	0	0	0	0	0	0
Total	**266,100**	**98,182**	**18,178**	**149,740**	**21,847**	**25,456**	**26,805**	**26,358**	**23,997**	**25,277**	**0**

DESCRIPTION

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

An FY 2005 appropriation was approved to roll-out the implementation of the technology modernization program. This project will update schools' technology hardware, software, and network infrastructure on a four-year replacement cycle, with a 5:1 computer/student ratio. The County Council, in the adopted FY 2005-2010 CIP reduced the Board of Education's request for the outyears of the FY 2005-2010 CIP by $10.945 million. An FY 2006 appropriation and amendment to the FY 2005-2010 CIP was approved to continue the rollout plan. An FY 2007 appropriation was approved to continue this level of effort project. The expenditures for FY 2007 reflect three years of finance payments, as originally planned, in addition to the current year refreshment costs. The expenditures in the outyears represent the ongoing costs of a four-year refreshment cycle. An FY 2008 appropriation was approved to continue this project.

The Board of Education, in the Requested FY 2009 Capital Budget and FY 2009-2014 CIP, included additional funding for new intiatives for the Technology Modernization program. On May 22, 2008, the County Council approved an FY 2009 appropriation as requested by the Board of Education; however, the County Council reduced the expenditures earmarked for the Middle School Initiative program for FY 2010-2014. In FY 2009, MCPS purchased and installed interactive classroom technology systems in approximately 2/3 of all secondary classrooms. The total cost is projected at $13.3 million, financed over a four-year period ($3.4M from FY 2009-2012). The funding source for the initiative is anticipated to be Federal e-rate funds. The Federal e-rate funds programmed in this PDF consist of available unspent e-rate balance: $1.8M in FY 2010, $1.8M in FY 2011, and $327K in FY 2012. In addition, MCPS projects future e-rate funding of $1.6M each year (FY 2010-2012) that may be used to support the payment obligation pending receipt and appropriation. No county funds may be spent for the initiative payment obligation in FY 2010-2012 without prior Council approval.

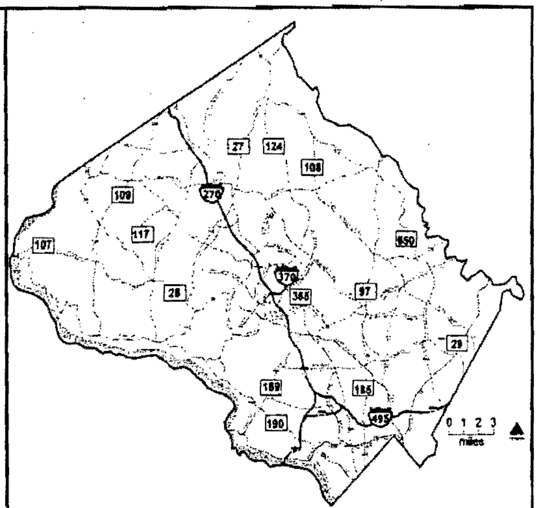
This PDF reflects a decrease in the FY 2010 appropriation and FY 2010-2012 expenditures as requested by the Board of Education. The decrease in expenditures will temporarily extend the MCPS desktop replacement cycle from four to five years. The County Council will reconsider how to resume the four-year replacement cycle in a future CIP. An FY 2011 appropriation was approved; however, it was $1.011 million less than the Board of Education's request. The appropriation will continue the technology modernization project and fund one additional staff position for this project. During the County Council's reconciliation of the amended FY 2011-2016 CIP, the Board of Education's requested FY 2012 appropriation was reduced by $3.023 million due to a shortfall in Recordation Tax revenue. An FY 2013 appropriation is requested to continue the technology modernization project and return to a four-year replacement cycle starting in FY 2013.

APPROPRIATION AND EXPENDITURE DATA

Date First Appropriation	FY03	($000)
First Cost Estimate Current Scope	FY00	0
Last FY's Cost Estimate		216,755
Appropriation Request	FY13	21,847
Appropriation Request Est.	FY14	25,456
Supplemental Appropriation Request		0
Transfer		0
Cumulative Appropriation		116,360
Expenditures / Encumbrances		99,105
Unencumbered Balance		17,255
Partial Closeout Thru	FY10	16,050
New Partial Closeout	FY11	0
Total Partial Closeout		16,050

COORDINATION

($000)	FY 13	FYs 14-18
Salaries and Wages:	1893	9465
Fringe Benefits:	807	4035
Workyears:	20.5	102.5



County Executive Recommendation

MCPS Affordability Reconciliation -- No. 056516

Category	**Montgomery County Public Schools**	Date Last Modified	**January 10, 2012**
Subcategory	**Miscellaneous Projects**	Required Adequate Public Facility	**No**
Administering Agency	**Public Schools**	Relocation Impact	**None.**
Planning Area	**Countywide**	Status	**On-going**

EXPENDITURE SCHEDULE ($000)

Cost Element	Total	Thru FY11	Est. FY12	Total 6 Years	FY13	FY14	FY15	FY16	FY17	FY18	Beyond 6 Years
Planning, Design, and Supervision	0	0	0	0	0	0	0	0	0	0	0
Land	0	0	0	0	0	0	0	0	0	0	0
Site Improvements and Utilities	0	0	0	0	0	0	0	0	0	0	0
Construction	0	0	0	0	0	0	0	0	0	0	0
Other	-57,645	0	0	-133,923	-6,873	-19,068	-50,131	-37,118	-17,130	-3,603	76,278
Total	**-57,645**	**0**	**0**	**-133,923**	**-6,873**	**-19,068**	**-50,131**	**-37,118**	**-17,130**	**-3,603**	**76,278**

FUNDING SCHEDULE ($000)

Current Revenue: General	-51,522	0	0	-51,522	-4,532	-6,733	-20,884	-7,653	-5,220	-6,500	0
Current Revenue: Recordation Tax	64,555	0	0	64,555	-2,094	-3,258	14,050	-438	27,354	28,941	0
G.O. Bonds	-129,297	0	7,335	-212,910	-1,186	-17,171	-49,455	-36,299	-59,619	-49,180	76,278
Schools Impact Tax	58,619	0	-7,335	65,954	939	8,094	6,158	7,272	20,355	23,136	0
Total	**-57,645**	**0**	**0**	**-133,923**	**-6,873**	**-19,068**	**-50,131**	**-37,118**	**-17,130**	**-3,603**	**76,278**

DESCRIPTION

This project reconciles the Board of Education request with the Executive's recommendation.

