EXECUTIVE SUMMARY

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As requested by the County Council, the purpose of Part II is to inform a discussion of options to help the County navigate toward long-term fiscal sustainability. As with the many other jurisdictions that face similar budget pressures, the County's fiscal picture for the foreseeable future requires decisions that will inevitably require some to pay more and others to receive less. Marginal, short-term, and one-time fixes will not produce a sustainable solution for the County.

The options outlined in OLO's Part II report offer an array of potential budget savings and revenue raising choices. Some would yield substantial savings in the short term, and others would yield even greater savings but only in the longer term. Many of the options are not mutually exclusive and could be combined to achieve some savings in the short term and more over time.

The cost containment and/or revenue raising options that the Council decides to consider will be influenced by some key information that is not yet in hand. This includes updated revenue projections, updated estimates of the County's pension and OPEB (retiree health trust) liabilities, and the agencies' and County Executive's future budget requests, which will reflect the collective bargaining agreements reached between the County Executive and the County Government unions and the Board of Education and the school unions.

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BACKGROUND

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In the current climate, revenue growth for the foreseeable future is unlikely to keep pace with the steadily rising costs of our public sector's spending commitments. Consequently, the approach of previous years - where projected revenue for the upcoming fiscal year was sufficient to fully fund the current year's budget, absorb the increased cost of commitments, and support new initiatives (e.g., program expansions, salary increases) - no longer works.

As a result, Montgomery County, like many other state and local governments across the nation, faces the extraordinary challenge of making decisions that will result in long-term fiscal sustainability, a task that can only be accomplished by permanently raising more revenue or making reforms that reduce future government costs.

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The options that OLO selected to examine flow directly from our Part I analysis, which identified the major cost drivers of the tax supported budgets for the four agencies: County Government, Montgomery County Public Schools, Montgomery College, and M-NCPPC.

In order to deliver a useful product to the Council, OLO selected a finite number of cost savings and revenue raising options to assess and present. The Appendix (©4) contains a list of additional options worthy of mention, any of which are potential candidates for further development.

OLO's selection of specific cost containment and budget reduction options is based on the following factors:

- 1. The experience of other jurisdictions. The cost pressures and difficult trade-offs facing Montgomery County are by no means unique. OLO was guided by research into how other state and local governments are addressing their own structural revenue and expenditure imbalances. The Appendix (©119) contains examples of cost containment strategies for retirement benefits and health insurance costs undertaken in other places.
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The Appendix (©48-67) contains more information about both groups and the status of their work to date. In order to supplement and not duplicate the efforts of these two initiatives, OLO's issue paper on workforce size provides a macro-perspective on the number of positions (measured in workyears) that would need to be abolished in each agency in order to lower personnel costs, calculated in increments of \$10 million.

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In selecting options for raising revenue, OLO included one for each of the major sources of local revenue: property tax, income tax, excise taxes, and user fees.

OVERVIEW OF THE EIGHT ISSUE PAPERS.

The next three pages contain brief overviews of the eight issue papers. Details on the sources of data and methodology used to calculate potential costs savings are included in the Appendix (©68).

OVERVIEW OF THE EIGHT ISSUE PAPERS

A. Employee Salaries

Salaries represent the largest component of personnel costs. Between FY02 and FY11, employee salaries across the four agencies grew by 50% in the aggregate and by higher amounts (up to 80%) for individual employees. Issue Paper A includes one approach that would actually reduce the total cost of salaries and a series of options to slow the rate of salary growth:

- The first option presents cost savings associated with three different levels of an across-the-board salary rollback (1%, 3%, and 5%) for all agency employees. A salary rollback is a permanent reduction in an employee's base salary. A 1% salary rollback implemented in FY12 across the four agencies would save about \$23 million.
- The other salary-related options explore a range of alternatives for modifying the current structure of general wage adjustments and step increases. Modifying the structure of pay increases could substantially lower the growth rate of personnel costs going forward, compared to their growth rates over the past decade.

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From FY02 to FY11, tax supported costs of pension and retirement benefits for employees across the four agencies increased by 226%, from \$59 million to \$193 million. By FY16, annual agency retirement costs are projected to cost more than \$264 million. (This estimated amount does <u>not</u> include any costs related to a potential shift of pension liability from the State to the County for MCPS, Montgomery College, and library employees.)

Issue Paper B presents options to lower the projected increases in locally paid annual pension and retirement benefit costs for County Government and MCPS, including approaches to:

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Changes to retirement/pension plans hold the potential for saving hundreds of millions of dollars in the long-term. However, if changes are restricted to new hires, the savings will not be large in the immediate term. Actuarial analysis is necessary to determine the specific dollar savings that is achievable for any options related to retirement benefit changes.

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- Set a uniform employer cost share of 70% for all plans;
- Charge employees who enroll dependents a higher cost share; and
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Implementing the options outlined in this paper (as of January 2012) could produce savings for the four agencies that range from \$7 million to \$46 million in FY12, and from \$19 million to \$123 million by FY16. Phasing in changes over several years also provides cost savings, but at a slower rate.

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Over the past ten years, total pay-as-you-go agency spending on group insurance for retired employees more than doubled from \$31 million to \$79 million. Absent changes to the current structure, these costs are estimated to increase another 57% to nearly \$124 million by FY16. According to the latest actuarial estimates, the County's total future liability for retiree group insurance costs is estimated at \$2.7 billion.

Issue Paper D presents options to lower the projected increases in agency retiree health insurance by:

- Eliminating retiree group insurance benefits for new employees;
- Reducing the employer's share of premium costs; or
- Changing current eligibility criteria and/or benefit levels for retiree health insurance.

Actuarial analysis is necessary to determine the potential savings that could be achieved by implementing any of these options. Changing the structure of retiree health benefits holds the potential to save tens of millions of dollars every year; however, if the changes are only applied to new hires, then the savings in the near term will be relatively modest.

E. Workforce Size

OLO's Part I analysis found that the primary cost driver behind increased personnel costs over the past decade has been higher costs per employee as opposed to substantial growth in the workforce. Nonetheless, reducing positions, measured in workyears, represents one way to reduce personnel costs.

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Issue Paper E provides an overview of the allocation of workyears across the agencies, and calculates the number of workyears (for each agency) that must be eliminated in order to yield increments of \$10 million in savings. To provide some additional perspective, Issue Paper E also includes illustrative examples of what \$10 million in workyears "buys" in each agency.

F. Operating Expenses

"Operating expenses" consist of everything in an agency's operating budget other than personnel costs. Examples include spending for contractual support, utility payments, facility and vehicle maintenance, office and program supplies, and technology. In FY11, budgeted operating expenses represent about 9% of MCPS' tax supported spending and 32% of County Government's tax supported spending.

Issue Paper F summarizes the major components of tax supported operating expenses for County Government and Montgomery County Public Schools, and discusses two approaches to reduce FY12 operating costs in order to achieve increments of \$10 million in savings. One approach is an "across-the-board" reduction that decreases operating expenses in all departments by a uniform percent. Another approach is for targeted reductions in operating expenses using priority-based criteria.

G. Debt Service

During the past decade, debt service payments increased 47% from \$177 million in FY02 to \$260 million in FY11. If the County issues General Obligation bonds at the rate projected in the most recent CIP (\$325 million/year), debt service will increase to \$391 million in FY16, an amount that is projected to exceed the combined tax supported budgets of Montgomery College and M-NCPPC.

Issue Paper G calculates the projected savings in annual debt service that would result from reducing annual general obligation bond issuance. In addition, this paper identifies the potential consequences of reducing the amount of debt issued.

H. Revenue

Issue Paper H presents four options to generate additional revenue for tax supported expenditures. One option is presented for each of the major locally generated sources of revenue:

- Property taxes,
- Income taxes,
- Excise taxes, and
- Fees/charges.

Three of the four options would generate revenue that would be available for unrestricted use. The fourth option would raise revenue for transportation projects that add new capacity. The paper provides estimates of potential additional revenue associated with each option, which ranges from \$3-\$20 million in FY12 to more than \$150 million by FY16.

Appendix

The Appendix contains additional background and reference materials, including:

- A primer on the State's Maintenance of Effort law;
- Memoranda from the County Attorney on the Council's authority to modify employee salaries and benefits, and the Council's role in collective bargaining;
- Regional comparative data on health and retirement benefits; and
- Case studies of changes to employee retirement and health benefits in other jurisdictions across the country.

In addition, the Appendix includes a glossary of terms, copies of Council resolutions related to fiscal and debt policies, and additional information on the charges and work to date of the Organizational Reform Commission and the Cross-Agency Resource-Sharing Committee.

RECOMMENDED NEXT STEPS

County leaders face a large and complex challenge of bringing projected revenue and spending into long-term alignment. To assist in this effort, the Council requested the Office of Legislative Oversight to develop options that can form the basis for an informed discussion about various ways to raise revenue and/or bend the agencies' future cost curves downward.

As stated earlier, the number and choice of specific cost containment and/or revenue raising options that the Council will need to consider will depend, at least in part, on some key information that is not yet in hand. This includes: updated revenue projections, updated estimates of the County's pension and OPEB (retiree health trust) liabilities, and the agencies' and County Executive's future budget requests, which will reflect the collective bargaining agreements reached between the County Executive and the County Government unions and the Board of Education and the school unions.

Although the exact size of the FY12 and future year structural budget "gaps" that the Council needs to close is not yet known, OLO recommends that the Council prepare for the upcoming budget deliberations by adopting an explicit time line for discussion of this Part II report that includes the following steps:

- 1. An initial period designated for the Council to ask questions and for staff to prepare answers, with the overall purpose of enabling a common understanding of the options presented.
- 2. A step for seeking feedback from the general public as well as known stakeholders. The Council should consider coordinating the timing of such input with any outreach efforts that the Council holds on the recommendations of the Organizational Reform Commission and the Cross-Agency Resource-Sharing Committee.
- 3. A date by which the Council selects a short list of options for further research and analysis that might involve, for example, more refined estimates of cost savings, more detailed analysis of the potential impact on employees, a proposed implementation schedule, and the gathering of more specific comparative data. Included in this step would be any Council requests for additional legal advice or cost estimates related to options that require retaining actuarial services.
- 4. A decision and action phase, during which the Council decides which, if any, of the options to support, and then takes the legislative, policy, and/or budget actions necessary to move forward with implementation.

As the Council works its way through this next phase of gathering more information, soliciting feedback, weighing alternatives, and making decisions, OLO offers some closing observations on key facts to keep in mind:

- Government is a people-intensive business, so it is no surprise that the great majority of the County's resources is allocated to human capital. Unfortunately, the corollary to this reality is that achieving substantial budget savings requires the County to reduce spending on personnel. There are two ways to reduce personnel costs: shrink the workforce and/or lower costs per employee.
- The County Government and Montgomery County Public Schools (MCPS) together account for 91% of all tax supported spending. MCPS accounts for two-thirds of all tax supported workyears. In order to yield substantial savings, any cost containment option that involves reducing personnel costs must extend to both County Government and MCPS.

• Structural changes to pay or benefits that reduce per employee costs but only apply to newly hired employees will not yield large savings in the near term. There are some options, however, such as changing the structure of pension benefits and retiree health benefits, that hold the potential for substantial dollar savings in the longer term even if only applied to new hires.

For the many governments currently struggling to align revenues and desired expenditures, it certainly would be desirable if some options existed that magically provided win-win solutions. However, as with so many other jurisdictions, the reality of the County's fiscal picture, at least for the foreseeable future, requires decisions that involve asking some to pay more and/or others to make do with less. In other words, the reality is that none of the options promise an outcome where everyone wins.

Montgomery County Council Office of Legislative Oversight

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The Office of Legislative Oversight appreciates the cooperation received from the leadership and staff of the County Government, Montgomery County Public Schools, Montgomery College, and Maryland-National Capital Park and Planning Commission. This assignment was a major undertaking during a compressed time period. OLO's work was greatly facilitated by the reliable and constructive assistance of the four agencies involved. Special thanks are also owed to the Council Staff Director and the many other Council staff members with whom we consulted regularly.

Achieving a Structurally Balanced Budget in Montgomery County

Part II: Options for Long-Term Fiscal Balance



Office of Legislative Oversight Report Number 2011-2

December 7, 2010

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- Regional comparative data on health and retirement benefits; and
- Case studies of changes to employee retirement and health benefits in other jurisdictions across the country.

In addition, the Appendix includes a glossary of terms, copies of Council resolutions related to fiscal and debt policies, and additional information on the charges and work to date of the Organizational Reform Commission and the Cross-Agency Resource-Sharing Committee.

RECOMMENDED NEXT STEPS

County leaders face a large and complex challenge of bringing projected revenue and spending into long-term alignment. To assist in this effort, the Council requested the Office of Legislative Oversight to develop options that can form the basis for an informed discussion about various ways to raise revenue and/or bend the agencies' future cost curves downward.

As stated earlier, the number and choice of specific cost containment and/or revenue raising options that the Council will need to consider will depend, at least in part, on some key information that is not yet in hand. This includes: updated revenue projections, updated estimates of the County's pension and OPEB (retiree health trust) liabilities, and the agencies' and County Executive's future budget requests, which will reflect the collective bargaining agreements reached between the County Executive and the County Government unions and the Board of Education and the school unions.

Although the exact size of the FY12 and future year structural budget "gaps" that the Council needs to close is not yet known, OLO recommends that the Council prepare for the upcoming budget deliberations by adopting an explicit time line for discussion of this Part II report that includes the following steps:

- 1. An initial period designated for the Council to ask questions and for staff to prepare answers, with the overall purpose of enabling a common understanding of the options presented.
- 2. A step for seeking feedback from the general public as well as known stakeholders. The Council should consider coordinating the timing of such input with any outreach efforts that the Council holds on the recommendations of the Organizational Reform Commission and the Cross-Agency Resource-Sharing Committee.
- 3. A date by which the Council selects a short list of options for further research and analysis that might involve, for example, more refined estimates of cost savings, more detailed analysis of the potential impact on employees, a proposed implementation schedule, and the gathering of more specific comparative data. Included in this step would be any Council requests for additional legal advice or cost estimates related to options that require retaining actuarial services.
- 4. A decision and action phase, during which the Council decides which, if any, of the options to support, and then takes the legislative, policy, and/or budget actions necessary to move forward with implementation.

As the Council works its way through this next phase of gathering more information, soliciting feedback, weighing alternatives, and making decisions, OLO offers some closing observations on key facts to keep in mind:

- Government is a people-intensive business, so it is no surprise that the great majority of the County's resources is allocated to human capital. Unfortunately, the corollary to this reality is that achieving substantial budget savings requires the County to reduce spending on personnel. There are two ways to reduce personnel costs: shrink the workforce and/or lower costs per employee.
- The County Government and Montgomery County Public Schools (MCPS) together account for 91% of all tax supported spending. MCPS accounts for two-thirds of all tax supported workyears. In order to yield substantial savings, any cost containment option that involves reducing personnel costs must extend to both County Government and MCPS.

• Structural changes to pay or benefits that reduce per employee costs but only apply to newly hired employees will not yield large savings in the near term. There are some options, however, such as changing the structure of pension benefits and retiree health benefits, that hold the potential for substantial dollar savings in the longer term even if only applied to new hires.

For the many governments currently struggling to align revenues and desired expenditures, it certainly would be desirable if some options existed that magically provided win-win solutions. However, as with so many other jurisdictions, the reality of the County's fiscal picture, at least for the foreseeable future, requires decisions that involve asking some to pay more and/or others to make do with less. In other words, the reality is that none of the options promise an outcome where everyone wins.

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The Office of Legislative Oversight appreciates the cooperation received from the leadership and staff of the County Government, Montgomery County Public Schools, Montgomery College, and Maryland-National Capital Park and Planning Commission. This assignment was a major undertaking during a compressed time period. OLO's work was greatly facilitated by the reliable and constructive assistance of the four agencies involved. Special thanks are also owed to the Council Staff Director and the many other Council staff members with whom we consulted regularly.

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Issue Paper A

Employee Salaries

EMPLOYEE SALARIES

OVERVIEW: This paper presents options to reduce agency expenditures on employee salaries and/or slow the growth rate of future salary expenditures without reducing workforce size.

FY02-FY11 Agency Salary Expenditures

The table below shows tax supported salary expenditures by agency for FY02 and FY11. During this 10-year period, the rate of inflation was 29% and tax supported agency spending on employee salaries (in aggregate) increased by 50%. This percent change in agency salary expenditures reflects multiple factors such as salary increases, change in workforce size, turnover, job promotions, position reclassifications, special pay, and overtime.

Agonov	FY02	FY11	FY02-FY11 Increase		
Agency	F 1 02	FIII	\$	%	
Montgomery County Government	\$364 million	\$518 million	\$154 million	42%	
MCPS	\$878 million	\$1.3 billion	\$422 million	53%	
Montgomery College	\$79 million	\$141 million	\$62 million	79%	
M-NCPPC	\$40 million	\$53 million	\$13 million	33%	
Total	\$1.4 billion	\$2.1 billion	\$651 million	50%	

Table 1. Tax Supported Salary Expenditures by Agency

General Wage Adjustments and Step Increases

In most years during the past decade, the two drivers of salary increases were general wage adjustments and step increases (also referred to as service increments):

- A general wage adjustment is an increase in pay granted to all employees on a specific date, usually the beginning of a new fiscal year. Historically, the practice of County agencies has been to grant general wage adjustments as increases to base salary. The general wage adjustment is often referred to as a cost-of-living adjustment (COLA).
- A **step increase** (**or service increment**) is an increase to base salary granted to employees who are below the maximum for their pay grade and who meet minimum job performance requirements. An employee typically receives a step increase on the anniversary of his/her original hire date.

Providing step increases and general wage adjustments, which are included in agency personnel regulations and/or in collectively bargained agreements between agencies and their respective employee unions, has significantly increased salary expenditures over the past decade.

Table 2 shows, for the most recent five fiscal years, the annual cost (by agency) of the average general wage adjustment (GWA) and average annual step increases received by eligible employees. As noted in Table 2, no employees received step increases in FY11 and no employees received general wage adjustments in FY10 or FY11.

Table 2. Average Percent and Annual Cost of Step Increases and General Wage Adjustments

Agonov	FY	707	FY	708	FY09		FY10		FY11	
Agency	Step	GWA	Step	GWA	Step	GWA	Step	GWA	Step	GWA
County Government	3.5%	3.7%	3.5%	4.8%	3.5%	4.1%	3.5%	None	None	None
MCPS ²	3.5%	3.5%	3.5%	4.6%	3.5%	5.0%	3.5%	None	None	None
M-NCPPC	3.5%	3.3%	3.5%	3.3%	3.5%	3.3%	3.5%	None	None	None
Montgomery College	2.8%	3.8%	3.0%	5.0%	3.0%	5.2%	2.7%	None	None	None
Estimated Annual	\$32.8	\$71.3	\$35.9	\$102.9	\$38.2	\$107.0	\$38.1			
Costs (in millions)	\$10)4.1	\$13	38.8	\$14	45.2	\$3	8.1	-	-

The cost of step increases shown above represents the full annualized costs of these salary adjustments. As a result, the numbers are higher than the amount shown in annual agency budget requests for steps because eligible employees receive step increases at various points throughout the fiscal year (based on the anniversary of their hiring dates).

Annual Salary Increases as Cost Drivers

To illustrate the cumulative cost effect of annual pay increases, Table 3 shows the salary growth between FY02 and FY11 for four different sample employees. The calculations assume that each employee was hired at the minimum salary for the position in FY02, remained at the same grade (with no promotion, reclassification, or any type of special pay), and received the applicable service increment and general wage adjustment each year.

Table 3. Salary/Wage Change from Salary Increases for Selected Positions

Agency	Position	FY02	FY11	FY02-FY11 Increase		
Agency	1 osition	1102	FIII	\$	%	
County Government	Social Worker I	\$36,900	\$61,900	\$25,000	68%	
County Government	Firefighter III	\$35,400	\$62,500	\$27,100	77%	
MCPS	Teacher (MA)	\$39,000	\$70,000	\$31,000	79%	
MCPS	Bus Operator	\$18,900	\$35,700	\$16,800	89%	

¹ The table here shows the average step and GWA across all bargaining units for each agency, and as a result does not necessarily reflect the specific step increase or GWA percent received by a given employee. Appendix (©72) provides details on the annual step and GWA percent increases granted in each agency between FY01 and FY11.

² MCPS' annual increment cost data are derived by a salary simulation that assumes all positions are filled and moving along the salary schedule. As a result, the data do not account for factors such as turnover or lapse.

Overview of Options

The rest of this issue paper presents one strategy for reducing agency expenditures on salaries (a salary rollback) and several additional strategies for slowing the rate of salary growth by modifying the structure of granting general wage adjustments and step increases. The options on the structure of general wage adjustments and step increases, unlike the majority of options within this report, show the <u>projected costs</u> associated with each structure as opposed to the projected savings. In sum:

- Option #1 outlines the personnel cost savings associated with three different levels of an across-the board salary rollback (1%, 3%, and 5%) for all agency employees. A salary rollback is a permanent reduction in an employee's base salary. The estimated savings from a salary rollback range from \$23 million to \$115 million in FY12, depending on the rollback level.
- Option #2 outlines three alternatives for providing general wage adjustments (GWA) in ways that would slow the rate of salary growth compared to the cost of the agencies' general practice over the years. The three scenarios are to: (2A) Provide smaller general wage adjustments; (2B) Provide biennial general wage adjustments; and (2C) Provide general wage adjustments as lump-sum payments, not as increases to base pay.
- Option #3 outlines three alternatives for providing step increases in ways that would slow the rate of salary growth compared to the cost of the agencies' general practice over the years. The three scenarios are to: (3A) Provide smaller annual step increases; (3B) Provide biennial step increases; and (3C) Provide step increases as lump-sum payments, not as increases to base pay.

For the general wage adjustment and step increase options, the estimates of agency expenditures through FY16 reflect the additional costs associated with each alternative compared to a continued freeze on salaries (i.e., no general wage adjustment or step increase provided).

Implementation Issues

Changes to the salary structure within the agencies fall under the authority of the governing body for each agency, and do not require changes to State or County law. Salary and wage levels are included in all the collectively bargained agreements between agencies and employee unions. For a discussion of general legal issues surrounding modification to employee pay and benefits, see the memos in the Appendix from the County Attorney on: 1) the Council's authority to modify employee pay and benefits, and 2) the Council's role in collective bargaining. The County Attorney has concluded that the Council may impose salary reductions in future fiscal years. See ©8 and ©22.

OPTION #1: Salary Rollback

As approved in the FY11 agency budgets, tax supported personnel costs (salaries and wages, social security, retirement, and group insurance) across Montgomery County Government, MCPS, Montgomery College, and M-NCPPC total \$2.7 billion. Salaries and wages for employees account for \$2.0 billion (74%) of this total, with the balance of \$0.7 billion (26%) for employee benefits.³

Alternative Structure

A salary rollback is a permanent reduction in an employee's base salary. A salary rollback is different from a furlough in a number of significant ways. First, a salary rollback does not reduce the number of hours worked. Second, in the year following a salary rollback, it is not assumed that an employee's salary will return to its previous level. And third, a salary rollback leads to savings related to retirement costs, which are a function of an employee's salary. (Both furloughs and salary rollbacks result in savings related to the costs of social security.)

This option calculates the potential savings compared to FY11 personnel costs for each agency at three different levels of salary rollback applied uniformly across each agency's workforce: 1%, 3%, and 5%. As evidenced by the implementation of furloughs in FY11, the agencies could implement a "progressive" salary rollback that achieves the same level of savings but differentiates the percent salary rollback by applying a smaller rollback to lower-paid employees and a larger rollback to higher-paid employees.

Projected Savings

Essentially, a salary rollback acts as a one-time "reset" of current salary levels, reducing the base of all salaries. From a budget perspective, the savings from a salary rollback occurs in the year it is implemented. However, the new salary base would remain at the lower level in future years until action is taken to increase it. The table below shows the projected savings by agency for three different percents of salary rollback: 1%, 3%, and 5%.