The Executive's priority of educational excellence has resulted in his recommending maintaining 99.7 percent of the amended FY11-16 capital program in the next six-year period. Fiscal constraints lead the Executive to adjust the annual amounts to be affordable within the CIP. The Executive recommends staying within the Spending Affordability Guidelines approved by the County Council in October 2011. The Executive reached the FY13-18 funding level by recommending a two year reopening delay of Richard Montgomery Elementary School #5 to accommodate the relocation of the Children's Resource Center and avoid $3.45 million in temporary relocation cost as well as a one year delay for two current high school modernizations, and future modernizations for two middle schools and two high schools. The Executive also recommends deleting the Transportation Depot project until we can study alternative options for bus depot operations to ensure that expensive investments in stand alone depots are warranted; maintaining the Technology Modernization project on the currently approved five year cycle; maintaining the Facility Planning project funding at the currently approved FY12 level; and using current revenue funds currently allocated in the Technology Modernization project to help fund the Relocatable Classrooms project's FY13 requested increase.

FISCAL NOTE

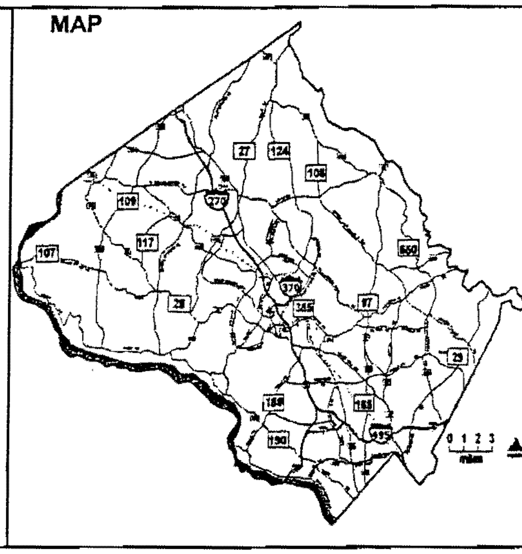
FY12 adjustment figures reflect a FY12 amendment to switch school impact tax funds to general obligation bonds in light of the expected impact of Bill 26-11.

APPROPRIATION AND EXPENDITURE DATA

Date First Appropriation	FY01	($000)
First Cost Estimate Current Scope	FY01	0
Last FY's Cost Estimate		0
Appropriation Request	FY13	-4,532
Appropriation Request Est.	FY14	-6,733
Supplemental Appropriation Request		0
Transfer		0
Cumulative Appropriation		0
Expenditures / Encumbrances		0
Unencumbered Balance		0
Partial Closeout Thru	FY10	0
New Partial Closeout	FY11	0
Total Partial Closeout		0

COORDINATION

MAP



Recommended

Question #1:

Please provide a breakout of the anticipated expenditures in the BOE request for FY13-14, including the replacement cycle payments and any multi-year initiatives or efforts.

Response:

The total FY 2013 Tech Mod funding request of $21.8 million and $25.5 million for FY 2014, fall into three categories:

FUNDING CATEGORIES	FY 2013	FY 2014
Number of schools	81	48
Number of computers	19,088	9,199
Funding required to pay for computers and printers purchased for schools in prior years, software licensing fees, and telecommunication networking hardware to connect schools to the network and the Internet	$12.1 million	$19.1 million
• Annual finance payments for computers and printers purchased in previous fiscal years and paid over four years	$7.5 million	$14.3 million
• Software licensing fees for instructional, productivity, and operating system software	$1.2 million	$1.3 million
• Telecommunications networking refreshment to provide connectivity of MCPS sites and access to enterprise applications, internet-based phones, and the Web	$0.5 million	$0.5 million
• Staff to plan, implement, and support the Tech Mod program	$2.9 million	$3.0 million
Funding required to purchase new computers, printers, and new software for the schools scheduled for the FY 2013 Tech Mod refreshment	$9.1 million	$5.7 million
• First-year finance payments for computers, servers, projection devices, printers, and network infrastructure equipment	$6.9 million*	$3.3 million
• Instructional software, such as *MSOffice Suite, Math Type, Geometers Sketchpad, TI Smartview, Kidspiration/ Inspiration, Adobe, and other titles,* and the purchase of updated web-base versions of selected software titles	$0.7 million	$0.7 million
• Supplies, materials, and services, such as cables, surge protectors, server installation, hand-held scanners for media centers, and temporary part-time staff to repair and upgrade usable equipment, and disposal of old equipment from schools	$1.5 million	$1.7 million

Funding to refurbish five and six-year-old computers out of warranty for schools whose refreshment schedule was extended to five years beginning in FY 2010	$0.6 million	$0.6 million

***The county executive proposes reducing funding by $9.561 million in FY 2013 and FY 2014 combined. And, if we remain on a 5 year cycle, $6.914 would be reduced, still leaving a deficit of $2.953 million. Please remember that FY 2015 through FY 2018 remains highly problematic in terms of the massive cuts that are assumed in the county executive's recommendation. In FY 2018 alone there will be a $4 million deficit.**

Question #2:

How does the BOE anticipate using future e-rate funds?

Response:

Future E-rate funds are projected to be used to provide elementary schools with the similar Promethean interactive technology that has been available across all secondary schools. Minimally, the objective would be to ensure that the Promethean interactive technologies are implemented in at least two-thirds (2/3) of all elementary school classrooms—mirroring the initial secondary implementation.

These interactive technologies are essentially the classroom portal to the world—video conferencing with experts and students in the classroom, engaging in interactive simulations that support STEM fields, participating in virtual fieldtrips to museums around the world, and bringing multimedia presentations and student-centered learning experiences into the classroom.

Question #3:

The BOE request for FY13 assumes resumption of a 4 year replacement cycle, while the County Executive's recommendation assumes continuation of a 5 year replacement cycle. Please show the funding adjustment for FY13-14 that would be necessary to be consistent with the CE recommendation.

Response:

Please see note below table in response to Question #1.

Question #4:

In the February Committee discussion of the e-rate appropriation, MCPS indicated that a corresponding reduction in current revenue would delay and reduce installation of wireless networks at elementary schools. Please provide additional information about this initiative, including the longer term timeframe and plans for completing the work.

Response:

The ability to teach and learn in mobile, wireless networked learning environments is a key strategy in the district's ongoing efforts to enable staff and student access to content and curriculum that are either already digital or rapidly moving to digital media. Portable and mobile technologies give students better access to their teachers and classmates, enables greater differentiation to meet student learning outcomes, and supports teachers in implementing pedagogical strategies that empower student-centered environments in which technology enables students to be collaborative, self-directed learning leaders.

Although all MCPS middle schools had wireless networks installed to support middle school improvement efforts, currently only six of our comprehensive high schools and 30 elementary schools have wireless networks installed. Implementing this needed learning and technology infrastructure across the remaining 126 schools is estimated to cost $5.4 million. The $1.3 million reduction scuttled plans to move up plans to install wireless networks in 23 high impact elementary schools in FY 2012 (enabling the district to leverage substantial discounts available through the E-rate program for these qualifying schools). Without this effort, these 23 schools will be delayed until the year they are scheduled to receive wireless as part of the Technology Modernization (Tech Mod) project in FY 2015. Because of the critical link between building this wireless network infrastructure and maintaining a relevant and competitive instructional program, funding was included in the Board's request that would enable MCPS to complete this build out through FY 2013.

Update

April 11, 2012

As you have no doubt heard, the failure of the Maryland General Assembly late Monday evening, April 9, 2012, to finish the work on all of the bills necessary to complete the state budget and avoid a drastic cut in state aid to education has created uncertainty in the county budget process. There is a serious risk of a reduction of more than $40 million in state aid to Montgomery County Public Schools (MCPS). We are hopeful that Governor Martin O'Malley will quickly reconvene the Maryland General Assembly for a special session to complete the budget process that was started more than two months ago.

The Board of Education's $2.13 billion budget request for Fiscal 2013 includes funding for salary increases within the rebased Maintenance of Effort (MOE) budget approved by the Board in February 2012 and recommended by the county executive last month. MOE, which requires the county to spend at least the same amount per student next year as it does this year, increases the budget by $22 million due to enrollment increases. MCPS also expected $28 million of additional state aide. Montgomery County Executive Isiah Leggett has recommended full funding of the Board's budget based on the projected revenue.

The Montgomery County Board of Education and the three employee associations—the Montgomery County Education Association (MCEA), the Service Employees International Union (SEIU) Local 500, and the Montgomery County Association of Administrators and Principals (MCAAP)—have been engaged in contract negotiations for the past five months. The uncertainty of the state aid amount makes it necessary to delay action at this time. The Board of Education and the employee associations are committed to salary increases for our employees next year. MCPS employees have not received cost-of-living adjustments for the past three years and have not received their scheduled step increases or longevity increments for the past two years. There is agreement that we need to recognize our employees for their contributions to our students each and every day. We believe that this is the year to provide some stability for our employees, but we need to have greater clarity about the state budget.

We urge the Maryland General Assembly to move forward as quickly as possible to resolve the budget process, in the interest of our students and our staff. We encourage all employees to contact the Governor (http://www.governor.maryland.gov/mail/), the Senate president (thomas.v.mike.miller@senate.state.md.us) and the Speaker of the House (michael.busch@house.state.md.us) to urge a special session to be convened to complete the state budget.

President, Montgomery County Education Association

President, Montgomery County Association of Administrators and Principals

President, Service Employees International Union Local 500

President, Montgomery County Board of Education

Superintendent of Schools

SCHOOLS & ED

EHC
CC
SBF
LL
KL
OLO

MONTGOMERY COUNTY BOARD OF EDUCATION

850 Hungerford Drive ♦ Rockville, Maryland 20850

April 4, 2012

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

067643

RECEIVED
MONTGOMERY COUNTY COUNCIL
2012 APR -5

Dear Mr. Berliner:

As requested in your memorandum of January 18, 2012, this letter provides the information regarding State Expenditure Category 12, an area continually monitored by the Board's Fiscal Management Committee. I look forward to working with you, other County Council members, Board of Education members, and the superintendent of schools to address the fiscal challenges we face.

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

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

FY 2013*	$70.5 million	5.42 percent of payroll
FY 2014	$77.0 million	5.81 percent of payroll
FY 2015	$81.0 million	6.02 percent of payroll
FY 2016	$80.0 million	5.85 percent of payroll
FY 2017	$79.8 million	5.69 percent of payroll
FY 2018	$81.1 million	5.64 percent of payroll

**FY 2013 provided as a point of reference*

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

The calculation of the annual employer contribution above is based on actuarial work performed by the Montgomery County Public Schools (MCPS) actuary, Mercer, and submitted to Mrs. Susanne G. DeGraba, chief financial officer, on February 15, 2012 (Attachment A). An addendum was submitted by Mercer (Attachment B) that incorporates the updated market value of assets as of February 14, 2012. The actuary's estimate of the percentage of salary that is required to be contributed each year is applied to the anticipated salaries to be paid from the MCPS operating budget. The percentage contribution is based on actuarial assumptions as follows:

1. <u>Salary Adjustments</u>: Aggregate salaries for continuing employees will increase one percent overall over the next three years, reflecting the current economic realities, returning to two percent after three years.

10

2. Changes in Workforce Size: The number of employees will increase by one percent each year, with salaries adjusted to .57 percent to reflect the lower salaries paid to new employees.

3. Investment Performance: MCPS will achieve its actuarial assumed rate of return on its pension fund of 7.5 percent in all future years. Pension fund investment performance is included through February 14, 2012.

4. Plan Modifications: The pension plan changes effective July 1, 2011, are amortized over a 30-year closed period, the same method used to incorporate the impact of the July 1, 2006, changes.

5. Actuarial Assumptions: Current assumptions of mortality, age at retirement, marital status, and payment option selected will remain the same.

Staff applied the percentages supplied by the actuary to the Fiscal Year (FY) 2013 Board of Education-adopted budget request to calculate the amount of the future required pension contributions.

3. A written summary of the Board's current strategy to achieve a desired pension funding level ("funded ratio") and the short- and long-term effects of this strategy on the Category 12 budget.

On February 17, 2012, the MCPS actuary, Mercer, provided a letter (Attachment C) to Mrs. DeGraba about the funded ratio of the MCPS Employees Retirement and Pension Systems. The letter describes the actuarial methodology used to reach 100 percent funding. However, it states that "in the absence of plan changes, assumption changes, or future actuarial gains/losses, the Unfunded Actuarial Accrued Liability will never reach zero" because of the re-amortization process. It is important to note that MCPS continues to fund 100 percent of the actuarially determined contribution.

The Board of Education, the superintendent of schools, and MCPS staff have been working with our actuary to identify strategies that focus on improving the funding level. The actuary letter outlines possible strategies. Strategies that have already been implemented include the following:

- Reduced retiree benefits for newly hired employees as of July 1, 2011.
- Reduced the maximum cost-of-living increases on benefits earned after July 1, 2011.
- Maintaining the contribution level even when projections indicate a reduced percentage.