Table 4. Projected FY12 Tax Supported Savings in Personnel Costs from Salary Rollback Scenarios

% Salary	Estimated FY12 Tax Supported Personnel Cost Savings ⁴									
Rollback	County Government	MCPS	M-NCPPC	Montgomery College	Total					
1%	\$6.2 million	\$14.7 million	\$0.7 million	\$1.3 million	\$22.9 million					
3%	\$18.7 million	\$44.0 million	\$2.0 million	\$4.0 million	\$68.7 million					
5%	\$31.2 million	\$73.4 million	\$3.3 million	\$6.7 million	\$114.6 million					

³ The total expenditures for benefits do not include pension contributions for any agency employees.

⁴ These calculations are based on the approved FY11 budget personnel cost data. The estimates include savings to salaries, social security, and locally paid pension/retirement costs.

Effect on Individual Employee Salary

Similar to the furloughs implemented in FY11, a salary rollback reduces the paychecks of employees. However, unlike furloughs, employee salaries would not automatically return to the prior level at the beginning of the next fiscal year. In addition, the lower salary would lead to a corresponding reduction in an employee's retirement benefits. The table below shows the salary impact on two sample employees, one with an annual salary of \$40K and one with an annual salary of \$70K.

Table 5. Impact of Salary Rollback on Employee Base Salary

Base Salary	Base Salary after Rollback							
Dase Salary	1%	3%	5%					
\$40,000	\$39,600	\$38,800	\$38,000					
Reduction in Salary	(\$400)	(\$1,200)	(\$2,000)					
\$70,000	\$69,300	\$67,900	\$66,500					
Reduction in Salary	(\$700)	(\$2,100)	(\$3,500)					

OPTION #2: Changes to General Wage Adjustments

From FY07 to FY09, employees in the four agencies received, on average, annual general wage adjustments (GWA) of approximately 3.5%. For the four agencies combined, the annual personnel cost increases associated with each of these general wage adjustments ranged from \$71 million to \$107 million.

General wage adjustments were not funded in FY10 or FY11 for any agency. The estimated cost per 1% GWA for FY12 (if funded) is listed below for each agency.

Agency	Estimated FY12 Cost per 1% GWA
MCPS	\$14.7 million
County Government	\$6.2 million
Montgomery College	\$1.3 million
M-NCPPC	\$0.7 million
Total	\$22.9 million

Alternative Structure

The cost of a general wage adjustment typically recurs in future years because it is usually an increase of an employee's base salary. This section outlines three different GWA scenarios, and calculates the relative costs of each scenario through FY16:

Scenario #2A: Provide "smaller" general wage adjustments.

Scenario #2B: Provide general wage adjustments only every other year. **Scenario** #2C: Provide general wage adjustments as lump sum payments.

The exhibit below compares the "cost curve" associated with each of the three different scenarios, assuming the same GWA percent and assuming all other personnel cost variables remain constant. Of course, no GWA saves the most money. However, among the GWA options, the exhibit illustrates how an annual GWA that increases base salary is the most costly option over time (because it raises base budget costs every year), while an annual lump sum GWA that does not automatically increase an employee's base pay is the least costly option.

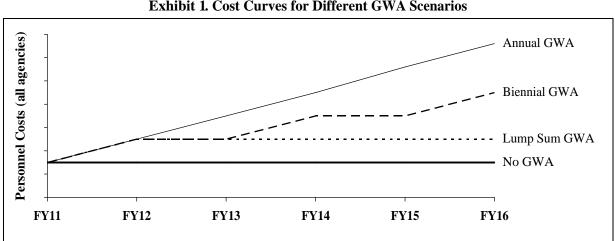


Exhibit 1. Cost Curves for Different GWA Scenarios

Projected Budget Impact

The total budget impact of a general wage adjustment depends on the size and structure of the GWA granted, the number of employees who receive it, current salaries, and the cost of benefits that are a function of those salaries. For each GWA scenario, this paper examines the difference in costs for two sizes of GWA increases: 1% and 3%. Table 6 summarizes the estimated annual and five-year tax supported costs associated with each GWA scenario across the four agencies.

Table 6. Estimated Tax Supported Personnel Costs of General Wage Adjustment Scenarios (all agencies)

GWA Scenario		Annu	al Increa	illions)	Total Increase,			
		FY11	FY12	FY13	FY14	FY15	FY16	FY11-FY16
Scenario 2A: Smaller Annual	1%		\$22.9	\$23.1	\$23.4	\$23.6	\$23.8	\$116.8 million
General Wage Adjustment	3%		\$68.7	\$70.7	\$72.8	\$74.9	\$77.0	\$364.1 million
Scenario 2B: Biennial	1%		\$22.9		\$23.1		\$23.4	\$69.4 million
General Wage Adjustment	3%		\$68.7		\$70.7		\$72.8	\$212.2 million
Scenario 2C: Lump Sum General Wage Adjustment	1%		\$22.9					\$22.9 million
	3%		\$68.7					\$68.7 million

Scenarios #2A-#2C (beginning on the next page) show the cumulative cost impacts associated with each GWA scenario and detail the estimated costs by agency.

Effect on Individual Employee Salary

Table 7 shows the projected base salary in FY16 under each scenario for an employee earning \$50,000 in FY11 (assuming no other salary enhancements).

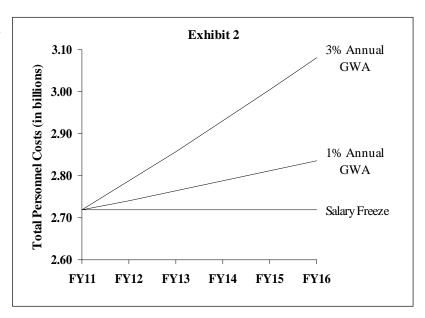
Table 7. FY11-FY16 Estimated Employee Salary Change by General Wage Adjustment Scenario

FY11 Salary of	1% Gen	eral Wage Ad	3% General Wage Adjustment			
\$50,000	Annual	Biennial	Lump Sum	Annual	Biennial	Lump Sum
FY16 Salary	\$52,551	\$51,515	\$50,500	\$57,964	\$54,636	\$51,500
% Salary Increase	+5%	+3%	+1%	+16%	+9%	+3%

#2A: Smaller Annual General Wage Adjustments

Scenario #2A details the cost impact of a 1% and 3% annual GWA. The calculations isolate the impact of general wage adjustments on personnel costs and assume all other personnel cost variables remain constant.

Exhibit 2 shows the cumulative impact through FY16 of a 1% and 3% GWA on total agency personnel costs compared to freezing salaries at FY11 levels.



Projected Budget Impact

Table 8 shows the projected annual budget impact for both general wage adjustment scenarios through FY16. The total estimated cost increase (FY11-FY16) is about \$117 million for a 1% annual GWA and \$364 million for a 3% annual GWA.

Table 8. Estimated Tax Supported Personnel Costs of Annual Service Increments

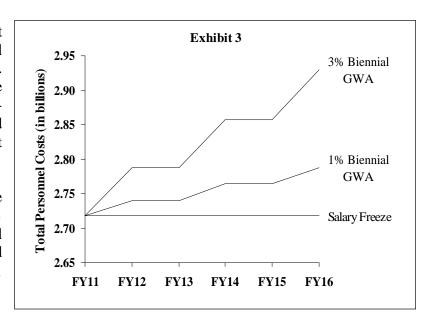
Scenario	Ann	Total Increase,									
Scenario	FY11	FY12	FY13	FY14	FY15	FY16	FY11-FY16				
1% Annual General Wage Adjustment											
MCPS		\$14.7	\$14.8	\$15.0	\$15.1	\$15.3	\$74.9 million				
County Government		\$6.2	\$6.3	\$6.3	\$6.4	\$6.5	\$31.7 million				
Montgomery College		\$1.3	\$1.4	\$1.4	\$1.4	\$1.4	\$6.9 million				
M-NCPPC		\$0.7	\$0.7	\$0.7	\$0.7	\$0.7	\$3.3 million				
Total		\$22.9	\$23.1	\$23.4	\$23.6	\$23.8	\$116.8 million				
3% Annual General W	age Adjust	tment									
MCPS		\$44.0	\$45.3	\$46.7	\$48.0	\$49.4	\$233.5 million				
County Government		\$18.7	\$19.2	\$19.8	\$20.3	\$20.9	\$98.9 million				
Montgomery College		\$4.0	\$4.1	\$4.3	\$4.4	\$4.5	\$21.3 million				
M-NCPPC		\$2.0	\$2.0	\$2.1	\$2.1	\$2.2	\$10.4 million				
Total		\$68.7	\$70.7	\$72.8	\$74.9	\$77.0	\$364.1 million				

^{*}Annual increases by agency may not add to "Total" or "Total Increase" values due to rounding.

#2B: Biennial General Wage Adjustments

Scenario #2B details the cost impact of a 1% and 3% biennial (i.e., every other year) GWA. The calculations isolate the impact of general wage adjustments on personnel costs, and assume all other personnel cost variables remain constant.

Exhibit 3 shows the cumulative impact through FY16 of a 1% and 3% biennial GWA on total agency personnel costs compared to freezing salaries at FY11 levels.



Projected Budget Impact

Table 9 shows the projected annual budget impact for both general wage adjustment scenarios through FY16. The total estimated cost increase (FY11-FY16) is about \$69 million for a 1% biennial GWA and \$212 million for a 3% biennial GWA.

Table 9. Estimated Tax Supported Personnel Costs of Biennial General Wage Adjustments

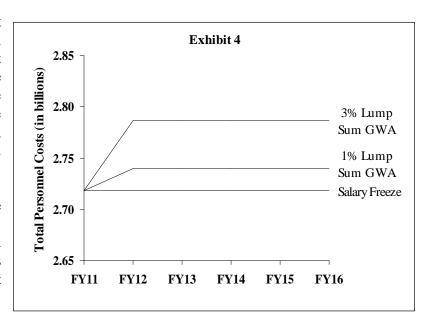
Scenario	Ann	Total Increase,									
Scenario	FY11	FY12	FY13	FY14	FY15	FY16	FY11-FY16				
1% Biennial General Wage Adjustment											
MCPS		\$14.7		\$14.8		\$15.0	\$44.5 million				
County Government		\$6.2		\$6.3		\$6.3	\$18.8 million				
Montgomery College		\$1.3		\$1.4		\$1.4	\$4.1 million				
M-NCPPC		\$0.7		\$0.7		\$0.7	\$2.0 million				
Total		\$22.9		\$23.1		\$23.4	\$69.4 million				
3% Biennial General V	Vage Adju	stment									
MCPS		\$44.0		\$45.3		\$46.7	\$136.0 million				
County Government		\$18.7		\$19.2		\$19.8	\$57.7 million				
Montgomery College		\$4.0		\$4.1		\$4.3	\$12.4 million				
M-NCPPC		\$2.0		\$2.0		\$2.1	\$6.1 million				
Total		\$68.7		\$70.7		\$72.8	\$212.2 million				

^{*}Annual increases by agency may not add to "Total" or "Total Increase" values due to rounding.

#2C: Lump Sum General Wage Adjustments

Scenario #2C details the cost impact of a 1% and 3% annual lump sum GWA that does not increase an employee's base salary. The calculations isolate the impact of general wage adjustments on personnel costs, and assume all other personnel cost variables remain constant.

Exhibit 4 shows the cumulative impact through FY16 of a 1% and 3% annual lump sum GWA on total agency personnel costs compared to freezing salaries at FY11 levels.



Projected Budget Impact

Table 10 shows the projected annual budget impact for the annual lump sum general wage adjustment scenarios through FY16. The total estimated cost increase (FY11-FY16) is about \$23 million for a 1% lump sum GWA and \$69 million for a 3% lump sum GWA.

Table 10. Estimated Tax Supported Personnel Costs of Lump Sum General Wage Adjustments

Scenario	Anr	Total Increase,								
Scenario	FY11	FY12	FY13	FY14	FY15	FY16	FY11-FY16			
1% Annual Lump Sum General Wage Adjustment										
MCPS		\$14.7					\$14.7 million			
County Government		\$6.2					\$6.2 million			
Montgomery College		\$1.3					\$1.3 million			
M-NCPPC		\$0.7					\$0.7 million			
Total		\$22.9					\$22.9 million			
3% Annual Lump Sum	General V	Wage Adju	stment							
MCPS		\$44.0					\$44.0 million			
County Government		\$18.7					\$18.7 million			
Montgomery College		\$4.0					\$4.0 million			
M-NCPPC		\$2.0					\$2.0 million			
Total		\$68.7					\$68.7 million			

OPTION #3: Changes to Step Increases

From FY07 to FY10, eligible employees received, on average, annual step increases of approximately 3.5% in County Government, MCPS, and M-NCPPC and 3% in Montgomery College. The annual tax supported costs for step increases ranged from \$33 million to \$38 million for the four agencies combined.

Step increases were not funded in FY11 for any agency. The estimated cost per 1% step in FY12 (if funded) is listed below for each agency.

Agency	Estimated FY12 Cost per 1% Step
MCPS	\$7.1 million
County Government	\$2.3 million
Montgomery College	\$0.8 million
M-NCPPC	\$0.2 million
Total	\$10.4 million

Alternative Structure

The cost of a step increase typically recurs in future years because it is usually an increase of an employee's base salary. This section outlines three different scenarios for providing step increases, and calculates the relative impact on personnel costs through FY16:

Scenario #3A: Provide "smaller" annual step increases. **Scenario** #3B: Provide step increases only every other year. **Scenario** #3C: Provide step increases as lump sum payments.

The exhibit below compares the "cost curve" associated with each of the three step increase scenarios, assuming the same step amount and assuming all other personnel cost variables remain constant. Of course, no step increase saves the most money. However, among the step increase options, the exhibit illustrates how an annual step increase is the most costly option over time (because it raises base budget costs every year), while an annual lump sum step that does not automatically increase an employee's base salary is the least costly option.

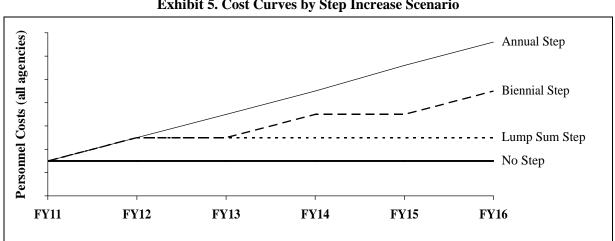


Exhibit 5. Cost Curves by Step Increase Scenario

Projected Budget Impact

The total budget impact of a step increase depends on the current salary and number of employees that receive it, the percent of the step increase provided, and the cost of benefits that are a function of salary increases. For each step increase scenario, this issue paper examines the difference in costs for 1% and 3% step increases. Table 11 summarizes the estimated annual and five-year tax supported costs associated with each step increase scenario across the four agencies.

Table 11. Estimated Tax Supported Personnel Costs of Step Increase Scenarios (all agencies)

Step Increase Scenario*		Annı	ual Increa	Total Increase,				
		FY11	FY12	FY13	FY14	FY15	FY16	FY11-FY16
Scenario 3A: Smaller Annual Step Increase	1%		\$10.4	\$10.5	\$10.6	\$10.6	\$10.6	\$52.7 million
	3%		\$31.3	\$31.8	\$32.2	\$32.6	\$33.1	\$161.0 million
Scenario 3B: Biennial Step Increase	1%		\$10.4		\$10.5		\$10.6	\$31.5 million
	3%		\$31.3		\$31.8		\$32.2	\$95.3 million
Scenario 3C: Lump Sum Step Increase	1%		\$10.4					\$10.4 million
	3%		\$31.3					\$31.3 million

^{*}Each scenario applies the percent step increase as an average across each agency's workforce.

Scenarios #3A-#3C (beginning on the next page) show the cumulative personnel cost impacts for the different step increase scenarios and detail the estimated costs by agency.

Effect on Individual Employee Salary

Table 12 shows the projected base salary in FY16 under each scenario for an employee earning \$50,000 in FY11 (assuming no other salary enhancements).

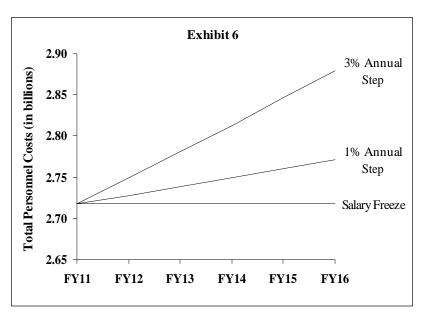
Table 12. FY11-16 Employee Salary Change by Step Increase Scenario

FY11 Salary of	1	% Step Increa	ise	3% Step Increase			
\$50,000	Annual	Biennial	Lump Sum	Annual	Biennial	Lump Sum	
FY16 Salary	\$52,551	\$51,515	\$50,500	\$57,964	\$54,636	\$51,500	
% Salary Increase	+5%	+3%	+1%	+16%	+9%	+3%	

#3A: Smaller Annual Step Increases

Scenario #3A details the cost impact of a 1% and 3% annual step increase for eligible employees. The calculations isolate the impact of step increases on personnel costs and assume all other cost variables remain constant.

Exhibit 6 shows the cumulative impact through FY16 of a 1% and 3% step increase for eligible employees on total agency personnel costs compared to freezing salaries at FY11 levels.



Projected Budget Impact

Table 13 shows the projected annual budget impact for both annual step increase scenarios through FY16. The total estimated cost increase (FY11-FY16) is about \$53 million for a 1% annual step and \$161 million for a 3% annual step.

Table 13. Estimated Tax Supported Personnel Costs of Annual Step Increases

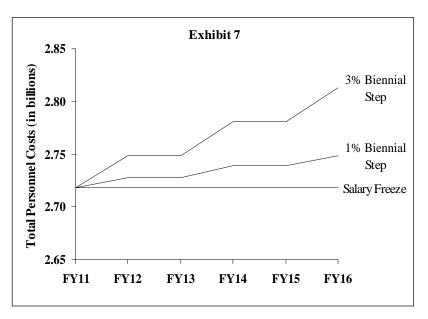
Scenario	Ann	Total Increase,					
Scenario	FY11	FY12	FY13	FY14	FY15	FY16	FY11-FY16
1% Annual Step Increa	se						
MCPS		\$7.1	\$7.2	\$7.2	\$7.2	\$7.3	\$36.0 million
County Government		\$2.3	\$2.3	\$2.3	\$2.3	\$2.4	\$11.6 million
Montgomery College		\$0.8	\$0.8	\$0.8	\$0.8	\$0.8	\$3.9 million
M-NCPPC		\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$1.2 million
Total		\$10.4	\$10.5	\$10.6	\$10.6	\$10.6	\$52.7 million
3% Annual Step Increa	ise						
MCPS		\$21.4	\$21.7	\$22.0	\$22.3	\$22.7	\$110.1 million
County Government		\$6.9	\$7.0	\$7.1	\$7.2	\$7.2	\$35.4 million
Montgomery College		\$2.3	\$2.3	\$2.4	\$2.4	\$2.5	\$11.9 million
M-NCPPC		\$0.7	\$0.7	\$0.7	\$0.7	\$0.7	\$3.6 million
Total		\$31.3	\$31.8	\$32.2	\$32.6	\$33.1	\$161.0 million

^{*}Annual increases by agency may not add to "Total" or "Total Increase" values due to rounding.

#3B: Biennial Step Increases

Scenario #3B details the cost impact of a 1% and 3% biennial (i.e., every other year) step increase for eligible employees. The calculations isolate the impact of step increases on personnel costs, and assume all other cost variables remain constant.

Exhibit 7 shows the cumulative impact through FY16 of a 1% and 3% biennial step increase on total agency personnel costs compared to freezing salaries at FY11 levels.



Projected Budget Impact

Table 14 shows the projected annual budget impact for both step increase scenarios through FY16. The total estimated cost increase (FY11-16) is about \$32 million for a 1% biennial step and \$95 million for a 3% biennial step.

Table 14. Estimated Tax Supported Personnel Costs of Biennial Step Increases

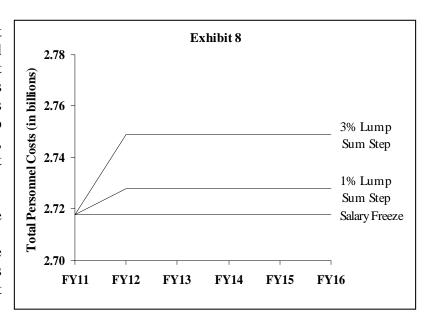
Scenario	Ann	Total Increase,					
Scenario	FY11	FY12	FY13	FY14	FY15	FY16	FY11-FY16
1% Biennial Increment							
MCPS		\$7.1		\$7.2		\$7.2	\$21.5 million
County Government		\$2.3		\$2.3		\$2.3	\$7.0 million
Montgomery College		\$0.8		\$0.8		\$0.8	\$2.3 million
M-NCPPC		\$0.2		\$0.2		\$0.2	\$0.7 million
Total		\$10.4		\$10.5		\$10.6	\$31.5 million
3% Biennial Increment	t						
MCPS		\$21.4		\$21.7		\$22.0	\$65.2 million
County Government		\$6.9		\$7.0		\$7.1	\$21.0 million
Montgomery College		\$2.3		\$2.3		\$2.4	\$7.0 million
M-NCPPC		\$0.7		\$0.7		\$0.7	\$2.1 million
Total		\$31.3		\$31.8		\$32.2	\$95.3 million

^{*}Annual increases by agency may not add to "Total" or "Total Increase" values due to rounding.

#3C: Lump Sum Step Increases

Scenario #3C details the cost impact of 1% and 3% annual lump sum step increase that does not increase an employee's base salary. The calculations isolate the impact of step increases on personnel costs, and assume all other cost variables remain constant.

Exhibit 8 shows the cumulative impact through FY16 of a 1% and 3% lump sum step increase on total agency personnel costs compared to freezing salaries at FY11 levels.



Projected Budget Impact

Table 15 shows the projected annual budget impact for annual lump sum step increase scenarios through FY16. The total estimated cost increase (FY11-16) is about \$10 million for a 1% lump sum step and \$31 million for a 3% lump sum step.

Table 15. Estimated Tax Supported Personnel Costs of Lump Sum Step Increases

Scenario	Anı	Total Increase,							
Scenario	FY11	FY12	FY13	FY14	FY15	FY16	FY11-FY16		
1% Annual Lump Sum Step Increase									
MCPS		\$7.1					\$7.1 million		
County Government		\$2.3					\$2.3 million		
Montgomery College		\$0.8					\$0.8 million		
M-NCPPC		\$0.2					\$0.2 million		
Total		\$10.4					\$10.4 million		
3% Annual Lump Sum	Step Incr	ease							
MCPS		\$21.4					\$21.4 million		
County Government		\$6.9					\$6.9 million		
Montgomery College		\$2.3					\$2.3 million		
M-NCPPC		\$0.7					\$0.7 million		
Total		\$31.3					\$31.3 million		

Issue Paper B Retirement/Pension Benefits

RETIREMENT/PENSION BENEFITS

OVERVIEW: This paper presents options to lower the projected increases in annual pension and retirement expenditures across the four tax supported agencies. The options outline different ways to reduce agency expenditures by phasing out the use of defined benefit plans, reducing benefit levels, or increasing employee contributions to their retirement benefit.

Current and Projected Costs for Retirement/Pension

From FY02 to FY11, tax supported costs of pension and retirement benefits for employees across the four agencies increased by 226%, from \$59.3 million to \$193.4 million. Four primary factors explain the increases in retirement costs over the past decade:

- Salary and wage increases for employees;
- The percent of County agency employees in defined benefit plans;
- Enhancements to pension and retirement plan benefits; and
- Market losses on pension plan investments.

Based on data from agency actuaries and the Fiscal Plan s assumption of no salary growth or change in workforce size over the next five years, annual agency retirement expenditures are projected to increase by \$70 million (37%) from FY11-FY16. (See Table 1 below.)