The Board of Education currently does not have another funding goal to reach a specific funded ratio within a certain period of time. However, the Fiscal Management Committee continues to evaluate possible options. If the Board decided on a funded ratio goal of 80 or 90 percent, the following strategies could be considered:

- Making additional contributions when the funded ratio falls below a certain percentage of the obligation.

- Shortening the amortization period when the funded ratio falls below a certain percentage of the obligation.
- Setting policy to not reduce the contribution level in the future when the funding ratio is below a certain percentage of the obligation, even when the projections calculate a reduced percentage.

There are a number of challenges with any of these strategies. As indicated in the response to #1 above, the operating budget is projected to increase by $11.5 million over the next five years based on all of the current assumptions and methodology. In addition, the legislature is considering shifting more than $40 million of state pension costs to MCPS. These increases, along with other financial pressures, will make it difficult to contribute more to the pension each year. If the decision was made to increase the funded ratio to 80 percent by 2018, an additional $7.5 million would have to be contributed each year for FY 2014 through FY 2018.

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

The comparison is attached for active employees (Attachment D) and retirees (Attachment E).

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

These figures are based on revenues and expenses as of February 29, 2012.

Active employees		
	Beginning fund balance	$21.6 million
	Anticipated change to fund balance	1.1 million
	Projected ending fund balance	$22.7 million
Retirees		
	Beginning fund balance	$ 8.8 million
	Anticipated change to fund balance	4.8 million
	Projected ending fund balance	$13.6 million

The active fund balance is projected to increase slightly, by only $1.1 million. It was expected that the fund balance would be reduced by several million dollars, but claims are running below projections and there is a slight increase in revenue.

The projected retiree fund balance increase is lower than expected because revenues are lower. While there has been a 2 percent increase in the number of retirees, there has been a decrease in the under-65 retiree enrollment of approximately 9 percent, which has reduced claims. When retirees reach age 65, Medicare becomes their primary health plan and the MCPS plan becomes a supplement, reducing MCPS claims exposure.

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

Sincerely,

Shirley Brandman
President

SB:sgd

Copy to:
Members of the County Council
Members of the Board of Education
Dr. Starr
Mr. Bowers
Mrs. DeGraba
Mr. Ikheloa

Attachment A

Douglas L. Rowe, FSA, MAAA, EA
Principal

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douglas.rowe@mercer.com
www.mercer.com

MERCER

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

February 15, 2012

Subject: Six-Year Projection of Board Contributions to MCPS's Pension Plans

Dear Sue:

We estimated Board contributions to the Montgomery County Public Schools Employees' Retirement and Pension Systems (the "Plan") for the next six years under the investment return/contribution assumptions used for the July 1, 2011 valuation. As a reminder, this assumes assets will earn 7.5% *gross* (before investment expenses are subtracted). The actual contribution percentage will vary and may vary significantly from the results of this projection due to actuarial gains/losses and demographic changes.

The results are summarized in the table below.

Valuation Date	Fiscal Year (FY) Ending	Board Contribution as % of Payroll	% Funded AVA Basis	% Funded MVA Basis
July 1, 2011	June 30, 2013	**5.42**	70.1	68.5
July 1, 2012	June 30, 2014	**5.85**	67.4	64.7
July 1, 2013	June 30, 2015	**6.15**	66.7	66.6
July 1, 2014	June 30, 2016	**6.05**	69.5	68.7
July 1, 2015	June 30, 2017	**5.95**	71.9	71.0
July 1, 2016	June 30, 2018	**5.96**	73.0	73.0
July 1, 2017	June 30, 2019	**5.87**	74.9	74.9

The contribution increases as a percentage of payroll through FY2015 are due to past asset losses (including those from July 1, 2011 to December 31, 2011) being recognized in the actuarial value of assets. As an offset to the contribution increases due to these losses, the contribution savings are increasing over time as more and more participants are covered by the new plan features for new hires described in the July 1, 2011 actuarial valuation report.

MERCER

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

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

*The valuation resulted in a 4.37% Board contribution rate, but MCPS continued with the same contribution rate as the previous valuation to avoid a larger increase from fiscal year 2010 to fiscal year 2011.
+ Beginning with the July 1, 2010 valuation report, the contribution was increased with interest from July 1 to October 1 based on expected timing of the actual contribution. The FY2012 Board contribution was later revised to 5.12%, as described in our May 13, 2011 letter, to reflect the plan changes effective July 1, 2011. Prior to reflecting the plan changes, the Board contribution would have been 5.57% of pay.

The last half of the 1990s was characterized by high asset returns, allowing a drop in the Board contributions. The challenging market environment during 2001–2003 caused Board contributions to increase. The plan amendment associated with House Bill 1737 caused the spike in Board contribution for the fiscal year ending June 30, 2007. All increases in cost sharing from the amendment (i.e. phased increase in employee contributions) were reflected fully in the contribution for the fiscal year ending June 30, 2009. MCPS's favorable returns on assets during 2004-2007 helped to lower contributions in FY2008 & 2009. However, the

FY2008-09 investment losses reversed these gains, and will cause higher future contributions as the asset losses are reflected in the smoothed asset value.

There has been a great deal of volatility in the contribution rate in the past, and the causes of this volatility will continue into the future. One of the main causes of this volatility is the asset returns the fund generates. To calculate contributions, MCPS uses an actuarial value of assets which smoothes market returns over a 5-year period, but even with this smoothing technique, contributions and funded ratios can be volatile. The following table illustrates a distribution of financial outcomes over the course of a one-year time period including the potential change in the plan's funded status and the corresponding impact on the contribution required for the fiscal year ending in 2014 assuming that all actuarial assumptions are met. Please note that at the 50th percentile the Board contribution is lower than the corresponding contribution in the 6-year projection table above because it incorporates an expected 7.50% investment return, while the 6-year projection incorporates actual unfavorable investment performance through December 31, 2011.

Fiscal Year (FY) Ending	Percentile	Board Contribution as % of Payroll	% Funded AVA Basis	% Funded MVA Basis
June 30, 2014	5th	**6.05**	65.6	55.4
June 30, 2014	10th	**5.98**	66.2	58.7
June 30, 2014	25th	**5.86**	67.3	64.2
June 30, 2014	50th	**5.73**	68.5	70.3
June 30, 2014	75th	**5.60**	69.8	76.4
June 30, 2014	90th	**5.49**	70.9	82.0
June 30, 2014	95th	**5.42**	71.5	85.3

The following statement can be used to interpret the first row of this chart: there is a 5% chance (or 1 chance in 20) that asset returns will be bad enough to result in a funded status of 65.6% *or lower*, and a Board contribution of 6.05% of payroll *or higher*. Similarly, there is a possibility that higher than expected returns will actually decrease the future board contributions needed to fund the plan. These percentages assume a normal distribution of returns around the mean. There is a school of thought that a normal distribution understates the portion of returns in the tails (i.e. below 10% or above 90%) of the curve.