FY11-FY16 Projected Increase FY11 Approved **FY16 Projected** Agency % County Government \$117.1 million \$154.5 million \$37.4 million 32% **MCPS** \$62.4 million \$90.8 million \$28.4 million 46% M-NCPPC \$12.0 million \$16.2 million \$4.2 million 35% Montgomery College \$1.9 million \$2.6 million \$0.7 million 37% **Total** \$193.4 million **\$264.1 million \$70.7** million 37%

Table 1. Approved FY11 and Projected FY16 Tax Supported Retirement Expenditures, by Agency

Because County Government and MCPS account for the majority (93% in FY11) of agency tax supported retirement costs, the options to reduce future costs presented in this paper focus on those two agencies. In general, the types of structural change to retirement benefits discussed in the options could be applied to M-NCPPC and Montgomery College as well.

Introduction to Retirement/Pension Benefits

State and local governments typically provide one or more of the following three types of retirement plans for their employees: a defined benefit plan (also referred to as a pension plan), a defined contribution plan, or a hybrid plan. At the present time, approximately 88% of employees in the four agencies participate in a defined benefit plan. The next page begins a general overview of each type of plan; a summary of the plans offered by the agencies begins on page B-3.

Defined Benefit Plans. Defined benefit plans, or pension plans, pay a retiree a set monthly amount from retirement until death. As illustrated in the example below, a retiree s annual pension is determined by a formula that typically takes into account the employee s final earnings, years of service, and a pension multiplier ² set by the employer. In addition, defined benefit plans often include a provision to annually increase the pension (post-retirement) with a cost-of-living adjustment (COLA).

Annual Pension	= A	verage Final Earnings	x]	Multiplier	X	Years of Service
\$42,000	=	\$70,000	X	2%	X	30

To fund defined benefit pensions, employers pay a contribution every year into a retirement trust fund. This annual contribution is determined by an actuary based on the projected funding needed to pay promised pensions to the current workforce upon retirement.³ Most plans also require employees to contribute a set percent of salary each year to help pay for their future retirement benefits. The money in the retirement fund is invested, and employee and employer contributions combined with investment earnings pay for employees pensions.

In defined benefit plans, employees are required to work a minimum number of years before they become eligible to receive a pension (called vesting). If an employee leaves an employer before vesting, the employer typically refunds the employee s contributions to the plan. If an employee vests but leaves before qualifying for retirement, typically the employee can request a refund of the employee s contributions or the employee can receive a pension at a later date.

Depending upon their structure, retirement plans distribute a certain degree of financial risk between the employer and the employee. Defined benefit plans place the financial risk on the employer because the employer is responsible for paying the entire annual pension upon retirement, even if the retirement trust does not have sufficient funds to pay for promised pensions.

Social Security Integration in Defined Benefit Plans. In a defined benefit plan, once retirees reach Social Security retirement age they receive both a monthly pension payment and a monthly Social Security payment (unless their employer did not participate in the federal Social Security program). Many employers structure defined benefit plans to integrate with Social Security, meaning that the amount a retiree will receive in a pension is lowered by some amount to account for the retiree s additional income from Social Security. Generally, defined benefit plans integrate with Social Security by changing the formula used to calculate the annual pension amount. Integrating defined benefit plans with Social Security lowers the long-term cost of pensions for employers.

¹ Defined benefit plans often allow members to count earned sick leave toward their years of service for retirement purposes.

² A pension multiplier is a percent of wages used to calculate an annual pension.

³ Actuaries use numerous assumptions and projections to calculate an employer s annual defined benefit plan contribution. Assumptions include projected mortality rates, employee hiring and terminations, age of retirement, investment returns, salary increases, and rate of inflation.

⁴ Federal law governs social security integration in defined benefit plans. The structure of defined benefit plans integration with social security is subject to any relevant changes to federal law.

Defined Contribution Plans. In a defined contribution plan, an employee contributes a set percent of salary to a retirement account, which changes its value over time as a result of investment returns (or losses). Often an employer will also make contributions to the employee s retirement account either contributing a set percent of employee salary or matching a percent of the employee contribution. Upon retirement, the employee s benefit is the total of the employee and employer contributions and any investment income earned on the joint contributions.

Unlike defined benefit plans, defined contribution plans are portable. Employees can take retirement funds in a defined contribution plan with them if they leave an employer, often transferring the funds to a new retirement account. Defined contribution plans may also have vesting periods—requiring employees to stay with an employer a certain amount of time before an employee can take an employer s contributions. If the employee leaves an employer before vesting, the employee can only take his or her own contributions.

In contrast to defined benefit plans, it is the employee who bears the risk in defined contribution plans. The employee guides investment of the funds in the retirement account, and the employer s financial responsibility ends after the employer contributes any required funds to employees accounts.

Hybrid Plans. Hybrid plans have characteristics of both defined benefit and defined contribution plans. Some hybrid plans have a defined benefit component and a defined contribution component, while others have different structures entirely. The risk related to a hybrid retirement plan falls in between that of a defined benefit and a defined contribution plan, and typically the employer and the employee more equally share the risk based on the design of the plan.

County Government Retirement Plans

The County Government provides all three types of retirement plans, and County law outlines which employees are covered by which plans. The table below summarizes each plan and the employees covered. Participation is required for full-time employees, and optional for part-time employees.

Retirement Plan	Plan Type	Covered Employees
Employees' Retirement System (ERS)	Defined Benefit	 Employees hired before October 1, 1994 Represented public safety employees regardless of date of hire
Employees' Retirement Savings Plan (RSP)	Defined Contribution	Non-public safety employees hired on or after October 1, 1994 Non-public safety employees hired on or after October 1, 1994 Non-public safety employees hired on or after October 1, 1994
Guaranteed Retirement Income Plan (GRIP)	Hybrid	Non-represented public safety employees hired on or after October 1, 1994

Table 2. Summary of County Government Retirement Plans

Table 3 (on the next page) shows the FY11 total tax supported retirement expenditures for each County Government plan. In FY11, the County Government s total tax supported contributions were \$117 million. The County s defined benefit plan includes about one-half of active employees in FY11 but accounts for 88% (\$103 million) of the total tax supported retirement expenditures.

Table 3. Total FY11 County Government Tax Supported Retirement Expenditures

Plan	Active Members (as of October 2010)	FY11 Tax Supported Expenditures	Per Employee Contribution (as % of salary)
ERS	4,635	\$103.3 million	25-38%*
RSP	3,272	\$11.2 million	8-10%
GRIP	942	\$2.6 million	8-10%
Total	8,849	\$117.1 million	

^{*}For employees hired on or after July 1, 1978. See the Appendix (©96) for a summary of ERS per employee contributions rates from 2000 to 2009.

Employees Retirement System (ERS). In 1994, the ERS was closed to new members **except for new public safety employees represented by an employee bargaining unit.** As outlined in County law (Chapter 33), employees in the ERS are divided into seven different groups determined by their bargaining unit and date of hire. Each group has a separate set of variables used to calculate pensions (e.g., multiplier, average final salary, etc.) and different requirements for retirement eligibility (combination of age and/or years of service).

The ERS is integrated with Social Security and retirees receive a smaller pension (determined by a formula that varies by group) once they reach Social Security retirement age. The County Government s Board of Investment Trustees manages and invests ERS funds. See the Appendix (©79) for a summary of the plan s provisions for each group (e.g., group eligibility, member contributions, multipliers, retirement eligibility, etc.).

Table 4. County Government ERS Employee Groups with Active Members

Groups	Open to New Employees
Employees hired before October 1, 1994	No
Deputy sheriffs and correctional staff	Yes
Police	Yes
Firefighters	Yes

In the last decade, the percent of total pension liability funded by the current balance in the ERS has declined. Specifically, in FY00, the ERS had sufficient funds to pay for 98.9% of future pension liabilities; in FY09 that percent had declined to 78.4% due to investment losses and increased liabilities due to benefit enhancements.⁶

Employees Retirement Savings Plan (RSP). The RSP was opened in 1994 and includes: non-public safety employees hired after October 1, 1994, and non-represented public safety employees. Both the County and the employee contribute a percent of the employee s salary to the employee s retirement account. For each non-public safety employee, the County contributes 8% of salary and the employee contributes 4% of salary annually. For each non-represented public safety employee, the County contributes 10% of the employee s salary and the employee contributes 3%.

⁵ Employees of several other agencies and political subdivisions participate in the ERS at their own cost, including employees from the Montgomery County Revenue Authority, the Housing Opportunities Commission, and the Town of Chevy Chase. ⁶ 2009 Annual Report of the Board of Investment Trustees.

Guaranteed Retirement Income Plan (GRIP). The GRIP, a hybrid retirement plan, was opened in 2009. Employees eligible for the RSP are also eligible for the GRIP, and new hires must choose between the two plans. When the GRIP opened, existing RSP members were given a one-time option to transfer to the GRIP. Like a defined contribution plan, both the County and the employee contribute to the GRIP account at the same percent of employee salary as in the RSP. Like a defined benefit plan, the County guarantees a fixed rate of return on the funds in an employee s GRIP account (currently 7.25%), shifting the investment risk to the employer. If GRIP investments earn less than the guaranteed return annually, the County is responsible for making up the difference. The County Government s Board of Investment Trustees manages and invests funds from the GRIP.

Montgomery County Public Schools Retirement Plans

All MCPS employees participate in a defined benefit retirement plan. Approximately 77% of MCPS employees participate in a defined benefit plan funded and administered by the State of Maryland. The remaining 23% of MCPS employees participate in a locally-funded defined benefit plan that is identical to the State plan. MCPS refers to these plans (whether state-funded or MCPS-funded) as the employees Core Pension.

In addition to the Core Pension, all MCPS employees also receive a locally-funded Pension Supplement. State law requires MCPS to provide a Pension Supplement to employees in the State pension plan. The Pension Supplement that MCPS provides a multiplier of 0.2% is 150% higher than the Pension Supplement required by State law. The Core Pension multiplier of 1.8% combined with the 0.2% Pension Supplement provides MCPS employees with an overall 2.0% pension multiplier. See the Appendix (©79) for a summary of the plan provisions (e.g., group eligibility, multipliers, retirement eligibility, etc.).

Table 5 summarizes MCPS plan participation and FY11 tax supported expenditures, which total about \$62 million. For employees in the State pension plan, MCPS pays 1.92% of salary for retirement. In contrast, MCPS pays 20.49% of salary for employees in the locally-funded plan.

MCPS	# of Employees	Funded	by MCPS	FY11 Tax	Per Employee Contribution (as % of salary)	
Employees in	(as of Sep. 2010)	Core Pension	Supplement	Supported Expenditures		
State Pension Plan	16,923		✓	\$21.8 million	1.92%	
Local Pension Plan	4,956	✓	✓	\$40.6 million	20.49%	
Total	21,879			\$62.4 million		

Table 5. MCPS FY11 Retirement Expenditures

In FY11, the State of Maryland contributed \$170 million to fund MCPS employees State pension benefits. In 2010, the Maryland Senate passed a bill requiring local jurisdictions to fund 50% of local education employees retirement costs. While the bill did not become law, the State may, in the near future, require local jurisdictions to fund a portion of the employees retirement benefits currently paid for by the State.

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⁷ State law requires MCPS to provide a Pension Supplement of a 0.08% multiplier. MCPS adds an additional 0.12%, for a total multiplier of 0.2%. Montgomery County is the only Maryland county required to supplement State teacher pensions.

Social Security Integration. In 1998, MCPS matched a State pension system change and discontinued Social Security integration for all locally-funded pensions. As a result, for service after July 1, 1998, MCPS employees pensions are not adjusted when they began collecting Social Security benefits.

M-NCPPC and Montgomery College Retirement Plans

Nearly all M-NCPPC employees participate in a defined benefit retirement plan. M-NCPPC has four different defined benefit plans, two open to new members and two closed, with separate plans for Park Police and non-Park Police employees. M-NCPPC s retirement plan expenditures totaled \$12 million in FY11.

All Montgomery College employees participate in State of Maryland-administered retirement plans. The State funds the retirement of faculty, administrators, and professional staff, who may choose between a defined benefit plan and a defined contribution plan. Montgomery College fully funds the cost for support, paraprofessional, and technical staff to participate in a State defined benefit plan. The College funds the retirement benefits for 287 of its employees at a cost of \$1.9 million in FY11.

Overview of Options

The rest of this issue paper outlines nine options to reduce projected cost increases in annual pension and retirement expenditures for County Government and MCPS. The options fall into three categories:

- Replacing defined benefit plans with lower cost defined contribution or hybrid plans;
- Increasing employees share of defined benefit plan costs; and
- Reducing defined benefit levels.

There are five options presented for County Government pension plans, and four options for MCPS locally-financed pensions. The options are developed independently of one another, although certain options could be done in combination. The table below summarizes the options and indicates the cohort(s) of individuals the options could apply to: new hires, current employees, or current retirees.

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		Opti	on Could App	oly to:
Option	Description	New Hires	Current Employees	Current Retirees
	County Government Options			
1	Close the County Government defined benefit plan and enroll all new County Government employees in a defined contribution plan	✓		
2	Close the County Government defined benefit plan and enroll all new represented public safety employees in a new hybrid plan	√		
3	Increase County Government employee contributions in defined benefit plans	✓	1	
4	Increase the minimum retirement age and years of service for new County Government public safety employees	✓		
5	Lower the cap on annual cost of living adjustments applied to County Government retiree pensions	✓	✓	✓
	MCPS Options			
1	Close MCPS' locally-funded defined benefit plans and enroll all new employees in a defined contribution plan	✓		
2	Eliminate MCPS' local pension supplement for new hires	✓		
3	Increase MCPS employee contributions for the local Pension Supplement	✓	✓	
4	Integrate MCPS' locally-funded pension with Social Security	✓		

For each option, estimating the agency savings requires calculations by the agencies actuaries. Because of the fees associated with obtaining these estimates, the options described in this issue paper explain in general how making each change would reduce agency costs. When possible, the options also give examples of potential cost savings. If the Council wants to further consider any of the options outlined in the paper, then detailed cost estimates can be requested from the agencies actuaries.

OLO chose these options, in part, based on research into strategies that other state and local governments have adopted to reduce their pension plan costs. The Appendix (©119) contains a summary of comparative examples related to pension plan changes made by other jurisdictions. The Appendix also contains a list of additional options that could achieve savings in retirement costs (©4). The additional options are either variations of those described above or different options that could produce short-term and/or long-term savings.

Implementation Issues

Changes to the structure of the County Government s retirement plans would require changes to County law. Details relating to retirement plan benefits are included in the collectively bargained agreements between the County Government and employee bargaining units. For a discussion of general legal issues surrounding modification to retirement benefits, see the memos in the Appendix (©8) from the County Attorney on: 1) Council authority to modify employee pay and benefits, and 2) the Council s role in collective bargaining.

The County Attorney has concluded that, in general, the Council may make changes to retirement benefits prospectively i.e., changes that take effect at some point in the future. The Council can make changes to retirement benefits already earned only if the changes are reasonable and necessary to serve a legitimate government purpose. See Appendix (©11).

The Council has authority to change the structure of retirement benefits for County Government employees. Likewise, the same authority lies with the governing body for each agency. Changing or eliminating the State-required portion of MCPS local Pension Supplement for MCPS employees in the State system would require a change in State law. For employees only in the MCPS-funded system, the authority to structure employees retirement plans lies with the Board of Education.

COUNTY GOVERNMENT OPTION #1: Enroll All New County Government Employees in a Defined Contribution Retirement Plan

Current Structure

All new County Government public safety employees represented by an employee bargaining unit join the County s defined benefit plan, the Employees Retirement System (ERS). All other new County Government employees join either the County s: defined contribution plan, the Employees Retirement Savings Plan (RSP); or hybrid plan, the Guaranteed Retirement Income Plan (GRIP). In FY11, the County Government s retirement benefit cost for a public safety employee enrolled in the ERS (32%-38% of an employee s salary)⁸ is over three times higher than the cost for a new employee enrolled in the RSP (8-10% of an employee s salary).

Alternative Structure

Close the ERS plans to new hires and enroll *all* new County Government employees (including new public safety hires) hired after a certain date in the County Government s defined contribution plan (the RSP). The plan could maintain the current 8-10% contribution by the County Government for all employees or, as an alternative, the County Government could continue the current practice of providing a greater retirement benefit to public safety employees by establishing an even higher County contribution for those employees.

Alternatively, the County could give employees a choice between joining the RSP or the GRIP, the County Government s hybrid retirement plan that guarantees employees a fixed annual rate of return on contributions.

Projected Savings

Closing the County Government s defined benefit plan to new hires would lead to substantial long-term savings. Estimates of the specific amount and timeframe for cost savings for this option would require actuarial analysis; however, the effect of the County Government s 1994 change establishing a defined contribution plan for a part of its workforce exemplifies how this option achieves savings.

Comparing the FY11 cost of both plans can illustrate the potential magnitude of long-term savings. Although there are about the same numbers of employees enrolled in each plan, the County Government will contribute \$11 million in FY11 to fund defined contributions in the RSP, compared to \$103 million for the defined benefit plan.

In fact, if all County Government employees were enrolled in the RSP defined contribution retirement plan with an 8% employer contribution rate, the County Government would contribute approximately \$40 million⁹ toward retirement this year. This compares to the \$117 million that the County Government will contribute for retiree benefits this year, a difference of \$77 million.

⁸ For employees hired after July 1, 1978.

⁹ Calculated based on the County Government s FY11 tax supported salary cost of approximately \$500 million.

Effect on Employees

Current employees would see no change to their retirement plans or future retirement benefit levels. New public safety employees would join the RSP, a defined contribution plan, instead of a defined benefit pension plan. The value of a pension compared to a defined contribution plan cannot be easily quantified because the final value of each type of plan is dependent on different factors such as salary, years of service, mortality rates, return on investments, and contribution rates. However, for employees with a similar salary history and years of service, the final value of a defined benefit plan is typically higher than the final value of a defined contribution plan.

Currently, employee contribution rates for public safety members in the ERS¹⁰ range from 4.75-5.5% of salary. Current contribution rates for members of the RSP range from 3-4% of salary. Assuming no change to the current structure of the RSP, new employees would have a lower retirement contribution and a corresponding increase in take-home pay.

Defined contribution plans have the advantage of easy portability from employer to employer for employees who leave County service before reaching normal retirement. If employees in defined benefit plans leave employment before retiring, they either: receive a refund of their contributions (often with interest), but have no remaining retirement benefit; or leave their contributions with an employer, but cannot receive a pension until they would have been eligible to retire.

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¹⁰ Hired after July 1, 1978.

¹¹ Employees with salaries greater than the Social Security wage base (\$106,800 in 2010) contribute a higher percent of salary to the ERS, ranging from 6% to 9.25%, for the portion of salary above \$106,800.

COUNTY GOVERNMENT OPTION #2: New Hybrid Plan for New Public Safety Employees

Current Structure

All new County Government public safety employees represented by an employee bargaining unit join the County's defined benefit plan, the Employees Retirement System (ERS). All other new County Government employees join either the County's: defined contribution plan, the Employees Retirement Savings Plan (RSP); or hybrid plan, the Guaranteed Retirement Income Plan (GRIP).

In FY11, the County Government s retirement benefit cost for a public safety employee enrolled in the ERS (32%-38% of an employee s salary) is over three times higher than the cost for a new employee enrolled in the RSP (8%-10% of an employee s salary). The employer s cost for defined benefit plans is impacted by many variables in a pension formula. The table below summarizes the key variables that determine pensions for the public safety employees in the ERS.

Table 6. Summary of Pension Formula Variables for ERS Public Safety Members*

		Minir	num		Max. # of
Employee Contribution	Avg. Final Earnings	Service	Age	Multiplier	Years Credited in Pension Calculation
4.75 - 5.5%**	Highest 36	20-25 years	Any age	2.4 – 2.5%	31 - 36
3.370	months	15 years	55	2.1 2.370	51 50

^{*}Employees hired on or after July 1, 1978.

Alternative Structure

Close the ERS defined benefit plans to new hires and create a new hybrid retirement plan (different from the GRIP) for represented public safety employees hired after a certain date.¹² The new hybrid plan would include both a defined benefit and a defined contribution portion.

Defined benefit component. The new defined benefit portion of the plan would change the pension formula variables to create a significantly smaller annual pension. Changes could include:

- Raising employee contribution rates;
- Increasing the minimum number of years required for full benefits;
- Increasing the minimum age for retirement with full benefits; and/or
- Decreasing the multiplier.

Defined contribution component. The defined contribution portion of this hybrid plan option would supplement the defined benefit portion and could be structured in a number of ways. A defined contribution option could be structured like the RSP (mandatory, set employer and employee contributions) or the employee could choose a contribution level within a range (e.g., 1-5% of salary) with the County Government matching a portion of that contribution.

^{**}Employee contributions increase for any portion of salary than that is greater than the Social Security wage base (\$106,800 in 2010).

¹² This option is similar to the Federal Employees Retirement System, which has both a defined benefit and a defined contribution component.

Projected Savings

While this option offers the opportunity for long-term savings compared to the current plans, the actual amount would depend upon how the hybrid plan was structured. As indicated earlier, estimates of the specific amount and timeframe for cost savings would require actuarial analysis.

Effect on Employees

Current employees would see no change to their retirement plans or future retirement benefit levels. New public safety employees would join a hybrid plan with both defined contribution and defined benefit components.

This type of plan would marry the benefits and drawbacks of defined benefit and defined contribution plans and more evenly distribute future financial risk between the County Government and employees. For example, employees would be able to rely upon a stream of income from a pension, but could not take the benefit with them to another employer. Similarly, employees would have a portable retirement plan with the defined contribution component, but the total value would depend upon the rate of investment returns.

COUNTY GOVERNMENT OPTION #3: Increase Employee Contributions in Defined Benefit Plans

Current Structure

All County Government employees in the defined benefit plan (Employees Retirement System) contribute a portion of their salaries to help fund their pensions. In a defined benefit plan, employee contributions affect the annual contribution required from employers. Specifically, increased employee contributions result in decreased contributions for the County Government. The table below summarizes the current employee contribution rates set forth in County law.

Table 7. Current ERS Employee Contribution Rates as Percent of Salary (hired on or after July 1, 1978)

Group	Current Rate*
Non-Public Safety Employees hired before Oct. 1, 1994	4.0%
Deputy Sheriff and Corrections	4.75%
Police	4.75%
Fire	5.5%

^{*}Employees contribute a higher percent of salary, ranging from 6% to 9.25%, for any portion of salary than that is greater than the Social Security wage base (\$106,800 in 2010).

Alternative Structure

Increase the required employee contribution for all current and future employees in all ERS groups. For example, the County could increase the current rate for all groups by a set percent (e.g., a 50% increase) or establish a uniform but higher contribution rate for all groups (e.g., 7% for all members).

Projected Savings

Estimates of the specific amount and timeframe for cost savings would require actuarial analysis; however, a general description of how this option achieves savings follows.

If employees contribute a higher percent of salary to the ERS, the County's required contribution would decrease. While the decrease would not be dollar-for-dollar, the County's savings would reflect the magnitude of increased employee contributions. Table 8 shows that if employee contribution rates had been increased by 50% for all groups, employees would have contributed an additional \$8.6 million to the ERS in FY11.

Table 8. Example of Potential County Government Savings from Increased Employee ERS Contributions

Employee C	Difference		
Current Structure	50% Increase	Difference	
\$17.4 million	\$26.0 million	+\$8.6 million	

Effect on Employees

Increasing employee ERS contributions would decrease the amount of money that employees take home in paychecks. For example, raising the employee contribution by 50% for an ERS public safety employee earning \$50,000 annually and contributing 4.75% of salary would increase the employee s contribution by \$1,188 annually.

COUNTY GOVERNMENT OPTION #4:

Increase Minimum Retirement Age and Years of Service for New Public Safety Employees in the Defined Benefit Plan

Current Structure

Since 2001, pension benefit enhancements (such as lowering retirement age or increasing multipliers) have added to the ERS existing liabilities in amounts ranging from \$27.5 million to \$121.9 million. See Appendix (©93). County law establishes the minimum age and/or years of service requirements for an ERS member to retire with full benefits. Increasing or decreasing these requirements impacts defined benefit plan costs because it affects how long the plan will pay employee pensions.

Public safety members in the ERS retire at a much younger age than non-public safety members. The County's actuaries estimate that by age 54, 30% of public safety members of the ERS will retire compared to 5% of non-public safety members. ¹³ Earlier retirement for public safety employees is one factor that contributes to the higher cost of public safety members in the ERS compared to non-public safety members. The table below summarizes minimum age and years of service requirements for public safety members in the ERS.

Table 9. Current Minimum Age and Service Requirements for Public Safety Members of the ERS

Group	Deputy Sheriff and Corrections	Police	Fire
Minimum Age/ Years	55/15	55/15	55/15
of Service	Any/25	Any/25	Any/20

Alternative Structure

Increase the minimum age for retirement and minimum required years of services to qualify for full retirement benefits for public safety employees hired after a certain date. Possibilities include:

- Establish a minimum retirement age regardless of years of service;
- Raise the minimum retirement age by five years for members with 15 years of service; and/or
- Require at least 25 years of service for members retiring before age 55.

Projected Savings

While this option would offer the opportunity for long-term savings compared to the current plans, estimates of the specific amount and timeframe for cost savings would require actuarial analysis.

Effect on Employees

Current employees would see no change to their retirement plans. Higher minimum age and/or years of service requirements would result in new hires working longer than current active members in order to receive full retirement benefits.

¹³ 2009 Actuarial Valuation for ERS Contribution in FY11.

COUNTY GOVERNMENT OPTION #5: Lower the Pension COLA Cap

Current System

Under current County law, retirees in the ERS receive an annual cost-of-living adjustment (COLA) to their pensions based on the rate of the Consumer Price Index (CPI). Retirees can receive a negative COLA if the CPI is negative for a given year. ERS members hired by the County Government before October 1, 1978 receive an annual COLA equal to 100% of the CPI. All members hired on or after October 1, 1978 receive a COLA based on the following formula:

- 100% of the CPI up to 3%;
- 60% of the CPI greater than 3%, not to exceed 7.5%; and
- 100% of the CPI for retirees age 65 or over.

ERS retirees hired after June 30, 1978 have received a COLA of, on average, 2.5% annually between FY01 and FY10.

Alternative Structure

Lower the annual COLA applied to retiree pensions for all current and future ERS retirees through structural changes to the retiree COLA formula. There are many different ways to accomplish this. For example, the County could provide all retirees with a set annual COLA of 1%, regardless of the CPI. Another example would be for the County to provide an annual COLA based on the CPI, but with a maximum of 2%. For a discussion of the legal issues related to implementing a change to pension cost of living adjustments for current and future retirees, see the County Attorney s memos in the Appendix (©8 and ©22).

Projected Savings

Estimates of the specific amount and timeframe for cost savings would require actuarial analysis; however, a general description of how this option achieves savings follows.

As noted above, the average COLA for retirees between FY01 and FY10 was 2.5%. If a structure had been in place that capped COLA s at a maximum of 2%, retiree s would have had smaller pension increases in eight of the past ten years. As a result, the overall County required contributions to the Employees Retirement System would have been lower.

Effect on Retirees

Under this option, retirees would likely receive smaller annual pension increases, at least in some years. The magnitude of the difference depends upon the specific structure adopted.

MCPS OPTION #1: Create a Defined Contribution Plan for Locally-Funded MCPS Retirement Benefits

Current Structure

All MCPS employees participate in identical defined benefit retirement plans that include a Core Pension and a Pension Supplement. Approximately 77% of MCPS employees participate in the State Plan, where the State administers and funds the Core Pension and MCPS administers and funds the Pension Supplement. The remaining 23% of MCPS employees participate in the Local Plan where MCPS administers and funds both the Core Pension and the Pension Supplement.

In FY11, MCPS retirement benefit cost for an employee in the Local Plan is 20.49% of that employee s salary. MCPS cost for an employee in the State Plan is 1.92% of that employee s salary.

Alternative Structure

Close the locally-funded defined benefit plans (both the local Core Pension and the Pension Supplement) to new hires and create a defined contribution plan for MCPS employees hired after a certain date. Specifically:

- For employees in the Local Plan, MCPS could create a defined contribution plan to replace both the Core Pension and Pension Supplement; and
- For employees in the State Plan, MCPS could create a defined contribution plan to replace the Pension Supplement.

A variation on this option would be to create a hybrid retirement plan (similar to the GRIP in County Government). The primary difference between a defined contribution plan and a GRIP-like plan is that the GRIP plan would guarantee an annual rate of return on each employee s retirement account.

Projected Savings

Closing MCPS locally-funded defined benefit plans to new hires would lead to substantial long-term savings, similar to the savings the County Government is now realizing from establishing a defined contribution plan for a segment of its workforce in 1994. (See explanation provided earlier, page B-4)

Estimates of the specific amount and timeframe for cost savings would require actuarial analysis; however, a general description of how this option achieves savings follows.

In FY11, MCPS contribution for the nearly 5,000 employees in the Local Plan was about \$41 million and equated to a contribution of 20.49% of each employee s salary. If those same employees were instead part of a defined contribution plan with an employer contribution of 8% of salary, MCPS contribution would have been around \$16 million, a difference of \$25 million.

For employees in the State plan, replacing the defined benefit Pension Supplement with a defined contribution plan would achieve savings as long as the employer contribution percent was set at a lower rate than required for the current plan (1.92% of salary in FY11).

Effect on Employees' Retirement

Current employees would see no change to their retirement plans or future retirement benefit levels. New MCPS employees eligible for the Local Plan would join a defined contribution plan instead of a defined benefit plan. At retirement, these new employees would receive the accumulated balance in their individual retirement account rather than a monthly pension. The value of a pension compared to a defined contribution plan cannot be easily quantified because the final value of each plan depends on factors such as salary, years of service, return on investments, and contribution rate. However, for employees with a similar salary history and years of service, the final value of a defined benefit plan is typically higher than the final value of a defined contribution plan.

Similarly, new employees in the State Plan would receive their Pension Supplement as an accumulated balance in their individual retirement account rather than as a monthly pension. Defined contribution plans have the advantage of portability from employer to employer for employees who leave County service before reaching normal retirement. Defined benefit employees who leave employment before retiring receive a refund of their contributions (often with interest), but have no remaining retirement benefit. Alternatively, defined benefit employees can leave their contributions with an employer, but cannot receive a pension until they would have been eligible to retire.

Currently, the employee contribution rate for MCPS employees in the Local Plan is 5.5% of salary. If a defined contribution plan were established with lower employee contribution rates (the County Government's defined contribution plan has a 4% employee contribution rate), a new employee would pay less in annual retirement contributions than under the current structure.

¹⁴ Employees in the State plan contribute 0.5% of salary to MCPS for the local Pension Supplement.

MCPS OPTION # 2: Eliminate MCPS' Local Pension Supplement

Current Structure

All MCPS employees participate in a locally-funded Pension Supplement, regardless of whether they participate in the State retirement plan or the Local retirement plan. A portion of the local Pension Supplement provided to employees in the State-funded plan is mandated by State law.¹⁵

In FY11, the Pension Supplement accounted for \$25.9 million (41%) of MCPS \$63.3 million in retirement plan contributions.

Group	FY11 MCPS Contribution	FY11 Contribution Rate (% of salary)
Employees in State Plan	\$22.1 million	1.92%
Employees in Local Plan	\$3.8 million	1.90%
Total	\$25.9 million	

Table 10. FY11 Cost of MCPS Pension Supplement

Alternative Structure

Eliminate the Pension Supplement for all MCPS employees hired after a certain date. This option would require a change to State law.

Alternatively, MCPS could eliminate the portion of the Pension Supplement *not required* by State law. MCPS could implement this change with no amendment to State law.

Projected Savings

Although this option would not yield significant agency savings in the short run, it would lead to substantial savings in the long run. Estimates of the specific amount and timeframe for cost savings would require actuarial analysis.

Because this option would only apply to employees hired after a specified future date, MCPS would continue to pay the pension supplement for current employees. Over the course of many years, MCPS costs for the Supplement (\$26 million in FY11) would be vastly reduced and eventually eliminated.

Effect on Employees' Retirement

Current employees would see no change to their retirement plans or future retirement benefit levels. Employees hired on the effective date of the change would still receive a defined benefit pension; however, the pension would be based on a multiplier of 1.8% instead of 2%.

MCPS employees currently contribute 0.5% of salary annually toward their Pension Supplement. Employees hired after the effective date of the change would no longer be required to contribute that portion of their salary toward retirement.

¹⁵ MCPS is required by State law to provide a 0.08% supplement to the pension multiplier; however, MCPS provides a 0.2% supplement. Montgomery County is the only Maryland County required to supplement State teacher pensions.

MCPS OPTION #3:

Increase MCPS Employee Contributions to Pension Supplement

Current Structure

All MCPS employees participate in a locally-funded Pension Supplement, regardless of whether their Core retirement plan is funded by the State or by MCPS. A portion of the local Pension Supplement given to employees in the State-funded plan is established in State law.¹⁶

MCPS employees contribute 0.5% of their salary for the Pension Supplement (on top of the 5% they contribute toward their Core Pension). In a defined benefit plan, employee contributions affect the annual contribution required from employers. Specifically, increased employee contributions result in decreased contributions for MCPS. MCPS total required contribution in FY11 to fund the Pension Supplement is \$25.9 million.

Alternative Structure

Increase required employee contributions for the local Pension Supplement. For example, MCPS could increase the required employee contribution from 0.5% to 0.75% of salary (a 50% increase).

Projected Savings

Estimates of the specific amount and timeframe for cost savings would require actuarial analysis; however, a general estimate of savings follows.

If employees contributed a higher percent of salary toward the Pension Supplement, MCPS required contribution would decrease. While the decrease would not be dollar-for-dollar, the MCPS savings would reflect the magnitude of increased employee contributions. Table 11 shows that if employee contribution rates to the Pension Supplement had been increased by 50%, employees would have contributed an additional \$3.4 million in FY11.

Table 11. Example of Potential County Government Savings from Increased Employee ERS Contributions

Pension Supplement E	Difference		
Current Structure	50% Increase	Difference	
\$6.7 million	\$10.1 million	+\$3.4 million	

Effect on Employees' Retirement

Changing employee contributions in a defined benefit plan does not change an employee s retirement plan or the future retirement benefit levels. An employee would have to contribute a higher portion of their salary toward their Pension Supplement benefit. In the example used above, an increase in the employee s contribution from 0.5% to 0.75% would mean that an employee earning \$50,000 per year would contribute an additional \$125 annually.

¹⁶ Montgomery County is the only Maryland County required to supplement State teacher pensions.

¹⁷ Calculated based on the MCPS approved FY11 tax supported salary costs of approximately \$1.34 billion.

MCPS OPTION #4:

Integrate Locally-Funded MCPS Pensions with Social Security

Current Structure

In 1979, the State of Maryland created the Teachers Pension System (and closed an existing defined benefit plan). The new System was integrated with Social Security meaning that the pension formula took into account that retirees would collect Social Security benefits in addition to pensions. Similarly, the County Government integrated its defined benefit plan with Social Security in 1978.

In 1998, the State of Maryland discontinued the Teachers Pension System's integration with Social Security for service after July 1, 1998. MCPS matched the State's change and, for service after July 1, 1998, discontinued Social Security integration for the locally-funded pension plans.

Alternative Structure

For all new employees hired after a certain date, integrate locally-funded pension plans with Social Security. There are several different ways to integrate defined benefit plans with Social Security. Following the County Government s practice, MCPS could reduce the pension formula multiplier once an employee reaches Social Security normal retirement age. For example, MCPS could lower the overall multiplier for employees in the Local Plan from 2% (1.8% for Core Pension and 0.2% for Pension Supplement) to 1.25% when a retiree reaches Social Security normal retirement age.

Projected Savings

While a long-term cost savings to MCPS would occur under this option, estimates of the specific amount and timeframe for cost savings would require actuarial analysis, and would depend upon how the integration with Social Security was structured.

For example, if MCPS set lower multipliers for when retirees reach Social Security retirement age, retirees pensions would decrease when they reach that age. Alternatively, MCPS could set one single lower multiplier that accounts for retirees Social Security benefits, so retirees pensions would not decrease at Social Security retirement age, but the lifetime amount paid to retirees would be lower due to the lower multiplier.

Effect on Employees' Retirement

Current employees would see no change to their retirement plans. Employees hired after the specified implementation date would receive lower overall pension benefits. For example, if an employee worked for 30 years and had a final salary of \$75,000, their pension would be calculated as shown below if MCPS established two separate multipliers.

	Multiplier	x	Final Salary	X	Years of Service	=	Annual Pension
Before Social Security Retirement Age	2%	X	\$75,000	X	30	=	\$45,000
At Social Security Retirement Age	1.25%	X	\$75,000	X	30	=	\$28,125

¹⁸ HB 1737 Fiscal and Policy Note, Maryland General Assembly 2006 Session, Department of Legislative Service, at p. 4.

¹⁹ County Government ERS multiplier for non-public safety employees hired before October 1, 1994.

Issue Paper C

Health Benefits for Active Employees

OLO Report 2011-2 December 7, 2010

HEALTH BENEFITS FOR ACTIVE EMPLOYEES

OVERVIEW: This paper presents options to lower the projected increases in the agencies' costs for group insurance for active employees. The options outline various ways to reduce agency costs by increasing the employee's share of the insurance premium.

Current and Projected Cost of Group Insurance

The four tax supported agencies offer four types of group insurance benefits to their employees: medical, prescription drug, dental, and vision. Over 29,000 active employees are currently enrolled in the agencies' medical plans. Over the past ten years (FY02-FY11), total agency spending on group insurance for active employees increased 134%, from \$134.4 million to \$314.6 million. The total costs of group insurance (assuming no change to the current structure) are estimated to increase another 55% to \$486.6 million by FY16.

Agoney	FY11	FY16	FY11-FY16 Increase		
Agency	Approved	Projected	\$	%	
County Government	\$79.5	\$127.9	\$48.4	61%	
MCPS	\$216.2	\$333.2	\$117.0	54%	
Montgomery College	\$11.6	\$14.5	\$2.9	25%	
M-NCPPC	\$7.3	\$11.0	\$3.7	50%	
		1			

\$314.6

Table 1. Projected Agency Expenditures on Group Insurance for Active Employees (\$ in millions)¹

This paper focuses on options to lower the projected increases in the agencies' cost for medical and prescription drug benefits, which account for over 90% of each agency's annual group insurance expenditures.

\$486.6

\$172.0

55%

Overview of Agency Health Plans

Total

Each agency structures employee health benefits to manage agency costs and provide employee choice through multiple plan offerings. The key components that influence each agency's health benefit costs include:

- **Plan Design and Administration.** Each agency offers multiple health plans and contracts out plan administration to multiple insurance carriers. Each plan structures variables such as copays, deductibles, out-of-pocket maximums, and the network of doctors an employee can use for care differently based on the plan design and administrator.
- **Employee Eligibility.** Each agency establishes eligibility criteria for access to health insurance benefits based on factors such as the number of hours worked (e.g., full-time, part-time) and/or whether the employee is hired on a permanent or temporary basis.

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¹ Group insurance includes health benefits (medical, dental, prescription drug, and vision) plus other benefits such as life and long-term disability.

• Level of Coverage. Each agency generally allows employees to choose among three different levels of insurance coverage: self (covers only the employee); self+1 (covers the employee and one eligible dependent); and family (covers the employee and all eligible dependents). Montgomery College does not offer self+1 coverage.

The tables on page C-4 summarize the agencies' 2011 (calendar year) medical and prescription drug insurance plan options and eligibility guidelines for employees and their dependents.

Premium "Cost Share" for Health Benefits

Each year, agencies determine the next year's health care costs for each plan and calculate a set of per person charges, or premiums, that cover these costs. The set of annual premiums calculated for each agency vary by plan and level of coverage.

Each agency allocates its premium costs between the agency and the employee, and identifies specific cost shares for different employee groups. For example, an "80/20" cost share ratio assigns 80% of the premium cost to the agency and 20% to the employee. Expressed in dollars, a \$10,000 premium with an 80/20 cost share means an agency cost of \$8,000 and an employee cost of \$2,000.

Table 2 displays each agency's premium cost share ratios for medical and prescription drug coverage. Three agencies, County Government, the College, and M-NCPPC, establish groups based on employee status (e.g., full-time or part-time, when hired). MCPS' groups are based on plan types (i.e., HMO or POS), hiring date, and benefit type.

Table 2. 2011 Premium Cost Share for Medical and Prescription Drug Benefits by Agency

Employee Status or Plan Type	Enrollees	Health Premium Cost Share			
Employee Status of Flan Type	(July/Aug. 2010)	Agency Pays	Employee Pays		
Montgomery County Government*					
Choice Group Full- and Part-time	7,104	80%	20%		
Select Group Full-time	816	76%	24%		
Select Group Part-time	33	19%-57%	43%-81%		
MCPS					
HMO Medical Plans	12,172	95%	5%		
POS Medical Plans	6,286	90%	10%		
Closed POS Medical Plan	768	80%-85%	15%-20%		
Prescription Drug Plans	19,183	90%	10%		
Montgomery College					
Full-time Staff and Faculty	1,356	75%	25%		
Part-time Staff hired after 1993	21	37.5%	62.5%		
M-NCPPC					
Merit Employees and Appointed Officials	672	85%	15%		
Term Contract Employees	8	30%	70%		

^{**}For County Government, the "Choice" group consists of employees represented by a bargaining unit <u>and</u> unrepresented employees hired before October 1, 1994. The "Select" group consists of unrepresented employees hired on or after October 1, 1994. County Government has one prescription plan (Caremark High Option plan) where enrollees pay a higher percent of the cost share than shown in the table.

Overview of Options

The rest of this issue paper presents estimated savings for the four agencies' active employee health benefit costs, based on four options that modify one or more of the agencies' premium cost share ratios. Each option presents estimated costs for the next six years against cost projections that assume the current cost share arrangements. The estimated savings are the difference between these two cost projections. Since the options assume the changes would be effective in January 2012, all of the estimates reflect six months of savings in FY12 and a full year of savings in FY13–FY16.

- Option #1 replaces the four agencies' multiple cost share arrangements with a uniform cost share of 70/30. If implemented all at once, the estimated savings are \$35 million in FY12 and \$94 million by FY16. If phased in at 5% per year, the estimated savings are \$10 million in FY12 and \$90 million by FY16.
- Option #2 defines each agency's contributions to employee health care premiums as a fixed dollar amount calculated at 75% of each plan's lowest cost premium. This approach establishes a 75/25 cost share for the lowest cost plan and progressively higher cost shares for more expensive plans. The estimated savings are \$46 million in FY12 and \$123 million by FY16.
- Option #3 charges employees who enroll dependents ("self + 1" or an entire family) higher shares of a plan's total premium than individual employees since these coverage levels have higher costs. For each current cost share, this option increases the self +1 and family coverage share by 2.5% and 5% respectively. The estimated savings are \$7 million in FY12 and \$19 million by FY16.
- Option #4 replaces the agencies' cost share arrangements for their part-time employees with a uniform cost share ratio of 60/40. The estimated savings are \$12 million in FY12 and \$33 million by FY16.

The Appendix (©119) contains a summary of comparative examples related to health benefit changes made by other jurisdictions. The Appendix also contains a list of additional options that could achieve savings in health benefit costs (©4). The additional options are either variations of those described above or different options that could produce short-term and/or long-term savings.

Implementation Issues

The structure of employee health benefits is not established in County or State law. For County Government, MCPS, and M-NCPPC health benefits are part of the collectively bargained agreements between the agencies and their respective employee unions (Montgomery College does not bargain group insurance benefits). The final authority for establishing the health care cost structure for each agency lies with its respective governing body. For a discussion of legal issues surrounding modification to health benefits, see the memos in the Appendix (©8) from the County Attorney on: 1) the Council's authority to modify employee pay and benefits, and 2) the Council's role in collective bargaining.

Under the recently enacted federal health care reform legislation, health plans that existed on March 23, 2010 are "grandfathered," meaning they do not have to implement certain reforms for several years. Plans can lose grandfather status if they reduce benefits or increase beneficiaries' out of pocket expenditures by a certain amount, such as increasing an employee's premium cost share by more than 5%. As of this writing, the only local agency that has already lost its grandfather status is MCPS.

Table 3. Health Plan Options by Agency, Calendar Year 2011

Plan Type	County Government	MCPS	Montgomery College	M-NCPPC
Medical Plans	 Carefirst BlueChoice POS (High and Standard Option) Kaiser Permanente HMO* United Healthcare HMO 	 Carefirst BlueChoice HMO Kaiser Permanente HMO* United Healthcare Select HMO Carefirst BlueChoice POS United Healthcare Select Plus POS United Healthcare Select Plus Closed POS** 	CIGNA PPOCIGNA POSKaiser Permanente HMO	 United Healthcare Choice Plus POS CIGNA Open Access Plus In Network EPO United Healthcare Select EPO
Prescription Drug Plans	Caremark High OptionCaremark Standard OptionKaiser Permanente*	Caremark Kaiser Permanente*	Included as part of each medical plan	Caremark

^{*}Kaiser prescription plans are included within Kaiser medical plans, and only available to enrollees of the medical plan. MCPS allows Kaiser medical enrollees to opt out of the Kaiser prescription coverage.

Table 4. Health Plan Eligibility by Agency, Calendar Year 2011

Туре	County Government	MCPS	Montgomery College	M-NCPPC
Eligible Employees	Permanent full-time or part-time employees, circuit court judges, elected officials*	Permanent employees who work 20 hours or more per week	All full-time and part-time regular and temporary with benefits employees	Career employees working at least 20 hours per week, appointed officials, commissioners, merit board members, credit union employees, and Employee Retirement System employees. Term contract employees are eligible for limited benefits.
Eligible Dependents	SpouseSame-sex Domestic Partner**Children	SpouseSame-sex Domestic PartnerChildren	SpouseSame-sex Domestic PartnerChildren	 Spouse Domestic Partner (Same-sex or opposite-sex) Children

^{*}Several agencies and municipalities participate in County Government group health benefits. These entities pay 100% of the cost of premiums for their enrolled employees. The participating agencies and municipalities are listed in Appendix (©98). Full scope temporary or substitute employees in the MCGEO bargaining unit are generally eligible for benefits but pay 100% of the cost of the premium. Former employees enrolled through COBRA continuation coverage also pay the full cost.

**Members of the FOP and IAFF bargaining units also receive coverage for opposite-sex domestic partners.

^{**}Not open to new members, and only contains employees hired before 1994.

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

Current Structure

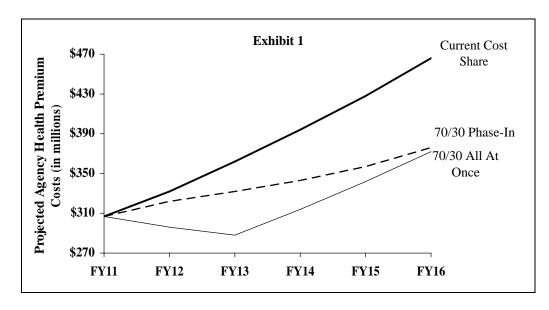
As reviewed earlier, each agency determines the structure of health benefits offered to its employees. The current cost shares arrangements vary by agency, with agency contributions for full-time employees ranging from 75% to 95% of the total premium. (See Table 2 page C-2)

Alternative Structure

This option would change the agency/employee premium cost share for medical and prescription drug coverage to 70/30 as of January 1, 2012. A 70/30 cost share assigns 70% of the annual premium to the agency and 30% to the employee. Expressed in dollars, an annual premium of \$10,000 with a 70/30 cost share means an agency cost of \$7,000 and an employee cost of \$3,000. This option would apply to all agency employees who currently pay less than 30% of their annual premium.² All cost projections in this option include tax supported and non-tax supported positions.

Exhibit 1 shows potential savings from changing to a 70/30 cost share <u>all at once</u> compared to a <u>phase-in approach</u> that limits cost share increases for employees to 5% each year. The three lines in the graph are explained below:

- The top line, **Current Cost Share**, shows the projected agency cost increases for health insurance based on the current cost share arrangements.
- The middle line, **70/30 Phase-In**, shows the projected agency cost increases for health insurance based on implementing the 70/30 option across all agencies with a 5% annual phase-in that would begin in January 2012.
- The bottom line, **70/30 All At Once**, shows the projected agency cost increases for health insurance based on implementing the 70/30 option across all agencies as of January 2012.