Assumptions and Methods for Contribution Projection

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

- A 7.5% annual return on the market value of assets (gross) from the actual December 31, 2011 assets to June 30, 2012 and all future years. Reflecting the updated asset amount as of December 31, 2011 results in an $88 million loss compared to the 7.5% assumption

- Payroll and employee contributions for the current number of active participants are assumed to increase by 1.00% for three years after 2012 to reflect lower across the board increases. After three years, we assume that payroll will return to an ultimate rate of 2% annual increases.

- Based on guidance from MCPS, the active population is assumed to grow at 1% per year. In order to incorporate this guidance into the projections, we have made adjustments to the rate at which normal cost and total payroll will increase. The payroll is assumed to grow with an additional annual factor that takes into account the lower compensation typically paid to new hires compared to the average for the population. Since the average pay for participants with less than or equal to one year of service was 57% of the average pay for all participants, payroll was assumed to grow by an additional 0.57% each year instead of 1.00%. Similarly, the normal cost for new participants is generally lower than the normal cost of an average participant. We assumed that the normal cost increased proportionally to the normal cost of participants as if they were in the "new plan" who had less than or equal to one year of service in the 2011 valuation. Since the average normal cost for participants with less than or equal to one year of service as of July 1, 2011 is 41% the average normal cost for the whole plan, normal cost was assumed to grow at by an additional 0.41% for determining the FY 2014 contribution.

- Normal cost for benefits as percent of payroll is assumed to increase by 1% per year in order to reflect the aging of MCPS' workforce given the current economic environment. This results in a normal cost of 3.61% of payroll for the FY2014 valuation (before the 0.41% load discussed in the bullet above). Normal cost is the value of benefits accrued during the year, and is one component of the board's contribution rate after being adjusted for employee contributions.

- Total expenses are assumed to be 0.70% of beginning of year market value of assets

- Benefit payments increase at a constant rate of 5.63% per year, which is the average rate of increase from 2008–2011.

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- We amortize unrecognized gains and losses over an open 15-year period. The amount of the amortization is increasing over the next 2 years due to the smoothing of the large asset losses in FY2009.

- The results of the plan change effective June 30, 2011 was amortized over a closed 30 year period, which is the same as the method used to amortize the plan change made in 2006.

- We assumed that MCPS will contribute the policy contribution from the valuation each year, which is the amount required to fund the normal cost and amortize the unfunded actuarial accrued liability.

- Benefit payments, employee contributions and expenses are assumed to occur at the middle of each year, and employer contributions are assumed to occur 3 months into each year.

- We assumed there will be no other gains or losses other than investment (due solely to recognition of past asset losses), pay and retiree COLAs. In practice, it is quite likely there will be gains or losses due to future asset performance, pay increases, COLAs and demographics.

- For the contribution volatility exhibit, we have relied on portfolio volatility from expected based on Mercer's Capital Market Outlook on a one-year time horizon.

- In order to incorporate the phase-in of the savings from the July 1, 2011 plan change, we first calculated the estimate ultimate savings of the plan change. We calculated the Normal Cost (NC) as if all of the current EPS participants had always been employed under the new plan and compared that to the NC of the same population assuming they had always been employed under the current accrual rate and contribution environment.

- With the ultimate impact of the plan change calculated, the phase-in of savings in the first year is calculated as the percent reduction in NC if all participants with less than or equal to 1 year of service were replaced with similar participants under the new plan. This percentage reduction was applied to the NC previously calculated for the July 1, 2011 actuarial valuation report. The process of using current, short service employees as proxies for future hires was repeated for participants with less than or equal to 2, 3, 4, 5, and 6 years of service for the 2013-2017 valuations accordingly. Furthermore, because of the below normal turnover experienced over the past few years, the reduction factor was amplified by assuming that the future turnover would be identical to the average experience for FY 2006-2008.

- Unless otherwise noted, we used the same assumptions and plan provisions as for the 2011 valuation. We assumed there will be no changes to the valuation assumptions or provisions in the future.

Important Notices

Mercer has prepared this analysis exclusively for the Montgomery County Public Schools (MCPS); it may not be relied upon by any other party. Mercer is not responsible for reliance upon this letter by any other party.

The only purpose of the letter is to provide an idea of the possible pattern of future contribution rates and funded ratio changes. The letter may not be used for any other purpose; Mercer is not responsible for the consequences of any unauthorized use.

Decisions about benefit changes, granting new benefits, investment policy, funding policy, benefit security and/or benefit-related issues should not be made on the basis of an analysis using a single set of assumptions, but only after careful consideration of alternative economic, financial, demographic and social factors, including financial scenarios that assume sustained investment losses.

MCPS is solely responsible for selecting the plan's investment policies, asset allocations and individual investments. Mercer's actuaries have not provided any investment advice to MCPS.

This letter includes or is derived from projections of future funding and/or accounting costs and/or benefit related results. To prepare these projections or results, various actuarial assumptions, as described in this letter and the 2011 actuarial valuation reports were used to project a limited number of scenarios from a range of possibilities. However, the future is uncertain, and the plan's actual experience will likely differ from the assumptions utilized and the scenarios presented; these differences may be significant or material. In addition, different assumptions or scenarios may also be within the reasonable range and results based on those assumptions would be different. This letter has been created for a limited purpose, is presented at a particular point in time and should not be viewed as a prediction of the plan's future financial condition. To prepare the results shown in this letter, various actuarial methods, as described in this letter and the 2011 actuarial valuation report were used.

Because modeling all aspects of a situation is not possible or practical, we use summary information, estimates, or simplifications of calculations to facilitate the modeling of future events in an efficient and cost-effective manner. We also exclude factors or data that are immaterial in our judgment. Use of such simplifying techniques does not, in our judgment, affect the reasonableness of projected valuation results for the plan.

To prepare this analysis, actuarial assumptions as described herein and in the July 1, 2011 actuarial valuation report are used in a forward looking financial and demographic model to present a single scenario from a wide range of possibilities. The results based on that single scenario are included in this letter. The future is uncertain and the plans' actual experience will differ from the assumptions used; these differences may be significant or material because these results are very sensitive to the assumptions made and, in some cases, to the interaction between the assumptions.