² The cost share for employees who currently pay 30% or more would not change.

Projected Cost Savings

Table 5 compares projected annual agency health care costs under the current cost share arrangements with projected agency costs under the 70/30 option implemented across all four agencies as of January 1, 2012. In sum:

- In FY12, the four agencies would save \$35 million in health care costs for active employees under the "all at once" option and \$10 million under the "5% phase-in" option.
- By FY16, the annual savings in health care costs for active employees would be \$94 million under the "all at once" option and \$90 million under the "5% phase-in" option.

Increasing or decreasing the targeted cost share would adjust the savings accordingly.

Table 5. Projected Annual Health Insurance Premium Costs for All Agencies (\$ in millions)

Cost Share Model	FY11	Projected Agency Health Insurance Premium Costs							
Cost Share Woder	Budget	FY12	FY13	FY14	FY15	FY16			
Current Cost Share	\$306.9	\$331.7	\$361.9	\$393.8	\$428.4	\$466.1			
70/30 Cost Share: "all at once"		\$296.5	\$288.5	\$313.9	\$341.6	\$371.7			
Difference		(\$35.2)	(\$73.4)	(\$79.8)	(\$86.8)	(\$94.4)			
70/30 Cost Share: "5% phase-in"		\$322.0	\$331.5	\$342.6	\$356.8	\$375.7			
Difference		(\$9.7)	(\$30.4)	(\$51.2)	(\$71.7)	(\$90.4)			

For each of the 70/30 cost share scenarios, the table below shows estimated annual savings by agency. Under either option, the largest savings would accrue to MCPS because it has the largest workforce and because MCPS employees currently pay the lowest cost share of premiums compared to the other agencies.

Table 6. Difference in Agency Health Insurance Premium Costs with 70/30 Cost Share Options (\$ in millions)

Cost Share Model	FY11	Difference in Agency Health Insurance Premium Co					
Cost Share Woder	Budget	FY12	FY13	FY14	FY15	FY16	
70/ 30 Cost Share: "all	at once"						
MCPS		(\$28.7)	(\$59.9)	(\$65.0)	(\$70.6)	(\$76.5)	
County Government		(\$5.5)	(\$11.6)	(\$12.8)	(\$14.1)	(\$15.5)	
M-NCPPC		(\$0.5)	(\$1.1)	(\$1.2)	(\$1.3)	(\$1.4)	
Montgomery College		(\$0.4)	(\$0.8)	(\$0.8)	(\$0.8)	(\$0.9)	
70/ 30 Cost Share: "5%	6 phase-in	, ,					
MCPS		(\$6.4)	(\$20.3)	(\$36.6)	(55.4)	(\$72.6)	
County Government		(\$2.7)	(\$8.8)	(\$12.8)	(\$14.1)	(\$15.5)	
M-NCPPC		(\$0.2)	(\$0.6)	(\$1.0)	(\$1.3)	(\$1.4)	
Montgomery College		(\$0.4)	(\$0.8)	(\$0.8)	(\$0.8)	(\$0.9)	

^{*}The calculations for the projected costs under each model assume current plan designs and no enrollment changes.

Effect on Individual Employees

The agencies' projected savings shown above are not the result of a reduction in the annual premium amounts; instead, they reflect a shift of some of the increasing annual premium costs from the agencies to their employees. For the County Government and MCPS plans with the highest enrollments, Table 7 illustrates how a 70/30 cost share would affect the annual premiums for medical coverage paid by individual employees.

Table 7. Annual Employee Health Premium Projected Cost Increases: Current Cost Share vs. 70/30 Cost Share

	2011	2012	2013	2014	2015	2016
County Government - Carefirst H	High Option	POS Plan (F	amily cover	age, Choice	group)	
80/20 Cost Share (Current)	\$3,204	\$3,500	\$3,857	\$4,247	\$4,674	\$5,140
70/30 Cost Share: "all at once"		\$5,250	\$5,786	\$6,371	\$7,011	\$7,710
Difference		+\$1,750	+\$1,929	+\$2,124	+\$2,337	+\$2,570
70/ 30 Cost Share: "5% phase-in"		\$4,375	\$5,786	\$6,371	\$7,011	\$7,710
Difference		+\$875	+\$1,929	+\$2,124	+\$2,337	+\$2,570
MCPS - United Healthcare Selec	t HMO (Fa	mily coverag	ge)			
95/5 Cost Share (Current)	\$711	\$781	\$847	\$919	\$997	\$1,082
70/30 Cost Share: "all at once"		\$4,685	\$5,084	\$5,516	\$5,985	\$6,493
Difference		+\$3,905	+\$4,236	+\$4,597	+\$4,987	+\$5,411
70/30 Cost Share: "5% phase-in"		\$1,562	\$2,542	\$3,677	\$4,987	\$6,493
Difference		+\$781	+\$1,695	+\$2,758	+\$3,990	+\$5,411

OPTION #2: Change to a Fixed Employer Contribution

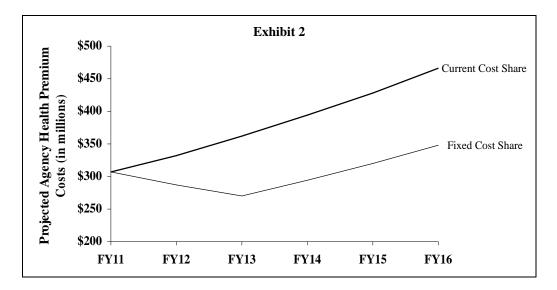
Current Structure

As reviewed earlier, each agency determines the structure of health benefits offered to its employees. The current cost share arrangements vary by agency, and agency contributions for full-time employees range from 75% to 95% of the total premium. (See Table 2, page C-2)

Alternative Structure

Under this option, an agency's contribution to an employee's insurance premium would be a fixed dollar amount and the employee would pay the difference. This option would set the fixed dollar contribution at 75% of the premium for each agency's lowest cost plan. In effect, this option would establish a 75/25 cost share for the cheapest plan and progressively higher cost shares for the other plans. All cost projections in this option include tax supported and non-tax supported positions.

Exhibit 2 shows total projected employer costs across all agencies through FY16 under the current cost share structure compared to the fixed cost option beginning in calendar year 2012.



Projected Cost Savings

Table 8 (on the next page) compares the projected annual agency health premium expenditures under the current cost share arrangements and under this fixed employer contribution option implemented across all four agencies as of in January 1, 2012. Under the fixed contribution set at 75% of the premium for the lowest cost plan:

- In FY12, the four agencies would save \$46 million in health care costs for active employees.
- By FY16, the annual savings in health care costs for active employees would be \$123 million.
- The largest savings would occur in MCPS because it has the largest workforce and because MCPS employees currently pay the lowest premium cost share compared to other agencies.
- Increasing or decreasing the fixed employer contribution would adjust the savings accordingly.

Table 8. Annual Agency Health Premium Costs for All Agencies (\$ in millions)

Cost Share Model	FY11	Projected Agency Health Premium Costs						
Cost Share Woder	Budget	FY12	FY13	FY14	FY15	FY16		
All Agencies								
Current Cost Share	\$306.9	\$331.7	\$361.9	\$393.8	\$428.4	\$466.1		
Fixed Contribution: 75% of low plan		\$285.6	\$266.0	\$289.6	\$315.3	\$343.2		
Difference		(\$46.0)	(\$96.0)	(\$104.2)	(\$113.2)	(\$122.9)		
Difference by Agency								
MCPS		(\$38.9)	(\$81.1)	(\$88.0)	(\$95.5)	(\$103.6)		
County Government		(\$5.5)	(\$11.5)	(\$12.7)	(\$14.0)	(\$15.4)		
M-NCPPC		(\$0.4)	(\$0.8)	(\$0.9)	(\$1.0)	(\$1.1)		
Montgomery College		(\$1.2)	(\$2.5)	(\$2.6)	(\$2.7)	(\$2.8)		

^{*}The calculations for the projected costs under each model assume current plan designs, no enrollment changes, and that each agency's FY11 lowest cost plan remains the lowest cost plan in future years.

Effect on Individual Employees

The projected savings shown above do not reflect lower annual premium amounts; instead, they shift some of the annual premium cost increases from the agencies to their employees. For the County Government and MCPS plans with the highest enrollments, Table 9 illustrates how this option would change annual premium costs for medical coverage paid by individual employees.

Table 9. Annual Employee Health Premium Cost Projections

	2011	2012	2013	2014	2015	2016
County Government - Carefirst High Opt	ion POS Pl	an (Family	y coverage	, Choice gr	oup)	
80/20 Cost Share (Current)	\$3,204	\$3,500	\$3,857	\$4,247	\$4,674	\$5,140
Fixed Employer Contribution Scenario		\$5,753	\$6,339	\$6,980	\$7,682	\$8,448
Difference		+\$2,252	+\$2,482	+\$2,733	+\$3,008	+\$3,308
MCPS - United Healthcare Select HMO (Family cov	verage)				
95/5 Cost Share (Current)	\$711	\$781	\$847	\$919	\$997	\$1,082
Fixed Employer Contribution Scenario		\$6,696	\$7,265	\$7,883	\$8,553	\$9,280
Difference		+\$5,915	+\$6,418	+\$6,963	+\$7,555	+\$8,198

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

Current Structure

As reviewed earlier, each agency determines the structure of health benefits offered to its employees. Current cost share arrangements vary by agency, and agency contributions for full-time employees range from 75% to 95% of the total premium. (See Table 2, C-2).

Agency cost shares are the same for all levels of coverage even though annual plan premium prices differ by level of coverage (self, self+1, or family). Since cost shares are not adjusted to account for this higher pricing, the result is higher agency costs for employees enrolled in "self+1" or "family" coverage than for employees enrolled in "self" coverage.

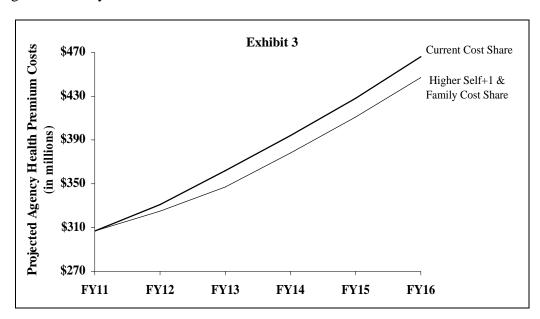
Alternative Structure

This option would increase cost shares for employees who would enroll in "self+1" or "family" coverage by 2.5% and 5% respectively. This option would apply across the agencies, regardless of plan type or employee status. Under this option, a plan with a current 80/20 cost share would have the new cost shares below:

- 80/20 cost share for a "self" enrollee;
- 77.5/22.5 cost share for a "self+1" enrollee; and
- 75/25 cost share for a "family" enrollee.

All other current cost share arrangements would not change. All cost projections in this option include tax supported and non-tax supported positions.

Exhibit 3 shows total projected employer costs across all agencies through FY16 under the current cost share structure compared to the higher cost share for "self+1" and "family" coverage option beginning in calendar year 2012.



Projected Cost Savings

Table 10 compares the projected annual agency health premium expenditures under the current cost share arrangements and under this higher cost share for "self+1" and "family" coverage option implemented across all four agencies as of January 1, 2012. Under this option:

- In FY12, the four agencies would save \$7 million in health care costs for active employees.
- By FY16, the annual savings in health care costs for active employees would be \$19 million.
- The largest savings would occur in MCPS because it has the largest workforce.

Increasing or decreasing the additional percent paid for "self+1" and "family" coverage would adjust the savings accordingly.

Table 10. Annual Agency Health Premium Costs for All Agencies (\$ in million						
Cost Shore Model	FY11	Projected Agency Premium Costs				

Cost Share Model	FY11]	Projected A	gency Pre	mium Cost	s
Cost Share Wodel	Budget	FY12	FY13	FY14	FY15	FY16
All Agencies						
Current Premium Cost Share	\$306.9	\$331.7	\$361.9	\$393.8	\$428.4	\$466.1
Higher Self+1 & Family Cost Share		\$324.5	\$347.1	\$377.5	\$410.7	\$446.8
Difference		(\$7.2)	(\$14.9)	(\$16.3)	(\$17.7)	(\$19.2)
Difference by Agency						
MCPS		(\$4.6)	(\$9.7)	(\$10.5)	(\$11.4)	(\$12.3)
County Government		(\$2.1)	(\$4.4)	(\$4.9)	(\$5.4)	(\$5.9)
M-NCPPC		(\$0.1)	(\$0.3)	(\$0.3)	(\$0.3)	(\$0.3)
Montgomery College		(\$0.3)	(\$0.6)	(\$0.6)	(\$0.6)	(\$0.7)

^{*}The calculations for the projected costs assume current plan designs and no enrollment changes.

Effect on Individual Employees

The projected savings shown above do not reflect lower annual premium amounts; instead, they shift some of the annual premium cost increases from the agencies to their employees. Table 11 illustrates how this option would change annual premium costs for medical coverage paid by individual employees using a County Government employee enrolled in family coverage and an MCPS employee enrolled in Self+1 coverage.

Table 11. Annual Employee Health Premium Cost Projections

	2011	2012	2013	2014	2015	2016					
County Government - Carefirst High Option POS Plan (Family coverage, Choice group)											
80/20 Cost Share (Current)	\$3,204	\$3,500	\$3,857	\$4,247	\$4,674	\$5,140					
Higher Cost Share for Family		\$4,375	\$4,822	\$5,309	\$5,842	\$6,425					
Difference		+\$875	+\$964	+\$1,062	+\$1,168	+\$1,285					
MCPS - United Healthcare Select HMO (Self + 1 coverage)											
95/5 Cost Share (Current)	\$434	\$477	\$517	\$561	\$609	\$661					
Higher Cost Share for Self +1		\$715	\$776	\$842	\$913	\$991					
Difference		+\$238	+\$259	+\$281	+\$304	+\$330					

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

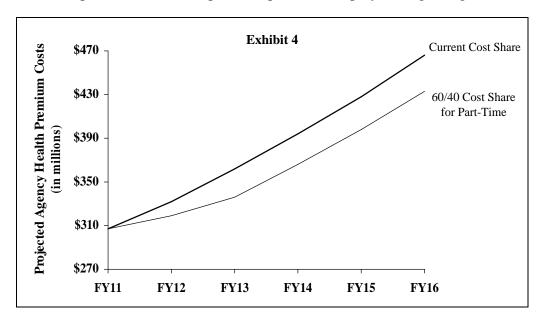
Current Structure

As reviewed earlier, each agency determines the structure of health benefits offered to its employees. Current cost share arrangements vary by agency, and agency contributions for full-time employees range from 75% to 95% of the total premium. (See Table 2, page C-2). Across the four agencies, there are currently 5,495 part-time employees enrolled in agency health plans. Under current cost share arrangements, only 54 (1%) of these part-time employees pay a higher premium cost share compared to full-time employees.

Alternative Structure

This option would change the agency/employee premium cost share for medical and prescription drug coverage for part-time employees (defined as working less than 40 hours per week) to 60/40 as of January 1, 2012. A 60/40 cost share assigns 60% of the annual premium to the agency and 40% to the employee. Expressed in dollars, for an annual premium of \$10,000, the agency pays \$6,000 and the employee pays \$4,000. This option would apply to all part-time agency employees who currently pay less than 40% of their annual premium.³ All cost projections in this option include tax supported and non-tax supported positions.

Exhibit 4 shows projected employer costs across all agencies through FY16 under the current cost share structure compared to the 60/40 option for part-time employees beginning in calendar year 2012.



PROJECTED COST SAVINGS

Table 12 compares the projected annual agency health premium expenditures under the current cost share arrangements and under 60/40 cost share for part-time employees option implemented across all four agencies as of January 1, 2012. Under this option:

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³ The cost share for full-time employees and any part-time employees that currently pay 40% or more would not change.

- In FY12, the four agencies would save \$12 million in health care costs for active employees.
- By FY16, the annual savings in health care costs for active employees would be \$33 million.
- The largest savings would accrue to MCPS because it has the largest part-time workforce and currently does not differentiate cost share based on full-time or part-time status.
- This option would not yield savings for Montgomery College because its part-time employees already pay 62.5% of their premium. M-NCPPC has a relatively small number of part-time employees and would accrue less than \$40,000 in savings annually.

Increasing or decreasing the cost share for part-time employees would adjust the savings accordingly.

Projected Agency Premium Costs FY11 Cost Share Model Budget FY13 FY12 FY14 FY15 FY16 All Agencies Current Cost Share \$306.9 \$331.7 \$361.9 \$393.8 \$428.4 \$466.1 60/40 Cost Share for Part-Time Employees \$319.4 \$336.4 \$366.1 \$398.3 \$433.4

(\$12.2)

(\$11.3)

(\$0.9)

(\$25.5)

(\$23.6)

(\$1.9)

(\$27.7)

(\$25.6)

(\$2.1)

(\$30.1)

(\$27.8)

(\$2.3)

(\$32.7)

(\$30.2)

(\$2.5)

(<\$0.1)

\$0

 Table 12. Annual Agency Health Premium Costs for All Agencies (\$ in millions)

Effect on Individual Employees

Difference

Difference by Agency

County Government

MCPS

The projected savings shown above do not reflect lower annual premium amounts; instead, they shift some of the projected annual premium cost increases from the agencies to their part-time employees. For the County Government and MCPS plans with the highest enrollments, Table 13 illustrates how this 60/40 cost share option would change annual employee premium costs for medical coverage paid by a part-time employee.

	2011	2012	2013	2014	2015	2016				
County Government - Carefirst High Option POS Plan (Family coverage, Choice group)										
80/20 Cost Share (Current)	\$3,204	\$3,500	\$3,857	\$4,247	\$4,674	\$5,140				
60/40 for Part-time Employees		\$7,000	\$7,714	\$8,494	\$9,348	\$10,280				
Difference		+\$3,500	+\$3,857	+\$4,247	+\$4,674	+\$5,140				
MCPS - United Healthcare Select HMO (Family coverage)										
95/5 Cost Share (Current)	\$711	\$781	\$847	\$919	\$997	\$1,082				
60/40 for Part-time Employees		\$6,247	\$6,778	\$7,354	\$7,980	\$8,658				
Difference		+\$5,466	+\$5,931	+\$6,435	+\$6,982	+\$7,576				

M-NCPPC -- (<\$0.1) (<\$0.1) (<\$0.1) (<\$0.1)

Montgomery College -- \$0 \$0 \$0 \$0 \$0

*The calculations for the projected costs assume current plan designs and no enrollment changes.

Issue Paper D

Health Benefits for Retired Employees

OLO Report 2011-2 December 7, 2010

HEALTH BENEFITS FOR RETIRED EMPLOYEES

OVERVIEW: This paper presents options to lower the projected increases in the agencies' costs of retiree health insurance benefits. The cost containment strategies reviewed include eliminating the benefit for new hires, changing eligibility criteria, and modifying the current cost share arrangements.

Current and Projected Cost of Retiree Group Insurance

Under the current system, each agency sets eligibility criteria and group insurance benefit levels for its own retirees. All four agencies offer eligible retirees group insurance benefits in four categories: medical, prescription drug, dental, and vision coverage. The agencies' dual approach to funding retiree group insurance costs is summarized below.

Pay-As-You-Go Funding refers to annual group insurance benefit costs that the agencies pay for their currently retired employees. Over the past ten years (FY02-FY11), total agency spending on group insurance for retired employees more than doubled from about \$31 million to \$79 million. Absent changes to the current structure, these costs are estimated to increase another 57% to nearly \$124 million by FY16.

FY11 **FY16** FY11-FY16 Increase Agency Approved **Projected** % \$51.3 million \$20.2 million County Government \$31.1 million 65% MCPS \$65.3 million \$22.6 million \$42.7 million 53% Montgomery College \$2.7 million \$3.3 million \$0.6 million 22% M-NCPPC \$1.3 million \$2.5 million \$3.8 million 52% **\$79.0** million \$123.7 million **\$44.7** million 57% **Total**

Table 1. Projected Pay-As-You-Go Agency Expenditures on Retiree Group Insurance

Other Post Employment Benefits (OPEB) Pre-Funding refers to agency contributions to their respective OPEB trust funds. In FY08, each agency established an OPEB trust fund to begin prefunding their long-term retiree group insurance cost liability. Funds set aside in an OPEB trust will be used to pay the group insurance costs that will come due when current employees retire.

As summarized in Table 2 (on the next page), the latest actuarial estimates (prepared in 2008) place the County's future liability for retiree group insurance costs – if paid out today and in today's dollars – at \$2.7 billion.

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¹ In 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 45 that required government agencies to disclose their "other post employment benefits" liability in financial statements. GASB 45 does not require that state and local governments actually fund their OPEB obligations, only that they report them.

Table 2. Agency OPEB Valuation as of June/July 2008

Agency	Accrued Liability
County Government	\$1,161 million
MCPS	\$1,361 million
M-NCPPC	\$106 million
Montgomery College	\$52 million
Total	\$2,680 million

Updated actuarial estimates of the agencies' long-term liability for retiree health care costs are expected to be completed in early 2011. It is anticipated that these updates will recommend higher annual OPEB contributions from all four agencies.

Due to funding constraints, none of the agencies made OPEB contributions in FY10 or FY11. The Council's most recently adopted Fiscal Plan shows annual agency OPEB payments resuming in FY12 as summarized in Table 3 below.

Table 3. OPEB Contributions for FY12-FY16, as Adopted in the County's Fiscal Plan*

	FY12	FY13	FY14	FY15	FY16
All Agencies	\$83.6 million	\$102.6 million	\$121.7 million	\$139.8 million	\$146.8 million

^{*}Adopted by the Council on June 29, 2010.

Overview of Agency Health Plans for Retirees

Each agency determines the group insurance benefits offered to its retirees. Currently, each agency sponsors an array of health plans with varying structures. Key structural components of agency health plans for retirees that impact the overall cost of health benefits include:

- Plan Design and Administration. Each agency offers multiple health plans for retirees to choose from, and contracts with different insurance carriers for plan administration. Based on the design and administrator, each plan has its own structures for variables such as copays, deductibles, out-of-pocket maximums, and network of health care providers.
- Coordination with Medicare. For all agency retirees, the structure of agency-provided health benefits changes once a retiree becomes eligible for Medicare. Between retirement and age 65, the medical plan offered by each agency is the retiree's primary plan. Once a retiree turns 65, Medicare becomes the primary coverage and the agency plan becomes secondary coverage.
- Eligibility for Retiree Health Benefits. Each agency establishes its own eligibility criteria for retiree health benefits. The current criteria are based on different combinations of an employee's years of credited service and/or age.

• Level of Coverage and Dependents. Retirees generally choose among three different levels of insurance coverage: self (covers only the employee); self+1 (covers the employee and one eligible dependent); and family (covers the employee and all eligible dependents). MCPS and M-NCPPC do not allow the addition of any new dependents once an employee has retired.

The tables on page D-5 summarize the agencies' retiree medical and prescription drug insurance plan options (either calendar year 2010 or 2011), and eligibility guidelines for retirees and their dependents.

Premium "Cost Share" for Retiree Health Benefits

Each year, based on the structure of each plan and projected total agency health care costs, agency actuaries calculate recommended annual premium amounts. Within each agency, the annual insurance premium varies by plan and level of coverage.

Similar to health insurance for active employees, the cost of the annual premium is shared between the agency and the enrolled retirees. A "cost share" ratio determines how much of the annual premium is paid by the agency and how much is paid by the retiree. For example, a "70/30" cost share allocates 70% of the cost to the agency and 30% to the retiree. An annual premium of \$10,000 with a 70/30 cost share means an agency cost of \$7,000 and a retiree cost of \$3,000.

Table 4 (below) lists the current premium cost share arrangement for each agency. The agencies vary the cost share by hire date, years of credited service, and/or age.