Different assumptions or scenarios within the range of possibilities may also be reasonable and results based on those assumptions would be different. As a result of the uncertainty inherent in a forward looking projection over a very long period of time, no one projection is "correct" and many alternative projections of the future could also be regarded as reasonable. Two different actuaries could, quite reasonably, arrive at different results based on the same data and different views of the future. Due to the limited scope of Mercer's assignment, Mercer will not perform or present an analysis of the potential range of future possibilities and scenarios unless requested. At MCPS's request, Mercer is available to determine the cost of a range of scenarios.

Actuarial assumptions may also be changed from one valuation to the next because of changes in mandated requirements, plan experience, changes in expectations about the future and other factors. A change in assumptions is not an indication that prior assumptions were unreasonable when made.

The calculation of actuarial liabilities for valuation purposes is based on a current estimate of future benefit payments. The calculation includes a computation of the "present value" of those estimated future benefit payments using an assumed discount rate; the higher the discount rate assumption, the lower the estimated liability will be. For purposes of estimating the liabilities (future and accrued) in this letter, you selected an assumption based on the expected long term rate of return on plan investments. Using a lower discount rate assumption, such as a rate based on long-term bond yields, could substantially increase the estimated present value of future and accrued liabilities, thus increasing the savings estimated in this letter, but also increasing the cost of the remaining benefits.

Because analyses are a snapshot in time and are based on estimates and assumptions that are not precise and will differ from actual experience, contribution calculations are similarly imprecise. There is no actuarially "correct" level of contributions for a particular plan year.

Valuations do not affect the ultimate cost of the Plan, only the timing of contributions and/or expense recognition into the Plan. Plan funding occurs over time. Contributions not made one year, for whatever reason, including errors, remain the responsibility of the plan sponsor and can be made in later years. If the contribution levels over a period of years are lower or higher than necessary, it is normal and expected practice for adjustments to be made to future contribution levels to take account of this with a view to funding the plan over time.

Data, computer coding, and mathematical errors are possible in the preparation of an analysis involving complex computer programming, thousands of calculations and data inputs, and limited time to complete the analysis. Errors in an analysis discovered after its preparation may be corrected by amendment to the analysis letter.

Assumptions used are based on the last experience study, as adopted by the Board. MCPS is responsible for selecting the plan's funding policy, actuarial valuation methods, asset valuation methods, and assumptions. The policies, methods and assumptions used in this analysis are those that have been so prescribed and are described in the July 1, 2010 valuation report. MCPS is solely responsible for communicating to Mercer any changes required thereto.

To prepare this analysis, Mercer used and relied on financial data and participant data supplied by MCPS and summarized in the July 1, 2011 actuarial valuation report. Mercer also included an updated trust asset value of $990 million provided by Jon Grabel at January 1, 2012. You are responsible for ensuring that such participant data provides an accurate description of all persons who are participants under the terms of the Plan or otherwise entitled as of the date of the analysis that is sufficiently comprehensive and accurate for purposes of this analysis. Although Mercer has reviewed the data in accordance with Actuarial Standards of Practice No. 23, Mercer has not verified or audited any of the data or information provided.

Mercer has also used and relied on the plan documents, including amendments, and interpretations of plan provisions, supplied by MCPS and will assume for purposes of the analysis that copies of any official plan document, including all amendments and collective bargaining agreements, as well as any interpretations of any such document, have been provided to Mercer along with a written summary of any other substantive commitments. MCPS is solely responsible for the validity, accuracy and comprehensiveness of this information. If the data or plan provisions supplied are not accurate and complete, the analysis results may differ significantly from the results that would be obtained with accurate and complete information; this may require a later revision of the analysis. Moreover, plan documents may be susceptible to different interpretations, each of which could be reasonable, and that the different interpretations could lead to different valuation results.

MCPS should notify Mercer promptly after receipt of this letter if MCPS disagrees with anything contained in the report or is aware of any information that would affect the results of the report that has not been communicated to Mercer or incorporated therein. The report will be deemed final and acceptable to MCPS unless MCPS promptly provides such notice to Mercer.

The information contained in this document (including any attachments) is not intended by Mercer to be used, and it cannot be used, for the purpose of avoiding penalties under the Internal Revenue Code that may be imposed on the taxpayer.

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Professional Qualifications

We are available to answer any questions on the material contained in the report, or to provide explanations or further details as may be appropriate. The undersigned credentialed actuaries meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report. We are not aware of any direct or material indirect financial interest or relationship, including investments or other services that could create a conflict of interest, that would impair the objectivity of our work. Please call Doug Rowe at 410 347 2806 or Colin Bracis at 202 331 5294 if you have any questions or concerns regarding the projections.

Sincerely,

Douglas L. Rowe

Douglas L. Rowe, FSA, MAAA, EA

Colin Bracis

Colin Bracis, ASA, EA, MAAA

Copy:
Jonathan Grabel, MCPS
Matt Fishel, Mercer

Enclosure

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MERCER

Addendum to the February 15, 2012 "Six-Year Projection of Board Contributions to MCPS's Pension Plans" Letter

As you requested, we have updated the projected Board contributions and funded ratios to the Montgomery County Public Schools Employees' Retirement and Pension Systems (the "Plan") for the next six years to incorporate the updated market value of assets of $1,040 million as of February 14, 2012 provided by Jon Grabel.

The results are summarized in the table below.

Valuation Date	Fiscal Year (FY) Ending	Board Contribution as % of Payroll	% Funded AVA Basis	% Funded MVA Basis
July 1, 2011	June 30, 2013	**5.42**	70.1	68.5
July 1, 2012	June 30, 2014	**5.81**	68.0	67.7
July 1, 2013	June 30, 2015	**6.02**	68.1	69.7
July 1, 2014	June 30, 2016	**5.85**	71.5	71.8
July 1, 2015	June 30, 2017	**5.69**	74.4	74.0
July 1, 2016	June 30, 2018	**5.64**	75.9	75.9
July 1, 2017	June 30, 2019	**5.55**	77.6	77.6

Data, assumptions, methods, and plan provisions utilized in the above calculations are detailed in the February 15, 2012 letter.

Please also refer to the Important Notices outlined in the February 15, 2012 letter.

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Attachment C

Douglas L. Rowe, FSA, MAAA, EA
Principal

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Via Electronic Mail
Susanne G. DeGraba
Chief Financial Officer
Montgomery County Public Schools
850 Hungerford Drive
Rockville, MD 20850

February 17, 2012

Subject: Funded ratio of the Employees' Retirement and Pension Systems

Dear Sue:

The purpose of this letter is to respond to your question about ways to improve the funded ratio of the Employees' Retirement and Pension Systems. We will leave out most of the theory and just cover the options themselves for improving the plan's funded ratio. If you want more background or theory, please let us know. Some of the options may not be practical now or anytime soon, but we'll mention them anyway for the sake of comprehensiveness.

You've probably seen the following equation used to explain the ultimate cost of retirement programs.

Contributions (employer and employee) + investment earnings = Benefits + expenses

The same four elements control your funded ratio, but with a few twists.

For example, MCPS already contributes each year to cover plan expenses. So the only way that reducing plan expenses would help to improve the funded ratio is if you continued to contribute the higher amount even after reducing expenses.

Lower benefits reduce liabilities and, everything else being equal, improve the funded ratio. Lower benefits can come from plan amendments, such as last year's change or lower pay as your plan has experienced over the last couple of years due to budget constraints. Someone using employer contributions as the measure of individual pension remuneration and believing in a total remuneration approach might argue for lower pay increases when pension contributions increase regardless of budget constraints.

Higher investment income improves the funded ratio. The amount of investment income can be increased by increasing plan assets. A higher rate of investment income usually has risk implications and its timing can't be controlled. For many years during the last quarter of the 20th century, investment gains led to significant improvements in funded ratios for many public sector plans and, in some plans, significant improvements in benefits. Few investment advisors seem to expect this to be a significant source of actuarial gain over the next 10 years considering that investment performance needs to exceed the Plan's investment return assumption of 7.50% in order to generate gains. Reducing the assumption could lead to actuarial gains, but would also reduce the Plan's funded ratio immediately.

Higher employee contributions only improve the funded ratio if the employer doesn't reduce its contributions correspondingly. When the budget allows, you might consider reversing some or all of the reduction in MCPS contributions that you recognized for the July, 2011 increase in employee contributions until the funded ratio reaches the desired level.

That leaves higher employer contributions as the only other way to improve the funded ratio more quickly than it otherwise would improve. Increasing contributions to improve the funded ratio involves a trade off between higher volatility in contributions (if you only want to contribute extra when the funded ratio is below a desired level), higher contributions (if you're willing to contribute more regardless of the funded ratio) and slower improvement in funding ratio. In other words, if you want to increase the funded ratio quickly when it's low, you have to be ready to increase contributions quickly in meaningful amounts. Before we go into detail on forms of higher contributions, we would like to like to describe what the combination of actuarial cost methods and current GASB standards are suppose to do and what can go wrong.

Most[1] actuarial cost methods produce (1) a Normal Cost and (2) an Unfunded Actuarial Accrued Liability (UAAL) to amortize to reach 100% funding. If the amortization period is closed (a GASB term meaning that the remaining amortization period is reduced each year until it reaches zero), in the absence of future actuarial gains/losses, assumption changes, or plan changes, the UAAL will eventually reach zero. GASB allows average amortization periods of up to 30 years and allows both level dollar amortization and level percentage of assumed payroll amortization. Long amortization periods and level percentage of assumed payroll amortization can result in the UAAL increasing for many years before it finally decreases back to its original amount and then to zero. The plan change portions of MCPS's UAAL are in this increase period now. For example, the UAAL for the 2006 improvement increased from $124.2 million at July 1, 2010 to $125.2 million at July 1, 2011, but this $1 million increase is only 0.07% of the AAL so its impact of the funded ratio is minimal. Please also note that the funded ratio can improve even while the UAAL is increasing.

GASB also allows open amortization. This means that in the absence of plan changes, assumption changes, or future actuarial gains/losses, the UAAL will never reach zero because the

[1] A relatively small percentage of plans use a cost method that does not directly calculate an Actuarial Accrued Liability (AAL) each year.

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UAAL is re-amortized over its set period every year. MCPS uses this method and a 15 year amortization period for actuarial gains/losses and assumption changes in order to reduce the volatility of contribution requirements. You might say that this approach depends on future actuarial gains to offset past actuarial losses in order to reach 100% funding. Or you might say that this approach serves to continually improve the plan's funded status and funding ratio, but by a smaller and smaller margin each year so that the funded status will never reach 100% without actuarial gains, assumption changes, or plan changes. Under the GASB Exposure Drafts, continuing to use this method may have negative consequences for plan accounting, i.e. the required use of a discount rate based on a combination of expected plan asset returns and municipal bond returns (GASB has stated that it is not trying to govern plan funding).

Relatively few plans use a cost method that does not directly calculate an Actuarial Accrued Liability (AAL) each year.

The things that can prevent this designed progression to 100% funding are actuarial experience losses (e.g. lower than assumed investment returns, higher than assumed pay increases or retiree COLAs, retirees living longer than assumed, a lag in actually contributing higher amounts when contribution requirements are increasing, etc.), changes in actuarial assumptions, and plan improvements. Of course, actuarial gains and benefit reductions can improve the funded ratio.

At July 1,2011, MCPS had UAAL of $435 million due to a combination of:

- The UAAL amount of $176 million in 2005 when the amortization period was re-set. This included assumption changes made at that time, one of which was the reduction in the investment return assumption from 8% to 7.5%.
- A net of $108 million due a plan improvement in 2006 and a benefit reduction in 2011
- Actuarial losses and changes in actuarial assumptions since 2005

In the addendum to our letter dated February 15, 2012, our projections show the AVA funded ratio improving from 70.1% at July 1, 2011 to 77.6% at July 1, 2017 based on February 14, 2012 plan assets (or 74.9% projecting from December 31, 2011 assets which were $50 million lower). During this projection period $24 million of pre-July 1, 2011 actuarial investment losses (compared to the assumption) will be recognized in the AVA as will approximately $40 million using February 14, 2012 plan assets (or $88 million using December 31, 2011 assets) of actuarial investment losses from July 1, 2011 through December 31, 2011. Those projections assume no other actuarial gains/losses except the impact of the one year lag between the valuation date and the date that the contribution rate changes. The projections do not show steady improvement from 70.1% to

77.6% (or 74.9%). They show the AVA funded ratio dipping to 68.0% (or 66.7%) due to recognition of investment losses in the AVA and then steadily improving to 2017.

Here are some possibilities for improving the funded ratio more that it would otherwise improve.

- Choose a dollar amount of additional contributions. Since the AAL was $1.454 billion at July 1, 2011, an additional contribution of $14.54 million on that date would have improved the funded ratio by 1%. The AAL is likely to grow for the foreseeable future, so the cost of each 1% improvement is likely to grow. An extra half or quarter of a percent might be worthy goals also, with proportionately lower cash requirements. For any given dollar amount or improvement percentage, multi-year additional contributions will have more impact than only one additional contribution.
  - A variation on the extra contribution concept is to make the extra contributions any time the funded ratio falls below your minimum desired level and to make the extra contributions until the funded ratio returns to the desired level. This policy could result in high contribution volatility.