Table 4. 2011 Premium Cost Share for Retiree Health Benefits by Agency

Employee Status or Plan Type	Enrollees	Health Premium Cost Share		
Employee Status or Fian Type	(July/Aug 2010)	Agency Pays	Employee Pays	
Montgomery County Government				
Hired before Jan. 1, 1987*		80%	20%	
Hired after Jan. 1, 1987 with at least 15 years eligible for insurance as active employee	4,446	70%	30%	
Hired after Jan. 1, 1987 with between 5 and 15 years eligible for insurance as active employee		50%-70%	30%-50%	
MCPS				
At least 5 years of credited service	7,424	64%	36%	
Less than 5 years of credited service	7,424	50%	50%	
Montgomery College				
Under age 65	420	60%	40%	
Over age 65	439	40%	60%	
M-NCPPC				
All Retirees	n/a**	85%	15%	

^{*}Employees hired before Jan. 1, 1987 are only eligible for retiree health insurance for the same number of years they were eligible for insurance as an active employee. In 1986 and 2002, these employees were given the option to switch to the same lifetime cost sharing arrangement as those hired after Jan. 1, 1987.

^{**}M-NCPPC's retirement system combines Montgomery County and Prince George's County retirees and does not track which county the employee retired from.

Overview of Options

The rest of this issue paper outlines three approaches for containing the future costs of health care for agency retirees in Montgomery County. OLO chose these options, in part, based on research on strategies that other jurisdictions are considering to reduce their retiree health care costs. For a summary of comparative examples related to containing future costs of retiree health insurance, see Appendix (©119).

- Option #1 eliminates retiree group insurance benefits for new employees hired after a specified date in the future.
- Option #2 reduces the agency's cost share of the annual premium paid for retiree health insurance.
- Option #3 changes current eligibility criteria and/or benefit levels for retiree health insurance. The strategies include changing the minimum age and/or years of credited service requirements, revising the provision of health care benefits based on Medicare eligibility, and eliminating coverage for dependents.

For each option, estimating the agency savings from changes to retiree health insurance would require calculations by the agencies' actuaries. As a result, the options described in this issue paper explain how the agency costs would be reduced but do not provide any specific dollar estimates. If the Council wants to further consider any of the options outlined in the paper, then detailed cost estimates can be requested from the agencies' actuaries.

Implementation Issues

The structure of employee health benefits is not established in County or State law, but is instead established by each agency. The authority to change the structure of retiree health benefits lies with the governing body for each agency. For a discussion of general legal issues surrounding modification to health benefits, see the memos in the Appendix (©8 and ©22) from the County Attorney on: 1) Council authority to modify employee pay and benefits, and 2) the Council's role in collective bargaining. In general, the County Attorney has concluded (on several occasions) that the Council has the authority to change County Government retiree health benefits.

Table 5. Retiree Health Plan Options by Agency

Plan Type	County Government (Calendar Year 2011)	MCPS (effective 7/1/10)	Montgomery College (Calendar Year 2010)	M-NCPPC (Calendar Year 2011)
Medical Plans	Carefirst BlueChoice POS – High Option Carefirst BlueChoice POS – Standard Option Kaiser Permanente HMO* United Healthcare Select HMO Carefirst Indemnity (with Rx discount)	All retirees: Carefirst BlueChoice HMO Kaiser Permanente HMO* United Healthcare Select HMO Non-Medicare eligible only: United Healthcare Select Plus POS United Healthcare Select Plus Closed POS United Healthcare Indemnity PPO Medicare-eligible only: United Healthcare Medicare Supplemental Indemnity Plan	 CIGNA PPO CIGNA HealthCare Kaiser (under 65 only) Kaiser Medicare Supplement (over 65 only) 	United Healthcare Choice Plus POS CIGNA Open Access Plus In- Network EPO United Healthcare Select EPO
Prescription Drug Plans	Caremark High OptionCaremark Standard OptionKaiser Permanente*	 Caremark Prescription Option A Caremark Prescription Option B Kaiser Permanente* 	Included as part of each medical plan	Caremark Prescription Plan

^{*}Kaiser prescription plans are included within Kaiser medical plans, and only available to enrollees of the medical plan. MCPS allows Kaiser medical enrollees to opt out of the Kaiser prescription coverage.

Table 6. Retiree Health Benefit Eligibility by Agency, Calendar Year 2011

Туре	County Government	MCPS	Montgomery College	M-NCPPC
Eligible Retirees	ERS Participants: employees eligible for retirement RSP Participants: varies based on years of service and age	Employees eligible for retirement	Employees eligible for retirement with at least 10 service years	Employees eligible for retirement
Eligible Dependents	Spouse, Domestic Partner and Children	 Spouse, Domestic Partner, and Children No new dependents after retirement 	Spouse, Domestic Partner and Children	 Spouse, Domestic Partner, and Children No new dependents after retirement

OPTION #1: Eliminate Retiree Heath Benefits for New Hires

Current Structure

Employees who meet the eligibility requirements set by each agency (e.g., minimum age, years of service) receive health insurance benefits after they retire. Agency costs for current retiree health benefits were \$79 million in FY11 and are projected to rise to \$124 million by FY16. The agencies' long-term liability for current employees' future retiree health care costs exceeds \$2.6 billion.

Alternative Structure

Eliminate retiree group insurance benefits for new employees hired after a specified date in the future, but maintain existing eligibility and benefit levels for current employees and retirees. For a discussion of the legal issues related to eliminating retiree group insurance benefits for new hires, see the County Attorney's memos attached at ©8.

Projected Cost Savings

Although this option would not yield significant agency savings in the short run, it would lead to very substantial savings in the long run. Because this option would only apply to employees hired after a specified future date, the agencies would continue to pay health care costs for current retirees and for the cohort of already hired employees once they retire. Over the course of many years, the agencies' costs for group insurance for retirees would be vastly reduced and eventually eliminated.

To date, the agencies have funded a relatively small portion of their long-term liability related to group insurance for retirees. If the agencies were to eliminate retiree group insurance benefits for new hires, the OPEB liability for current employees and retirees would still have to be paid. However, the agencies would not accrue any <u>new OPEB liability</u> related to newly hired employees.

Effect on Current and/or Future Retirees

This option would not affect current retirees or current employees who expect to retire from the County since it does not propose changing the retiree group insurance benefits for current retirees or employees already hired before some specified future date. However, employees hired after the specified date would no longer be eligible to receive group insurance benefits from the agencies after their retirement.

OPTION #2: Change Premium Cost Sharing Arrangements

Current Structure

As reviewed earlier, each agency establishes its own premium cost share arrangements for retiree health insurance benefits. Under current arrangements, agency contributions for retiree group insurance range from a low of 40% to a high of 85% of the total annual premium.

Alternative Structure

Reduce agency premium contributions for retiree health insurance to a maximum of a 50/50 cost share. A maximum 50/50 cost share means that, at most, the agency would pay 50% of the annual premium and the retiree would pay the other 50%. Expressed in dollars, for an annual premium of \$10,000, a 50/50 cost share means that the agency would pay \$5,000 and the retiree would pay \$5,000.

For a discussion of the legal issues related to implementing a revised premium cost share arrangement for current and future retirees, see the County Attorney's memos attached at ©8.

Projected Cost Savings

Estimating the agency savings from changes to retiree health insurance premium cost shares requires calculations by the agencies' actuaries; however, the timing and magnitude of agency cost savings would vary based on how the agencies structured this option:

- If the agencies' applied the new cost share to <u>future retirees</u> only, this option would permanently shift the projected cost curve downward in the long run.
- If the agencies' applied the new cost share to <u>current retirees</u>, they would realize immediate savings.

Effect on Current and/or Future Retirees

If this option were implemented for current retirees, their annual premium costs would increase more than projected under current cost share arrangements. The amount of the increase would depend on a retiree's current cost share and whether they are Medicare-eligible or not. Table 7 compares annual contribution cost projections for two current retirees, one pre-65 retiree and one Medicare-eligible retiree, assuming a 50/50 cost share implemented January 1, 2012.

Table 7. Annual Retiree Health Premium Cost Projections

	2011	2012	2013	2014	2015	2016
County Government - Carefirst I	High Option	POS Plan -	Pre-65 Ret	iree (Self+1	coverage)	
70/30 Cost Share (Current)	\$2,854	\$3,118	\$3,436	\$3,783	\$4,164	\$4,579
50/50 Premium Cost Share		\$5,197	\$5,727	\$6,306	\$6,940	\$7,632
Difference		+\$2,079	+\$2,291	+\$2,523	+\$2,776	+\$3,053
County Government - Carefirst I	High Option	POS Plan -	Medicare-l	Eligible Ret	iree (Self+1	coverage)
70/30 Cost Share (Current)	\$1,648	\$1,800	\$1,984	\$2,184	\$2,404	\$2,643
50/50 Premium Cost Share		\$3,000	\$3,306	\$3,640	\$4,006	\$4,406
Difference		+\$1,200	+\$1,322	+\$1,456	+\$1,602	+\$1,763

Issue Paper D

OPTION #3: Change Eligibility Criteria and/or Benefit Levels

Current Structure

As reviewed earlier, each agency establishes the parameters of the health insurance benefit provided to its retirees, including eligibility criteria and benefit levels.

Alternative Structures

There are many different ways to reduce agency costs of group insurance for retirees. The table below outlines four specific cost saving strategies related to eligibility and/or benefit levels for future retirees. For a discussion of the legal issues related to implementing changes to the retiree health benefits for current agency employees, see the County Attorney s memo attached at ©8.

Scenario	Description
#3A: Change the number of years of service and minimum age requirements needed to qualify for retiree health benefits	 To qualify for health benefits, a retiree would, for example, need: A minimum of 15 years of credited service, and Be at least 55 years of age. For most agencies, this means that eligibility for retiree health benefits would no longer be linked directly to general retirement eligibility.
#3B: Eliminate retiree health benefits for individuals once they become eligible to receive Medicare	Retirees would no longer be eligible to receive any health benefits from the agency <u>once</u> they become eligible for Medicare at age 65. Under this option, retiree health benefits would serve to bridge the gap (if any) from when an employee retires to when that employee begins receiving Medicare. As an alternative, the agencies could provide Medicare-eligible retirees the option to continue to participate in agency health plans but require retirees to pay 100% of the premium.
#3C: Revise eligibility criteria such that a retiree only receives health benefits as a Medicare supplement	Retirees would no longer be eligible to receive any health benefits from the agency <u>until</u> they are eligible for Medicare. Under this option, retiree health benefits would serve as supplemental or secondary insurance plans intended to pay health costs Medicare does not. As an alternative, the agencies could allow pre-Medicare eligible retirees to continue to participate in agency health plans but require retirees to pay 100% of the premium.
#3D: Revise eligibility criteria such that health benefits for retirees are no longer available to a retiree's dependents	Eliminate the ability for retirees to cover any dependents under their health plan. As a result, retirees would no longer be able to choose Self+1 or Family coverage levels. As an alternative, the agencies could continue to offer coverage to retirees' dependents but require the retiree to pay 100% of the additional cost above single coverage.

Projected Cost Savings

Estimating the agency savings from these changes to retiree health insurance would require calculations by the agencies' actuaries. The four scenarios would reduce agency costs by decreasing the total number of individuals eligible for health benefits, decreasing the timeframe within which retirees can receive benefits, or by eliminating the most expensive levels of coverage (Self+1 and Family).

Applying any of the changes to current employees (who have not yet retired) would yield savings sooner then applying the changes to new hires only. If an agency allowed retirees to maintain health coverage but at a 100% cost share, agency savings would be slightly lower because of ongoing plan administration costs.

Effect on Current and/or Future Retirees

This option does not propose changing the retiree health benefits for current retirees; however, these scenarios could apply to current employees and/or new employees hired after a specified date. Depending on which scenarios were implemented, some future retirees would no longer be eligible for coverage, would be eligible for coverage for a shorter time period, or would no longer be able to enroll dependents in their health benefit plans.

Issue Paper E

Workforce Size

OLO Report 2011-2 December 7, 2010

WORKFORCE SIZE

OVERVIEW: The primary cost driver behind increased personnel costs in the County during the past decade has been higher costs per employee as opposed to a large growth in the number of employees on payroll. Nonetheless, reducing workyears represents one way to reduce personnel costs. This issue paper provides a macro-perspective on the number of workyears that would need to be eliminated in each agency in order to reduce personnel costs, calculated in increments of \$10 million.

See page E-3 for brief descriptions of the Organizational Reform Commission and Cross-Agency Resource Sharing Committee. Both of these groups have been tasked with developing specific recommendations to reduce workforce size.

FY02-FY11 Agency Tax Supported Workyears and Personnel Costs

The workforce sizes of all four agencies fluctuated during the past decade. In FY11, the total tax supported workforce of the four agencies combined is 29,400 workyears; this represents a 10% increase from the 26,702 tax supported workyears in FY02.

Over the past decade, all four agencies experienced large increases in personnel costs. Total tax supported personnel costs across the four agencies increased by 64%, from \$1.7 to \$2.8 billion.

Table 1 compares FY02 and FY11 approved tax supported workyears and personnel costs for each of the four agencies. Of the four agencies, only MCPS and Montgomery College have total workforces that are notably larger today compared to ten years ago. Between FY02 and FY11:

- MCPS' workyears increased 14% while MCPS enrollment increased 6%;
- Montgomery College's workyear growth of 30% paralleled its enrollment growth of 32%;
- The number of FY11 County Government workyears is nearly identical to the FY02 level; and
- M-NCPPC experienced a 10% decrease in workforce size over the past decade.

The data indicate that the growth in personnel costs significantly outpaced the growth in workforce size over the last decade. The primary cost driver for increased personnel costs was higher costs per employee rather than growth in workforce size. Nonetheless, reducing workyears is an option for reducing future year personnel costs.¹

Table 1. FY02 and FY11 Approved Table 1.	ax Supported W	Vorkyears and Personnel	Costs by Agency

Agency	FY02 Workyears	FY11 Workyears	% Change	FY02 Personnel Costs	FY11 Personnel Costs	% Change
MCPS	17,085	19,439	+14%	\$1.07 billion	\$1.76 billion	+64%
County Government	7,347	7,374	+0.4%	\$492 million	\$786 million	+60%
Montgomery College	1,363	1,773	+30%	\$94 million	\$170 million	+81%
M-NCPPC	907	814	-10%	\$55 million	\$78 million	+42%
Totals	26,702	29,400	+ 10%	\$1.71 billion	\$2.80 billion	+64%

¹ Even if workforce size and salaries remain constant in future years, personnel costs will increase due to projected increased costs of retirement and group insurance benefits.

Where are the Workyears?

Within each agency, employees provide a variety of functions and services. Table 2 shows how each agency distributes workyears by function and/or organizational unit. For example:

- Nearly one-half of County Government workyears are distributed to public safety functions;
- Slightly more than half (53%) of MCPS workyears are assigned to K-12 instruction in Elementary, Middle, and High Schools;
- Campus-based faculty and staff account for 51% of Montgomery College workyears; and
- About three-fourths of M-NCPPC's workyears are assigned to the Parks Department.

Table 2. Agency Workyears by Selected Departments or Functions from FY11 Approved Budgets

Workyears		
	% of Total	
7,374	100%	
3,648	49%	
1,043	14%	
1,032	14%	
926	13%	
650	9%	
76	1%	
20,743	100%	
5,214	25%	
3,928	19%	
3,268	16%	
2,451	12%	
1,742	8%	
1,328	6%	
938	5%	
1,874	9%	
1,711	100%	
867	51%	
844	49%	
905	100%	
688	76%	
143	16%	
74	8%	
	Number 7,374 3,648 1,043 1,032 926 650 76 20,743 5,214 3,928 3,268 2,451 1,742 1,328 938 1,874 1,711 867 844 905 688 143	

^{*}MCPS workyears include both tax supported and non-tax supported workyears.

^{**}Montgomery College workyears based on Summary of Positions in FY11 Approved Operating Budget.

^{**}M-NCPPC workyears do not reflect any reductions or allocation changes made since FY11 budget approval.

Related Efforts Underway that are Focused on Workforce Size

There are currently two major efforts underway to address issues related to agency workforce size. The information presented here is intended to complement and not duplicate the work of these two groups and the recommendations they are expected to develop.

The Organizational Reform Commission (ORC), established by County Council Resolution in May 2010, is charged with developing recommendations to reorganize/consolidate functions or revise government processes to achieve significant cost savings or efficiencies. The ORC consists of four members appointed by the Council and four members appointed by the County Executive. The ORC is expected to submit its report of recommendations by January 31, 2011. For more on the ORC and its progress to date, see Appendix (©48).

The Cross-Agency Resource Sharing Committee (CARS), established by the Chief Administrative Officer in March 2010, is a forum for coordination among County agencies to share ideas/best practices, develop potential resource-sharing strategies to achieve operational efficiencies, reduce costs, and improve the quality of services offered to residents.

CARS has organized its work into the following nine subject workgroups: Information Technology; Utilities; Facilities Planning, Design, Construction and Maintenance; Procurement; Space Utilization; Fleet; Mailing, Printing, and Document Management; Employees and Retirees Benefit Plan Administration; and Administrative Functions (payroll, budget, finance, training, etc). CARS is expected to recommend specific proposals for FY12 budget savings. For more on CARS and its progress to date, see Appendix (©54 and ©57).

Calculation of Workyear Reduction Required for \$10 million in Savings

In FY11, the cost (salary plus benefits) of a hypothetical "average workyear" across the four agencies is \$91,900. This means that close to 110 workyears across the four agencies would need to be eliminated in order to save \$10 million in annual personnel costs. The comparable calculation for each agency to achieve personnel costs savings in increments of \$10 million is summarized in Table 3.

Table 3 (on the next page) presents average cost per workyear for each of the four agencies. The average cost per workyear represents the mean personnel cost (salary plus benefits) of all employees in the agency. Because the average cost per workyear does not reflect differences between types of positions, the table also provides data for two broad subsets of workyears in County Government (public safety and non-public safety) and teacher workyears in MCPS.

Table 3. Number of FY11 Workyears that Represent Increments of \$10 Million in Personnel Costs by Agency

Agency	Average Cost per Workyear	Number of Workyears Equal to \$10 Million in Personnel Costs
County Government		
Public Safety Workyear	\$112,900	89 workyears
Non-Public Safety Workyear	\$91,700	109 workyears
MCPS*		
Agency Average Workyear	\$87,800	114 workyears
Teacher "New Hire" Workyear **	\$65,200	153 workyears
M-NCPPC		
Agency Average Workyear	\$84,000	119 workyears
Montgomery College*		
Agency Average Workyear	\$79,000	127 workyears

^{*}The average cost per workyear for MCPS and Montgomery College only include locally-paid benefits.

**The teacher "new hire" category reflects the cost of reducing workyears by not hiring new teachers as opposed to laying off currently employed workyears.

Workyear Reduction Equivalencies

A decision to eliminate workyears would necessitate corresponding reductions in service delivery. To provide some perspective on what an increment of \$10 million in workyears represents in each agency, Table 4 (on the next page) provides some illustrative examples. The examples selected are not offered as recommendations for reduction, but rather to illustrate in a tangible way what every increment of \$10 million in workyears can "buy" in each agency (using average cost per workyear data for each agency).

Implementation

Eliminating funding for personnel can be accomplished as a budget action and can be implemented through the elimination of vacant, unfilled positions and/or by the elimination of filled positions. Each agency has different procedures it is required to follow if a decision is made to reduce filled positions through a reduction-in-force (RIF).

Workforce reduction could achieve savings beginning in FY12. Savings would carry into future years as long as an agency does not reverse the reduction by re-creating or adding new workyears.

Table 4. Examples of What \$10 Million in Workyears Represents (all examples based on the average cost per workyear data for each agency shown in Table 3 above)

\$10 Million in Personnel Costs Pays for	Which Represents
County Government	
	• 100% of career firefighters assigned to the following stations combined: Silver Spring #1, Kensington #18, and Gaithersburg #28
00 D 11' G C . W. 1	69% of the police officers serving the Rockville District
89 Public Safety Workyears	66% of the police officers in both the Criminal and Special Investigations Divisions
	60% of all uniformed sheriff officers
	30% of all uniformed correctional officers
	 100% of staff in the following libraries combined: Aspen Hill, Chevy Chase, Germantown, Kensington Park, Little Falls, Long Branch, Poolesville, Quince Orchard, Twinbrook, Wheaton, and White Oak
	• 100% of staff in the Department of Technology Services
109 Non-Public Safety Workyears	100% of staff in the following departments/offices combined: Department of Economic Development, the Office of Consumer Protection, the Office of Human Resources, the Office of Management and Budget, the Regional Services Centers, and the Office of Legislative Oversight
	90% of staff in the State's Attorney's Office
	70% of staff in DHHS' Aging and Disability Services
MCPS	
	• 100% of all elementary and middle school staff development teachers
153 Teacher "New Hire"	100% of high school staff development, vocational education, vocational support, career preparation, academic intervention, and special program teacher positions combined
Workyears	85% of elementary music teachers
	8% of high school instruction teacher positions
	Increase in average elementary and middle school class sizes by 1 student
	• 100% of Assistant Principal positions
	95% of school- and central office-based positions for Enriched and Innovative programs (e.g., magnet and signature programs)
114 Agency Workyears	88% of technology support positions
	51% of elementary school Instructional Media Center positions
	• 25% of school counselor positions at all levels
Montgomery College	
	80% all staff at the Germantown campus
127 Agency Workygars	56% of all staff at the Takoma Park campus
127 Agency Workyears	• 26% of all staff at the Rockville campus
	• 25% of all Instructional Faculty across all three campuses
M-NCPPC	
	100% of Parks Department Park Police Division staff
119 Agency Workyears	 100% of the combined staff of the Parks Department Central Maintenance and Facilities Management Divisions
	83% of all Planning Department staff
	• 17% of all Parks Department staff

Issue Paper F

Operating Expenses

OLO Report 2011-2 December 7, 2010

OPERATING EXPENSES

OVERVIEW: This paper reviews the major components of tax supported operating expenses for County Government and Montgomery County Public Schools (the two largest County agencies), and outlines two approaches for achieving operating expense savings in \$10 million increments: an across-the-board reduction, and a targeted reduction.

Definition of Operating Expenses

"Operating expenses" include all of an agency's operating budget expenditures other than personnel costs, and exclude capital budget spending. Examples include spending for contractual support, utility payments, facility and vehicle maintenance, office and program supplies, and technology.

Operating expenses are closely related to other agency budget decisions. An agency often incurs additional operating expenses as a by-product of workforce and facility decisions. For example, over the past decade, the County Government opened and staffed new government facilities (e.g., fire stations, libraries, recreation centers) and MCPS opened and staffed new schools. While personnel and capital expenditures are the largest costs associated with most service expansions, adding new positions and opening new facilities increase operating costs for items such as technology, building maintenance, and utilities.

Additionally, the percent of each agency's budget allocated for operating expenses is in part a function of what activities or services the agency decides to contract out versus deliver via agency employees.

FY11 Operating Expense Appropriations

Montgomery County Government. The County Government's FY11 approved operating budget includes \$377.6 million in tax supported operating expenses;¹ this amount represents 32% of the County Government's approved tax supported budget. As a percent of the total tax supported budget, the County Government's operating expenses remained essentially constant between FY02 and FY11.

The table on the next page shows the 12 departments (and non-departmental accounts) with the largest FY11 operating expense appropriations. The operating expenses for these 12 functions equal \$306.1 million, or 91% of total FY11 tax supported operating expenses.

The Council also appropriates non-tax supported funds for operating expenses. In general, resources in non-tax supported funds must be expended for a specific purpose and are not transferable for other uses. Some FY11 examples include:

- Solid Waste Disposal (\$88.5 million);
- Health and Human Services' Grant-Funded Contracts (\$30.4 million);
- Parking Lot Districts (\$16.3 million); and
- Liquor Control Operating Expenses (\$14.7 million).

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¹ The FY11 operating expense total of \$377.6 million cited above excludes retiree group insurance costs because this report classifies retiree group insurance as a personnel cost.