- One way to increase contributions is to reduce the amortization period. For accounting purposes GASB has proposed a period equal to the average remaining expected work years of active participants. We'll be measuring that period for MCPS as we look at the GASB proposals. The period probably is closer to 10 years than it is to 15 and may be even shorter than 10 years. If we had used a 10 year amortization period in the 2011 valuation instead of a combination of 15, 25 and 29 years remaining, the contribution for FY 2013 would have increased by $16.8 million. You could phase down the amortization period instead of jumping all the way to 10 years. Using 15 years for all UAAL would have only increased the FY 2013 contribution by $2.6 million; using 14 years would have meant a $4.6 million increase (cumulative, not in addition to the $2.6 million).

- Alternatively, you might accelerate the amortization only for the portion of UAAL below a specified minimum goal. You were $143.9 million below 80% funded on July 1, 2011 and $289.3 million below 90% funded at that time. Additional contributions to fund those shortfalls over 5 or 10 years instead of 15 would have been as follows.

	Funding goal	
Amortization period	80%	90%
5 years	$18.9 million	$38.0 million
10 years	$4.7 million	$9.4 million

If you had that policy in 2010, the additional contributions would have been even higher. Please note that we do not mean to imply that either 80% or 90% should be your ultimate funding ratio target, only that they may be sufficient targets for accelerated contributions.

While improvement in the funded ratio is an important goal, the need for additional steps to speed that improvement and the priority of that goal versus other budget considerations are less clear. In the absence of further actuarial losses or plan improvements, the six year projections in the February 15, 2012 letter show the funded ratio dipping then improving over the next six years. Only you can decide whether that improvement will be sufficient to satisfy bond rating agencies, constituents, etc. Your 7.5% investment return assumption and 15 year amortization period probably are better than the average public sector plan's already, but they aren't on the leading edge. A shorter amortization period would move you toward the leading edge and closer to the GASB Exposure Drafts' *accounting* requirements. Remember that GASB only governs accounting, not funding. We recommend that you consider the implications under a range of economic scenarios before making any change in funding policy.

The liability, contributions and funded ratios in this letter are based on the data, assumptions, actuarial methods, plan provisions and important notices shown in the 2011 Actuarial Valuation Report dated October 17, 2011 and the Six-Year Projection letter dated February 15, 2012.

The undersigned credentialed actuaries meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this document. We are not aware of any relationship, including investments or other services that could create a conflict-of-interest that would impair our objectivity.

Sincerely,

Douglas L. Rowe

Douglas L. Rowe, FSA, MAAA, EA
Principal

Colin Bracis

Colin Bracis, ASA, MAAA, EA,
Senior Associate

MF/DLR:CB/elb

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Attachment D

MCPS Employee Benefit Trust Fund
Schedule of FY2012 Actual Expenditures for the Active Employee Trust Account
As of June 30, 2012 (Actual Through February 29, 2012)

	FY12 Projection	YTD actual	Projected Remaining	Total	Variance Fav - (Unfav)
Revenue Receipts:					
County Appropriation	215,479,223	211,391,723	4,087,500	215,479,223	-
Enterprise Funds	8,683,933	5,182,596	3,501,336	8,683,933	-
Capital Projects	775,679	485,567	245,219	730,785	(44,894)
Supported Programs	6,577,451	4,608,540	2,680,810	7,289,350	711,899
Employee Payments	22,559,100	14,041,405	8,682,716	22,724,121	165,021
Optional Life	686,026	409,163	271,328	680,491	(5,535)
Investment Earnings	29,370	14,553	11,882	26,435	(2,935)
Rebates/ Recoveries/Other	5,923,584	4,805,946	939,575	5,745,521	(178,063)
Total Revenue	260,714,366	236,481,749	24,878,110	261,359,860	645,494
Expenditures:					
Premiums:					
Prudential Life	3,506,400	2,361,515	1,195,385	3,556,900	(50,500)
Aetna Dental	1,920,800	1,217,556	619,454	1,837,010	83,790
Kaiser Permanente Health Plan	39,675,600	25,347,339	13,449,386	38,796,725	878,875
All Other	9,893,280	6,709,888	3,395,144	10,105,033	(211,753)
Claims:					
Dental	13,171,785	8,611,118	4,486,900	13,098,018	73,767
Health	140,959,162	90,574,266	47,263,800	137,838,066	3,121,096
Prescription	53,596,565	35,625,461	18,311,800	53,937,261	(340,696)
Vision	172,034	94,623	50,500	145,123	26,911
Administrative Expenses	940,197	28,354	920,089	948,443	(8,246)
Total Expenditures	263,835,823	170,570,120	89,692,458	260,262,578	3,573,246
	(3,121,457)			1,097,282	4,218,739

Attachment E

MCPS Employee Benefit Trust Fund
Schedule of FY 2012 Actual Expenditures for the Retired Employee Trust Account
As of June 30, 2012 (Actual Through Febuary 29, 2012)

	FY12 Projection	YTD actual	Projected Remaining	Total	Variance Fav - (Unfav)
Revenue Receipts:					
County Appropriation	48,105,935	47,193,435	912,500	48,105,935	-
Retiree Payments	28,547,417	19,286,284	9,515,806	28,802,090	254,673
Investment Earnings	8,224	4,053	2,741	6,794	(1,430)
Rebates/ Recoveries/Other	3,737,000	869,371	724,500	1,593,871	(2,143,129)
Medicare Part D Reimbursements	4,205,000	3,108,400	907,600	4,016,000	(189,000)
Total Revenue	84,603,576	70,461,542	12,063,147	82,524,690	(2,078,886)
Expenditures:					
Premiums:					
Prudential Life	1,837,200	1,384,440	702,800	2,087,240	(250,040)
Aetna	336,000	232,823	119,600	352,423	(16,423)
Kaiser Permanente Health Plan	6,403,800	4,372,775	2,149,600	6,522,375	(118,575)
All Other	3,306,600	2,287,560	1,147,600	3,435,160	(128,560)
Claims:					
Dental	3,986,506	2,745,659	1,477,000	4,222,659	(236,153)
Health	33,069,861	20,261,441	11,039,500	31,300,941	1,768,920
Prescription	29,130,348	18,912,024	10,424,000	29,336,024	(205,676)
Vision	56,480	36,864	18,800	55,664	816
Administrative Expenses					
	386,799	8,185	379,915	388,100	(1,301)
Total Expenditures	78,513,594	50,241,771	27,458,815	77,700,586	813,008
	6,089,982			4,824,103	(1,265,879)