Table 1. Selected FY11 County Government Tax Supported Operating Expense Appropriations (representing 91% of total FY11 tax supported operating expenses)

Department/Account	Total \$ Amount	Examples of Major Operating Expenses
Health & Human Services	\$73.3 million	 Contracts and Services Aging & Disability: \$14.2 million Children, Youth & Families: \$13.8 million Public Health: \$13.4 million Behavioral Health & Crisis Services: \$8.3 million Special Needs Housing: \$6.4 million
Transit Services	\$46.3 million	 Ride-On Fuel/Maintenance: \$33.0 million Call-N-Ride Program: \$3.2 million
Police	\$35.6 million	 Police Car Fuel/Maintenance: \$10.6 million Communications Services: \$3.6 million Officers' Uniforms & Equipment: \$3.0 million
Utilities (General Fund)	\$28.6 million	 Electricity (Facilities): \$16.4 million Electricity (Street Lights): \$8.3 million Natural Gas: \$2.8 million Electricity (Traffic Signals): \$1.8 million
Fire & Rescue	\$26.9 million	 Insurance & Risk Management: \$13.9 million Fire Department Allocations: \$6.7 million Fire & EMS Vehicle Fuel/Equipment: \$3.0 million
Leases (General Fund)	\$20.9 million	Building Rentals and Leases: \$20.9 million
Risk Management (General Fund)	\$16.9 million	Liability and Property Coverage: \$16.9 million
Transportation	\$13.5 million	 DOT Vehicle Fuel/Equipment: \$5.4 million Tree Maintenance: \$1.5 million
Technology Services	\$12.0 million	Software Licenses / Maintenance: \$7.9 million
Working Families Income Supplement	\$11.8 million	Earned Income Tax Credit: \$11.8 million
General Services	\$10.4 million	 Facility Maintenance Contracts: \$4.4 million Janitorial Services: \$2.9 million Plumbing, Electrical, HVAC Supplies: \$1.1 million
Recreation	\$9.9 million	 Recreation Facility Utilities: \$3.2 million Recreation Supplies & Equipment: \$1.2 million
Total		\$306.1 million

Montgomery County Public Schools. MCPS' FY11 approved operating budget includes \$178.4 million for tax supported operating expenses; this amount represents 9% of MCPS' FY11 tax supported budget. The table below provides an overview of MCPS' FY11 tax supported budget for operating expenses divided into seven categories.

In addition, MCPS' major non-tax supported operating costs include supplies, materials and contracts for its food service operations (\$17.4 million), and publishing services (\$2.5 million). As with County Government, MCPS non-tax supported resources must be used for a specific purpose and are not transferable for other uses.

Table 2. FY11 MCPS Tax Supported Operating Expenses by Category

Category	Total \$ Amount	Examples of Major Operating Expenses
Utilities	\$43.5 million	Utilities for MCPS buildings (entire amount)
Special Education Non- public Placements	\$35.5 million	Tuition for students with disabilities in non-public (private) placements (entire amount)
Textbooks	\$23.3 million	Textbooks, instructional materials and media (entire amount)
Supplies and Materials	\$21.0 million	 Plant operations and maintenance: \$8.6 million Transportation fuel and bus parts: \$12.4 million
Contracts	\$20.6 million	 Maintenance, transportation, and other services: \$7.0 million Technology: \$8.4 million Special education-related services: \$5.2 million
Equipment and Furniture	\$13.4 million	 Transportation (bus replacement): \$9.5 million School furniture and instructional equipment: \$1.4 million Maintenance and plant operations: \$1.5 million Technology: \$1.0 million
Other Expenditures	\$21.1 million	 Facilities – Relocatables: \$2.0 million Maintenance: \$1.6 million Insurance: \$2.8 million Local travel reimbursement: \$1.8 million Extracurricular activities stipends/activity buses: \$8.9 million All Other: \$4.0 million
Total		\$178.4 million

Potential Reductions in Operating Expenses

Reducing operating expenditures is an option for achieving budget savings, although it should be recognized that any substantial reductions will have repercussions for agency operations and service delivery. There are two primary ways to achieve a targeted amount of savings through operating expense reductions:

- An "across-the-board" reduction that reduces all agency departments/accounts by a uniform percent that does not account for differences in type or uses of operating expenses across departments (e.g., a 3% reduction for all departments/accounts); or
- Targeted reductions using priority-based criteria established by the agencies. For example, an agency could achieve a specific amount of operating expense savings by eliminating entire programs (potentially reducing both personnel costs and operating expenses); scaling back eligibility, participation, or operating hours for select programs and services; or reducing specific operating expense categories (contracts, supplies, etc.).

Because targeted reductions depend on important policy decisions that would need to be made by each agency, the remainder of this section details the impacts of an "across-the-board" reduction in all tax supported departments and accounts in County Government and tax supported categories in MCPS in order to achieve savings in increments of \$10 million.

Montgomery County Government "Across-the-Board" Reduction. To achieve \$10 million in savings, each County Government department and non-departmental account would have to reduce operating expenses by approximately 2.7% below FY11 appropriated amounts. The table below illustrates how the \$10 million in operating expense savings would be distributed across departments and accounts.

Table 3. Impact on County Government Departments/Accounts from an "Across-the-Board" Operating Expense Reduction that Achieves \$10 Million in Savings

Department/Account	Dollar Reduction (2.7% Cut)
Health & Human Services	\$1,941,000
Transit Services	\$1,226,000
Police	\$944,000
Utilities	\$758,000
Fire & Rescue	\$713,000
Leases	\$555,000
Risk Management	\$447,000
Transportation	\$358,000
Technology Services	\$318,000
Working Families Income Supplement	\$312,000
General Services	\$274,000
Recreation	\$262,000
All Other	\$1,892,000
Total	\$10 million

An across-the-board reduction treats all operating expenses the same. Some operating expenses, however, are influenced by factors outside an agency's control (e.g., fuel prices), or may be difficult or impossible to eliminate. For example, the County Government likely could not significantly reduce spending on electricity for traffic signals (unless it achieved greater energy efficiency). In addition, some operating expenses, even those that are arguably discretionary, often support high priority programs and services.

An alternative form of this reduction type is to create exemptions to the across-the-board reductions for certain categories of spending (such as public safety services or "safety net" programs). Exempting some categories from across-the-board reductions would necessarily require greater percent decreases in non-exempt expenses to achieve the targeted reduction.

Montgomery County Public Schools. To achieve \$10 million in savings, all seven MCPS operating expense categories would have to be reduced by approximately 5.6% below FY11 approved levels. If special education non-public placements (mandatory under Federal law) were exempt from this "across-the-board" reduction, the remaining six operating expense categories would have to be reduced by 7% each to achieve \$10 million in savings. The table below illustrates how the \$10 million in operating expense savings would be distributed across categories under each across-the-board scenario.

Table 4. Impact on MCPS Operating Expense Categories from an "Across-the-Board" Reduction that Achieves \$10 Million in Savings

	Dollar Reduction A	Associated with a
Category	5.6% Cut (no exemptions)	7% Cut (exempts non- public placements)
Utilities	\$2,400,000	\$3,100,000
Special Education Non-public Placements	\$2,000,000	Exempt
Textbooks	\$1,300,000	\$1,600,000
Supplies and Materials	\$1,200,000	\$1,500,000
Contracts	\$1,100,000	\$1,400,000
Equipment and Furniture	\$800,000	\$900,000
Other Expenditures	\$1,200,000	\$1,500,000
Total	\$10 million	\$10 million

As with County Government, an across-the-board reduction in MCPS treats all operating expenses the same. Some operating expenses, however, are influenced by factors outside of an agency's control (e.g., fuel prices), or may be difficult or impossible to eliminate. In addition, some operating expenses, even those that are arguably discretionary, often support high priority programs and services.

Implementation

Eliminating funding for operating expenses can be accomplished as a budget action within each agency.

Issue Paper G

Debt Service

OLO Report 2011-2 December 7, 2010

DEBT SERVICE

OVERVIEW: This paper presents options to reduce projected annual debt service expenditures through reducing scheduled general obligation bond issuance. In addition, this paper identifies the potential consequences of reducing the amount of debt issued.

Current and Projected Costs for Debt Service

Each year, the County issues general obligation bonds to raise funds for the construction, improvement, or maintenance of the County's publicly-owned infrastructure. In 2008, the Council approved the County's Debt Policy (Appendix ©31), which determines how the County issues and manages debt. The Debt Policy establishes several debt capacity measures the County adheres to in order to maintain its AAA bond rating.

The County typically pays back these general obligation bonds (plus interest) over a 20-year period. As a result, the County must make annual payments to pay off the borrowing and other long-term obligations, referred to as annual debt service payments. The County funds its annual debt service payments through the operating budget, and total debt service payments each year depend on how much debt the County issued in past years. General obligation bond debt typically represents about 90% of the County's total annual debt service costs.

In FY11, general obligation bond debt service payments totaled \$236 million, a 47% increase over the FY02 total of \$161 million. For FY11, the Council authorized the issuance of \$325 million in bonds. The approved Fiscal Plan assumes continued bond issuances of \$325 million per year through FY16. As such, annual general obligation debt service payments are scheduled to increase by 51% over the next five years as shown in the table below.

Table 1. General Obligation Bond Debt Service Payments, FY11 Approved and FY16 Projected

	FY11	FY16	FY11-FY16	Increase
	Approved	Projected	\$	%
Debt Service	\$236 million	\$356 million	\$120 million	51%

In recent years, the County has issued approximately 94% of its bond issuance limit each year (excluding FY08 when no debt was issued). If this trend continues over the next five years, projected general obligation bond debt service payments would be lowered to approximately \$347 million in FY16.

Currently, Montgomery County general obligation bond proceeds fund 57% of capital expenditures in the FY11-FY16 Capital Improvements Program (CIP). About one half of all general obligation bond proceeds funds MCPS projects; another quarter funds transportation projects (e.g., roads, storm drains, traffic improvements, sidewalks, bikeways, etc.); and the remainder funds other projects such as regional parks, fire stations, and recreation centers.

Overview of Options

Since general obligation bond debt represents around 90% of annual debt service costs, the two options to reduce future costs presented below focus on general obligation bond debt.

- Option #1 reduces the current general obligation bond issuance limit by 25% for the entire five-year time period from FY12 through FY16.
- Option #2 reduces the current general obligation bond issuance limit by 50% for the entire five-year time period from FY12 through FY16.

Both options assume that, for each fiscal year, the County issues general obligation bonds up to the authorized maximum.

Implementation Issues

Options to lower bond issuance limits fall within the Council's authority and are implemented through the Council's Spending Affordability Guidelines process. Since general obligation bond issuance funds over 50% of the projects in the approved FY11-16 CIP, determining the financial and programmatic effects of changing bond issuance limits for a specific option is difficult.

Some potential considerations related to lowering the level of bond issuance are highlighted below. The potential impact of changing the amount of debt issued may be favorable or unfavorable, depending upon the perspective of individual stakeholders.

- Less bond capacity means fewer resources for infrastructure projects that are already in the current six-year capital program, as well as less capacity to provide additional funding for projects that are underway and may require additional funding to be completed.
- Capital project costs tend to increase over time due to inflation, and delaying capital
 projects may result in higher costs in the future due to rising costs of construction and
 maintenance.
- The issuance of bonds for the construction of new facilities often results in new operating costs as well. Some facilities, such as new libraries or recreation centers, require annual operating appropriations for personnel costs, utilities, etc. once they are opened. Delaying certain capital projects may also delay when those operating costs are incurred.
- A portion of capital borrowing supports maintenance of existing facilities that can result in decreased maintenance or repair costs in the future. For example, the CIP includes projects to resurface roads or to replace building roofs. In some cases, delaying planned infrastructure maintenance could result in higher operating costs in the long-term to County agencies than would be saved by reducing borrowing amounts in the short-term.

Options to Reduce General Obligation Debt Service Payments

Current System

The County's current bond issuance limits are \$325 million per year. If the County issues bonds as projected, annual debt service payments are projected to increase 50% from FY11 to FY16.

Alternative Structure/Projected Cost Savings

This alternative shows two options to reduce projected annual debt services payments by reducing the general obligation bond issuance limits. The options show the overall scale and timing of savings associated with different bond issuance levels. As previously noted, any decision to change bond issuance limits would need to take into account policy, programmatic, and budgetary factors.

- **Option #1** reduces the current bond issuance limit by 25%. This reduction would lower debt service payments by \$2 million in FY12, and by \$94 million in total through FY16.
- Option #2 reduces the current bond issuance limit by 50%. This reduction would lower debt service payments by \$4 million in FY12, and by \$189 million in total through FY16.

Table 2 shows the difference in projected annual general obligation bond debt service payments for two debt issuance options, compared to the current issuance limit.

Table 2. Projected Annual General Obligation (GO) Bond Debt Service Payments, (\$ in millions)

Ontion	Annual GO Projected GO Bond Bonds Issued				ervice Pay	Total	
Option	(FY12-16)	FY12	FY13	FY14	FY15	FY16	FY12-FY16
Current Bond Issuance Limit	\$325 million	\$265	\$293	\$315	\$335	\$356	\$1,565
Option #1: 25% Reduction to	\$244 million	\$263	\$282	\$296	\$308	\$321	\$1,471
Bond Issuance Limit	Difference	(\$2)	(\$11)	(\$19)	(\$27)	(\$35)	(\$94)
Option #2: 50% Reduction to	\$163 million	\$261	\$271	\$277	\$281	\$286	\$1,376
Bond Issuance Limit	Difference	(\$4)	(\$22)	(\$38)	(\$54)	(\$70)	(\$189)

Source: Montgomery County Department of Finance

Of note, the options above illustrate how reductions in new debt issuance affect future year debt service payments. Important timing considerations include:

- Each option assumes a reduced <u>but constant</u> level of new borrowing in each year from FY12 through FY16. As the CIP currently contains many active projects that would be difficult to halt mid-construction, smaller reductions in borrowing in the early years with higher reductions in later years is likely the most realistic approach to reducing future debt service payments.
- FY12 is an "off-year" for the CIP. This year, the Council only will consider amendments to the approved FY11-16 CIP. The FY13-16 CIP will be the next opportunity for the Council to consider changes to the timing and funding of the complete package of CIP projects.

Issue Paper H

Revenue

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REVENUE

OVERVIEW: This paper presents four options to generate additional revenue for tax supported expenditures. One option is presented for each of the following sources of local revenue: property tax, income tax, excise taxes, and user fees.

Note: The revenue projections cited in this paper are based on data contained in the most recent Fiscal Plan, adopted by the Council on June 29, 2010. The Executive Branch is scheduled to provide updated revenue projections as part of the Fiscal Plan update on December 14, 2010.

Current and Projected County Revenue

In FY11, according to the Fiscal Plan adopted by the Council in June 2010, included in the Appendix (©44), Montgomery County will receive an estimated \$3.8 billion in total tax supported revenue to fund the provision of County programs and services. Tax supported revenue includes revenue from taxes, user fees, service charges, intergovernmental aid, etc. that is available for unrestricted use. The estimated FY11 total is a 59% increase over the FY02 tax supported revenue of \$2.4 billion.

As summarized in the table below, the Fiscal Plan also shows that revenue is projected to grow at an average annual rate of 3% over the next five years.

Table 1. Approved FY11 and Projected FY16 Tax Supported Revenue (all sources)
Source: Fiscal Plan adopted by the Council in June 2010

Agency	FY11 Approved	FY16 Projected	FY11-FY16 Incre	•
			\$	%
Tax Supported Revenue	\$3.8 billion	\$4.4 billion	\$0.6 billion	16%

County Revenue Sources

Table 2 shows the percent of total FY11 tax supported revenue generated by source. The table also presents the annual average rate of growth from FY02 through FY11 for each revenue source. Property tax and income tax account for two-thirds of the County's tax supported revenue in FY11.

Table 2. Montgomery County Tax Supported Revenue by Source

Revenue Source	Percent of FY11 Total Tax Supported Revenue	Annual Average Rate of Growth, FY02-FY11
Property Tax	39%	5.8%
Income Tax	28%	2.2%
Other Taxes	12%	11.1%
Intergovernmental Aid	16%	6.5%
Other Revenue *	5%	6.5%

^{*}includes service charges, fines, miscellaneous revenue, investment income and user fees.

Overview of Options

Should there be interest in seeking additional tax supported revenue to pay for existing spending commitments and emerging budget priorities, the choices are either to: (1) adjust the rates for current revenue sources; or (2) identify new revenue sources.

The rest of this issue paper outlines four options to generate additional revenue. The additional revenue generated from the first three options would be available for unrestricted use. The fourth option, a Transportation Utility Charge, would produce revenue that is restricted for transportation projects that add new capacity.

The table below summarizes the options and the estimated revenue yield from each. Options 1, 3, and 4 could be implemented locally; Option 2 would require a change in State law.

#	Option	Estimated Yield
		Property Tax
1	Override charter limit on property tax revenue	FY12: \$18 million per 1 cent rate increase FY12-FY16 (cumulative): \$100 million per 1 cent rate increase
		Income Tax
2	Amend State law to phase out County income tax distributions to municipalities	FY12: \$3 to \$6 million FY12-FY16 (cumulative): \$45 to \$90 million
		Other Taxes
3	Maintain FY11-12 fuel/energy tax rate increases	FY 13: \$108 million FY13-FY16 (cumulative): \$432 million*
3	Continue allocation of recordation taxes to the General Fund	FY12: \$13 million FY12-FY16 (cumulative): \$65 million**
		Fees
4	Enact a Transportation Utility Charge	Depends on rate structure

^{*}Reflects revenue generated by continuation of existing rate.

Other options that could yield additional revenues are listed in the Appendix (©4). The additional options are either variations of those described above or different options that could produce short-term and/or long-term revenues.

^{**}Continuation of FY11 policy of not restricting use of recordation tax revenue. Note that this is not new money. Instead, it reduces the CIP and shifts this money to the operating budget.

OPTION #1: Override Charter Limit

Current Structure

The property tax is the County's largest and most stable revenue source, with FY11 estimated revenue at \$1.5 billion. Property taxes represent almost 40% of total tax supported revenue in FY11 (which includes intergovernmental aid).

The amount of property tax collected each year is a function of the property tax rate (established annually by the Council) and the County's "assessable base." The assessable base refers to the value of property that is subject to the tax. Since FY02, the County's assessable tax base increased on average by 9.2% per year.

Section 305 of the County Charter limits the annual growth in property tax revenue to the rate of inflation plus taxes from new development and several other minor factors, unless the Council unanimously decides to override this limit.¹ Over the past decade, the Council voted to exceed the Charter limit four times. In FY11, property tax revenue is \$577 million higher than it was in FY02; roughly \$206 million of this amount is attributable to the overrides of the Charter limit.

The Council's approved Fiscal Plan, based on the current Charter limit, estimates the property tax will generate an additional \$225 million in new revenue through FY16.

Alternative Structure

The Council could override the Charter limit on property tax revenue growth for one or more years to generate new property tax revenue that exceeds the rate of inflation.

Projected Yield and Impacts

According to the Department of Finance, a one cent increase in the property tax rate in FY12 would generate an additional \$17.9 million in tax revenue in the first year. By FY16, the same one cent increase in the property tax rate would generate an estimated \$22.7 million in added revenue.

For every one cent increase in the property tax rate, homeowners with home values ranging from \$350,000 to \$700,000 would see annual property tax payment increases ranging from \$35 to \$70 dollars, not taking into account various property tax credits. The average taxable assessment for commercial properties is \$2.8 million. Although there is a wide range of commercial assessments, on average, for every one cent increase in the property tax rate, the annual property tax payment increase for commercial property would be \$276.

Implementation

The Council's existing taxing authority authorizes the Council to implement this option. However, implementation is contingent on the affirmative vote of all nine Councilmembers to override the Charter limit.

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¹ In 2008, County voters approved a Charter amendment to require the affirmative vote of all nine Councilmembers to override the Charter limit on property tax revenue. Prior to 2008, the Charter required an affirmative vote of seven Councilmembers to override the Charter limit.

OPTION #2: Amend State Law to Phase Out Municipal Income Tax Distributions

Current Structure

Montgomery County currently has a County income tax rate of 3.2%, the maximum allowed under State law. State law requires the Maryland Comptroller to distribute 17% of municipal residents' County income tax revenue to municipalities. For a municipal resident, this means that 83% of their County income tax is distributed to the County and 17% is distributed directly to the municipality where they live. For County residents who do not live in a municipality, 100% of their County income tax is distributed to the County.

From FY05 to FY09, the State distributed about \$154 million in County income tax revenue to the County's 19 municipalities and three special taxing districts, including \$35.8 million in FY09. On average, income taxes account for nearly 19% of municipalities' revenue.

State law imposes an extensive list of mandates on counties and assigns municipalities a limited role in the delivery of many services. Under State law, counties must fund public schools, libraries, local community colleges, and the circuit courts. County governments are also responsible for basic services such as police, fire, local corrections, sanitation, local highways, health, and parks and recreation.

Municipalities can choose to regulate trash disposal, to establish park and recreation facilities, or to operate police forces or fire departments. In practice, most Montgomery County municipalities maintain sidewalks and streets, provide waste collection services, and enforce building codes. The cities of Gaithersburg, Rockville, and Takoma Park provide a wider array of services, including municipal police forces.

Alternative Structure

Seek changes in State Law to reduce or eliminate municipal income tax distributions. This option describes two potential alternatives of implementing this change:

- Reduce municipal income tax distribution by 50% (to a total distribution of 8.5% annually), phased in over the next five years; or
- Eliminate municipal income tax distributions, phased-in over the next five years.

Projected Yield and Impacts

Given the inherent difficulty of forecasting annual income tax revenue, the estimated yields for reducing municipal income tax distributions described below are illustrative. Both alternatives assume that 17% of municipal residents' income tax payments equal \$30 million annually, which is equivalent to the five-year average for this revenue source. Actual revenue will be higher or lower than that amount, depending on the economy and the amounts of actual revenue collected.

Table 3. Estimated Annual Increase in County Revenue from Changes to Municipal Income Tax Distribution (\$ in millions)

Alternative	Anı	Five-Year				
(each phased-in over five years)	FY12	FY13	FY14	FY15	FY16	Increase
50% reduction in municipal income tax distributions	\$3M	\$6M	\$9M	\$12M	\$15M	\$45M
Elimination of municipal income tax distributions	\$6M	\$12M	\$18M	\$24M	\$30M	\$90M

This revenue strategy would not increase residents' income taxes; it would only change the distribution of the income taxes already collected. However, since it would reduce a primary municipal revenue source, municipal residents could face:

- Increases in municipal property tax rates if the municipalities sought to replace the lost income tax revenue;
- Reductions in municipal programs and services.

Implementation

Implementation of this option would require a change to Section 2-607 of the Tax-General Article of the Maryland Code.

OPTION #3: Continue FY11 Energy Tax Rates and Allocation of Recordation Taxes to General Fund

Current Structure

Taxes other than income and property are the County's third largest revenue source, with FY11 estimated revenue of \$453 million. The specific taxes that comprise this source include the admission and amusement tax, fuel/energy tax, telephone tax, transfer tax, recordation tax, and hotel/motel tax.

To generate additional revenue and dedicated funding streams, tax rates among these other taxes have increased several times since FY02. In FY11, the Council approved two measures to temporarily increase the amount of other tax revenue available for unrestricted agency use.

- Recordation Tax Revenue Reallocation: Expedited Bill 14-10 allocated 100% of recordation tax revenue for the General Fund in FY11 and suspended the allocation of any recordation tax revenue for County Government and MCPS capital projects, Montgomery College technology projects, and rental assistance programs. This reallocation increased the County's unrestricted revenue by \$13 million in FY11.
- Energy Tax Rates Increased: Council Resolution 16-1354 increased energy tax rates from May 19, 2010 to June 30, 2012. Compared to the approved yield at the beginning of FY10, higher energy tax rates are estimated to increase County revenue by \$115 million in FY11 and \$122 million in FY12.

These recordation and energy tax changes are scheduled to sunset in FY12 and FY13, respectively.

Alternative Structure

This strategy would continue the 100% reallocation of recordation tax revenue beyond FY11 and sustain current energy tax rates beyond FY12 by eliminating their current sunset dates.

Projected Yield and Impacts

Maintaining the FY11 recordation tax allocation does not raise new revenue, but directs an additional \$13 million to the County's General Fund annually beginning in FY12. This strategy, however, would continue to delay or defer a stream of dedicated funding for MCPS and County Government capital projects, Montgomery College educational technology projects, and rental assistance programs for low income households.

Maintaining the increase in energy tax rates past FY12 would yield an estimated \$108 million in additional annual revenue beginning in FY13. Compared to the rates in effect at the beginning of FY10, continuing the increase in energy tax rates would cost the average household an additional \$152 per year and the average business an additional \$1,423 per year.

Implementation

Both options fall within the Council's existing taxing authority. The Council could remove the restrictions on the use of recordation tax revenue by amending Chapters 9 and 17 of the County Code. The Council could adjust energy tax rates by resolution.

OPTION #4: Enact Transportation Utility Charge

Current Structure

County transportation projects account for roughly 25% of general obligation bond proceeds; and annual general obligation debt service payments are scheduled to increase by 51% over the next five years as indicated in Issue Paper G, Debt Service (page G-1).

Alternative Structure

This option would establish a Transportation Utility Charge, creating a dedicated revenue stream for funding capacity-adding transportation improvement projects. Transportation utility charges are a financing mechanism that treats the transportation network as a utility and charges properties in proportion to their use, rather than their value as with the property tax. The rate structure could be based on average property trip generation rates by land use class, property square footage, and other characteristics, or a flat fee.

This transportation funding strategy was recommended previously by two infrastructure financing workgroups in the 1990's: the Economic Advisory Committee Infrastructure Financing subcommittee in 1992 and the Infrastructure Financing Working Group in 1994.

The County established a similar type of fee structure to support the County's stormwater management infrastructure in 2002, the Water Quality Protection Charge, which assesses fees based on the amount of impervious surface on a property.

Estimated Yield and Impacts

The amount of revenue generated through a Transportation Utility Charge would be determined by the approved rate structure. As a point of reference, the Water Quality Protection Charge will generate an estimated \$11.7 million in revenue in FY11.

Transportation Utility Charge revenues would be restricted for the construction of capacity-adding transportation infrastructure. Transportation Utility Charge collections could provide current revenue for transportation projects. Alternatively, if the structure of the transportation utility charge mirrored the Water Quality Protection Charge, revenues from the charge could be used to secure revenue bonds to finance transportation projects approved in the Capital Improvements Program. The revenue bonds issued under this approach would not compete for the County's general obligation debt.

As a fee (rather than a property tax), the County could assess this new charge for both tax-exempt and non tax-exempt properties. In addition, these fees would not count against the Charter property tax limit. Unlike the property tax, however, these charges would not be tax-deductible.

Implementation

This option falls within the Council's existing authority. Implementation could be accomplished through enactment of a new County law.

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²Junge, Jason and Levinson, David, Economic and Equity Effects of Transportation Utility Fees, July 2009

Appendix

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

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Glossary of Terms

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Increment: See "step increase."

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

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

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

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

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

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

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

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

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

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

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

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

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

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

LIST OF ADDITIONAL OPTIONS

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

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

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

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

Compensation and Workforce Size

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

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Retirement and Pensions

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

Health Benefits for Active Employees

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

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

Health Benefits for Retired Employees

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

Revenue Measures

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



OFFICE OF THE COUNTY ATTORNEY

Isiah Leggett County Executive

Marc P. Hansen Acting County Attorney

MEMORANDUM

TO:

Karen Orlansky

Office of Legislative Oversight

FROM:

Amy Moskowitz AM/EBJ Associate County Attorney

Edward B. Lattner durus D

Chief, Division of Human Resources & Appeals

VIA:

Marc. P. Hansen Marc Hansen

County Attorney

DATE:

October 28, 2010

RE:

Council Authority to Modify Employee Compensation and Benefits

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

Summary

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

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

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

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

I. THE CONTRACT CLAUSE

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

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

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

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

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

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

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

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

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

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

² Salaries for the County Executive and Council members being a notable exception.

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

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

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

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

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

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

II. ANALYSIS

A. Retirement

1. The County's retirement plans.

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

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

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

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

2. Case law

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

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

employees and the government protected under the Contract Clause.

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

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

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

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

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

3. Conclusion

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

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

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

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

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

B. Health Benefits

1. The County's health plans

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

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

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

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

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

a. active employee health coverage

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

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

b. retiree health coverage

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

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

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

Although no legislation for retiree health coverage exists, in 1986, the Council adopted Resolution 10-2233 providing a cost sharing structure for retiree health coverage. The Resolution notes that the County's policy is to provide health benefits for retirees younger than age 65 with the same benefits as active employees and to provide for retirees age 65 or older a "lifetime" Medicare supplemental plan with a \$1,500 stop loss and 80% coinsurance for prescription drugs after a \$25 deductible (subject to cost of living increases). Subsequently, in 2002, the Council adopted Resolution 14-1168 providing retirees whose cost sharing arrangement would end⁵ an option to change to a "lifetime" cost sharing option. The word "lifetime" in these Resolutions

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

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

2. Case law

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

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

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

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

3. Conclusion

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

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

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

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

Id. at 217.

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

difference between the pension statute and the retiree health benefit statute. The former provided for advance funding of pension benefits, with the creation of a specific fund for each retirement system (made up of government and employee contributions). The funding of the retiree health benefits, with limited exceptions, was left to the Governor's judgment in the proposed annual budget. Although the General Assembly had created special funds to help finance retiree health benefits, the statutes creating those funds did not create any specific obligation to retirees or commit to provide them with health care benefits. *Id.* at 218.6 Finally, the materials published to employees and retirees regarding health care benefits explicitly disclaimed any intention to create a contractual obligation to provide health care benefits. *Id.* at 218-19.

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

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

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

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

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

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

C. Salaries

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

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

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

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

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

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

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OFFICE OF THE COUNTY ATTORNEY

Isiah Leggett County Executive Leon Rodriguez County Attorney

MEMORANDUM

TO:

Philip M. Andrews, President

County Council

VIA:

FROM:

Leon Rodriguez

County Attorney

Marc P. Hansen

Merc Hansen

Deputy County Attorney

Edward B. Lattner Edward Lattner

Chief, Division of Human Resources & Appeals

DATE:

May 4, 2009

RE:

Council's Role in Collective Bargaining—A Primer

The Council has asked the Office of County Attorney to prepare a "primer" of the Council's role in the collective bargaining process. We have understood our task to be to provide a brief overview of the steps in the collective bargaining process that require the Council's participation. This memorandum in not intended to be an exhaustive analysis of the County's collective bargaining laws.

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

According to Webster's New World Dictionary of the American Language, a primer is a textbook that gives the first principles of any subject.

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

Philip M. Andrews May 4, 2009 Page 2

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

The Council's Role in Collective Bargaining

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

The Council's role in collective bargaining begins after the parties (the executive and the union) submit their final agreement³ for Council action. The collective bargaining laws provide⁴ that, in each annual proposed operating budget, the County Executive must describe any collective bargaining agreement or amendment to an agreement that is scheduled to take effect in the next fiscal year and estimate the cost of implementing that agreement. By April 1, unless extenuating circumstances require a later date, the County Executive must submit to the Council for review all terms and conditions in any agreement requiring an appropriation of funds or enactment, repeal or modification of a County law.⁵

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

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

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

⁵ The police collective bargaining law requires the County Executive to submit "any term or condition of a

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

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

Step 2: Council indicates_whether it intends to fund or otherwise implement the agreement.

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

Step 2 may present two conundrums under certain circumstances:

- (A) The Council has the authority to reject a part of an agreement submitted for Council approval—e.g. the Council could decline to fund a provision in an agreement that permits police officers to use personal patrol vehicles outside the County. The union and Executive often will argue that the item being rejected should not be viewed in isolation because it is only one part of a larger agreement. That agreement contains many items some of which may have only been agreed to in exchange for the item being rejected by the Council. This reality of contract formation puts the Council in the difficult position of having to balance the reasons for rejecting the item against the perceived or real inequity this decision may visit on one or both parties to the agreement. Perhaps in mitigation of this, the collective bargaining law provides that the parties may re-negotiate any item in the agreement during the re-negotiation process described in Step 3, below.
- (B) The Council's vote at Step 2 is an expression of the Council's intention. This means the vote is not binding. For example, the Council might vote to express an intention to pass legislation authorizing a retirement incentive program. But when the vote on the legislation is actually taken, a majority of the Council may no longer feel a retirement incentive program is in the public interest and the legislation fails to be enacted. This action may come after the timelines designed to allow the parties to engage in further negotiations (see Step 3, below) has passed. Of course, if such a situation were to arise, both parties could agree to go back to negotiations, but it is unclear that one party could force the other to negotiate.

Step 3: Re-negotiation.

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

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

Philip M. Andrews May 4, 2009 Page 4

union) and present its views in the parties' further negotiations. The parties must attempt to negotiate an agreement acceptable to the Council. The collective bargaining laws do not prohibit the parties from re-negotiating any item, and so the parties are not restricted to negotiating only on the item rejected by the Council. Either party may make use of the impasse procedure, and the Council's representative must participate in any impasse procedure in order to state the Council's position. The parties must submit the results of the negotiation or impasse to the Council by May 10.9

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

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

Step 4: The aftermath.

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

Conclusion

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

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

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

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

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

Philip M. Andrews May 4, 2009 Page 5

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

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

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

MAINTENANCE OF EFFORT REQUIREMENTS AND MCPS FUNDING

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

The State law related to MOE has three primary parts:1

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

MOE Funding in Montgomery County, FY02-FY11

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

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

¹ State of Maryland Code, § 5-202(d), 5-213

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

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

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

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

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

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

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

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

Projected MOE Funding Requirements FY12-FY17

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

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

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

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

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

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

MOE Compliance and State Funding

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

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

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

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

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

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

Source: MCPS Operating Budgets

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

Resolution No.: 16-1173

Introduced:

October 20, 2009

Adopted:

October 27, 2009

COUNTY COUNCIL FOR MONTGOMERY COUNTY, MARYLAND

By: County Council at Request of County Executive

SUBJECT: Approval of Local Government Debt Policy

Background

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

Action

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

The attached Local Government Debt Policy is approved.

This is a correct copy of Council action.

Montgomery County, Maryland

Debt Policy

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Montgomery County, Maryland

Debt Policy

I. Introduction

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

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

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

II. Legal Framework

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

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

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

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

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

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

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

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

III. County Debt Policies

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

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

Projects deemed to be debt eligible should:

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

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

Policy on General Obligation Debt Limits

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

Debt Capacity

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

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

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

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

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

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

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

Policy on Terms for General Obligation Bond Issues

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

Policy on Other Forms of General Obligation Debt

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

Policy on Use of Revenue Bonds

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

Policy on Use of Appropriation-backed Debt

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

Policy on Issuance of Taxable Debt

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

Policy on Use of Interim Financing

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

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

Policy on Use of Short Term Financing

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

Policy on Use of Current Revenues

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

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

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

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

Policy on Use of Federal and State Grants and Other Contributions

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

Policy on Minimum Allocation of PAYGO

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

Policy on Operating Budget Impacts

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

IV. Debt Issuance and Structuring Policies

Credit Ratings

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

Fixed or Variable Rate Mode

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

Method of Sale - Competitive vs. Negotiated Sales

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

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

Selection of Service Providers

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

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

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

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

V. Debt Management Policies

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

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

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

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

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

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

VI. Administration and Implementation

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

Resolution No: 16-1415

Introduced:

May 27, 2010

Adopted:

June 29, 2010

COUNTY COUNCIL FOR MONTGOMERY COUNTY, MARYLAND

By: Council President at the Request of the County Executive

SUBJECT: Reserve and Selected Fiscal Policies

Background

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

Action

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

1. Structurally Balanced Budget

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

2. Reserves

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

3. Use of One-Time Revenues

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

4. PAYGO

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

5. Fiscal Plan

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

Page 3 Resolution No.: 16-1415

6. Reports to Council

The Executive must report to the Council:

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

This is a correct copy of Council action.

Mary Anne Paradise, Acting Clerk of the Council

Resolution No.: 16-1416

Introduced:

June 29, 2010

Adopted:

June 29, 2010

COUNTY COUNCIL FOR MONTGOMERY COUNTY, MARYLAND

By: Management and Fiscal Policy Committee

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

Public Services Program

Background

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

Page 2 Resolution No.: 16-1416

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

Action

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

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

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

This is a correct copy of Council action.

Mary Anne Paradise, Acting Clerk of the Council

County Council's Approved FY11-16 Public Services Program Tax Supported Fiscal Plan Summary (\$ in millions)

	(\$ in millions)														
		. App.	Restated	% Chg.	Арр.	% Chg.	Projected	% Chg.	Projected	% Chg.	Projected	% Chg.	Projected	% Chg.	Projected
		FY10	FY10	FY10-11	FY11	FY11-12	FY12	FY12-13	FY13	FY13-14	FY14	FY14-15	FY15	FY15-18	FY18
		5-21-09		Restated	5-27-10										
	Total Revenues			to approved											
1	Property Tax (less PDs)	1,440.9	1,440.9	0.6%	1,450.1	2.7%	1,489.9	3.0%	1,534.9	3.1%	1,582.6	3.4%	1,635.9	2.4%	1,875.3
2	Income Tax	1,214.8	1,214.8	-12.7%	1,060.7	6.6%	1,130.2	6.2%	1,200.8	5.3%	1,264.8	8.6%	1,373.6	7.9%	1,482.6
3	Transfer/Record, Tax	123.4	123.4	13.4%	139.9	6.0%	148.3	-2.2%	145.1	8.7%	157.8	7.5%	169.7	5,1%	178.3
4	Investment income	5.9	5.9	-38.2%	3.6	88.3%	6.9	95,1%	13.4	28.0%	17.1	16.8%	20.0	8.8%	21.7
5	Other Taxes	185.3	185.3	69.0%	313.2	2.8%	322.1	-32.8%	216.4	2.9%	222.6	2.8%	228.9	2.7%	235.1
8	Other Revenues	834.6	755.1	7.5%	811.6	-2.5%	791.7	0.7%	797.2	0.7%	803.1	0.8%	8.908	0.9%	816.6
7	Total Revenues	3,804.9	3,725.4	1.4%	3,779.2	2.8%	3,889.1	0.5%	3,907.8	3.6%	4,048.0	4.7%	4,237.6	4.1%	4,409.6
8															
8	Net Transfera in (Out)	37.2	37.2	12.1%	41.7	-68.0%	13.4	2.4%	13.7	2.6%	14.0	2.8%	14.4	3.0%	14.9
10	Total Revenues and Transfers Available	3,842.2	3,782.6	1.6%	3,821.0	2.1%	3,902.4	0.5%	3,921.4	3.6%	4,062.0	4.7%	4,252.0	4.1%	4,424.4
11															
12	Non-Operating Budget Use of Revenues														
	Debt Service	251.5	251.5	5.0%	284.0	11.9%	295.3	11.3%	328.6	8.3%	356.1	6.3%	378.5	4.6%	398.1
14	PAYGO	1.3	1.3	-100.0%	•	n/a	32.5	0.0%	32.5	0.0%	32.5	0.0%	32.5	0.0%	32.5
15	CIP Current Revenue	30.7	30.7	-22.6%	23.8	72.1%	40.9	40.3%	57.4	41.0%	81.0	3.9%	84.2	-24.7%	63.4
16	Montgomery College Reserves						4.0	-98.1%	0.1	-2.9%	0.1	5.5%	0.1	4.2%	0.1
17	MNCPPC Reserves						4.3	-96.3%	0.2	-2.6%	0.2	7.1%	0.2	-25,9%	0,1
18	Contribution to General Fund Undesignated Reserves	(39.3)	(39.3)	-372.3%	107.1	-100.4%	(0.4)	1300.2%	5.4	-119.9%	(1.1)	668.3%	6.1	39.3%	8.5
19	Contribution to Revenue Stabilization Reserves	-	-	n/a	33.9	-28.5%	24.3	-16.0%	20.4	16.4%	23.7	44.9%	34.4	-6.3%	32.2
20	Retiree Health Insurance Pre-Funding	•	-	n/a	•	rva	83.6	22.7%	102.6	18.6%	121.7	14.9%	139.8	5.0%	146.8
21	Set Aside for other uses (supplemental appropriations)		2.5	-90.2%	0.3	8916.1%	22.5	0.0%	22.5	0.0%	22.5	-11.3%	20.0	0.0%	20.0
22	Total Other Uses of Resources	245.7	246.7	73.9%	429.1	18.2%	507.0	12.4%	589.7	11.7%	636.8	9.3%	695.6	0.6%	699.6
23	Available to Allocate to Agencies (Total Revenues + Net Transfers-Total Other Uses)	3,595.4	3,515.9	-3.5%	3,391.8	0.1%	3,395.4	-1.3%	3,361.7	2.2%	3,425.4	3.8%	3,556.4	4.7%	3,724.9
24	- Mar instructional Other Caes)														
	Agency Uses	3,595.4	3,515.9	-3.5%	3,391.8	0.1%	3,395.4	-1.3%	3,351.7	2.2%	3,425.4	3.8%	3,556.4	4.7%	3,724.9
٠,	tallanial anna	3,000.7	2,0 10.0	-0.0%	0,000	0,1,4	G,040.4	-114/8	0,00 1.1		4,764,7	J A	o,000.4		w ₁ , 2.4.0
32	Total Usee	3,842.2	3,762.6	1.6%	3,821.0	2,1%	3,902.4	0.5%	3,921.4	3.6%	4,062.0	4.7%	4,252.0	4.1%	4,424.4
33	(Gap)/Available		0.0		0.0		0.0		0.0		0.0		0.0		0.0

		Арр.	Restated	% Chg.	Арр.	% Chg.	Projected								
		FY10	FY10	FY10-11	FY11	FY11-12	FY12	FY12-13	FY13	FY13-14	FY14	FY14-15	FY15	FY15-16	FY18
34	Beginning Reserves														
35	Unrestricted General Fund	115.5	115.5	-74.3%	29.7	360.6%	136.8	-0.3%	136.4	3.9%	141.8	-0.8%	140.7	4.3%	146.8
36	Revenue Stabilization Fund	119.6	119.6	-49.5%	60.4	58.2%	94.3	25.7%	118.6	17.2%	139.0	17.1%	162.7	21.1%	197.1
37	Total Beginning Reserves	235.2	235.2	-61.7%	90.1	156.6%	231.2	10.3%	255.0	10.1%	280.7	8.1%	303.4	13.3%	343,9
38			İ												
39	Additions to Reserves														
40	Unrestricted General Fund	-39.3	-39.3	-372.3%	107.1	-100,4%	-0.4	1300.2%	5.4	-119.9%	-1.1	668.3%	6.1	39.3%	8.5
41	Revenue Stabilization Fund	0.0	0.0	n/a	33.9	-28,5%	24.3	-16.0%	20.4	16.4%	23.7	44,9%	34.4	-6.3%	32.2
42	Total Change in Reserves	-39.3	-39.3	-458.6%	141,1	-83.1%	23.8	8.2%	25.8	-12,1%	22.6	78,6%	40.5	0.5%	40.7
43							-								
44	Ending Reserves														
45	Unrestricted General Fund	76.2	76.2	79.6%	136.8	-0.3%	136.4	3.9%	141.8	-0.8%	140.7	4.3%	146.8	5.8%	155.3
46	Revenue Stabilization Fund	119.6	119.6	-21.2%	94.3	25.7%	118.6	17.2%	139.0	17.1%	162.7	21.1%	197.1	16.3%	229.2
47	Total Ending Reserves	195.8	195.8	18.0%	231.2	10.3%	255.0	10.1%	280.7	8.1%	303.4	13.3%	343.9	11.8%	384.5
48	Reserves as a % of Adjusted Governmental Revenues				6.0%		6.5%		7.1%		7.4%		8.0%		8.6%
49	Agency Reserves														
50	Montgomery College				0.0	n/a	4.0	1.9%	4.0	1.8%	4.1	1.8%	4.2	1.9%	4,3
51	MNCPPC	~~~			0.0	n/a	4.3	3.7%	4.5	3.5%	4.6	3.6%	4.8	2.5%	4.9
52	Retiree Health Insurance Pre-Funding														
53	Montgomery County Public Schools (MCPS)						53.2		64.8		76.4		87.7		92.1
	Montgomery College (MC)						1.0		1.2		1.3		1.4		1.5
	MNCPPC (w/o Debt Service) MCG						4.4 25.0		5.1 31.5		5.6 38.4		6.1 44.6		6.4 46.8
50 57	Subtotal Retiree Health Insurance Pre-Funding					•••	83.6		102.6		121.7	•	139.8	_	146.8

This fiscal plan summary reflects the following assumptions:

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

Notes:

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





MEMORANDUM

September 30, 2010

TO:

Isiah Leggett, County Executive

Nancy Floreen, President, County Council

FROM:

Vernon Ricks, Co-Chair, Organizational Reform Commission YK

Richard Wegman. Co-Chair, Organizational Reform Commission

SUBJECT:

Status Report and Work Plan

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

Progress Report

Weekly Meetings

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

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

PHASE I – Briefings and Outreach

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

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

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

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

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

Mission Statement

The Commission adopted the following Mission Statement:

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

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

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

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

Work Plan

PHASE II – Deliberations and Draft Recommendations

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

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

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

Work Plan

October/November

Continue information gathering and outreach

Hold public forum October 20

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

Identify issues for further study and investigation using criteria developed Gather additional information and conduct more in-depth study and discussion

November/December

Develop draft recommendations

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

Further discussion and analysis

Refine and modify recommendations

January

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

PHASE III - Final Report

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

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

9/30/2010
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Organizational Reform Commission

July, August and September Meeting Information

July 28, 2010

Discussion with

Nancy Floreen, Council President

Duchy Trachtenberg, Councilmember

Lou D'Ovidio, Councilmember Berliner Office

Tim Firestine, Chief Administrative Officer

Steve Farber, Council Staff Director

Karen Orlansky, Legislative Oversight (OLO), Structural Budget Deficit Project

Fariba Kassiri Assistant CAO, Cross-Agency Resource- Sharing Committee

Materials Distributed:

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

August 9, 2010

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

Materials Distributed:

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

August 16, 2010

Discussion with Councilmember Roger Berliner

Presentation - Maryland-National Capital Park & Planning Commission by Françoise Carrier, Chair, MCPB, with Mary Bradford, Director, Parks Department, Adrian Gardner, General Counsel, Patti Barney, Executive Director, Rollin Stanley, MC Planning Director

Presentation - Montgomery College, Dr. Brad Stewart, Vice President and Provost Silver Spring/Takoma Park and Donna Dimon, Chief Budget and Management Studies Officer

Materials Distributed:

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

August 23, 2010

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

Materials Distributed:

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

August 30, 2010

Presentation - Overview Montgomery County Employees Collective Bargaining Process, Joseph Adler, Director, Office of Human Resources MCG, with Mike Faden, Sr. Legislative Counsel participating

Presentation - Overview Montgomery County Public Schools Collective Bargaining Process, Larry Bowers, Chief Operating Officer, MCPS with Stan Damas, Director of Association Relations, MCPS, and Marshall Spatz, Director, Management, Budget and Planning

Discussion – County Police view of Park Police merger with County Police, Assistant Chief Betsy Davis, MCPD, and Assistant Chief Drew Tracy, MCPD; also contributing to the discussion, Chief Darien Manley, Park Police, MNCPPC and Mike Young, President, FOP Lodge #30, Park Police, MNCPPC

Discussion – Commission Outreach with Neil Greenberger, Council Legislative Information Officer Materials Distributed:

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

September 7, 2010

Meeting with Montgomery County Public Schools Employee Unions - Doug Prouty, President. Montgomery County Education Association (MCEA); Dr. Rebecca Newman, President and Edye Miller, Montgomery County Association of Administrators & Principals (MCAAP); Merle Cuttitta, President and David Rodich, Service Employees International Union, Local 500 (SEIU)

Presentation – County Department of Recreation view of Parks/Recreation merger, Gabriel Albornoz, Director, Montgomery County Department of Recreation

Materials Distributed:

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

September 13, 2010

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

Materials Distributed:

Chart - Interest Arbitration Results in Montgomery County, MD

OLO Report No. 2010-9 - An Inventory and Assessment of Housing-Related Programs: DHHS, SHCA and HOC

September 22, 2010

Presentation - Department of Health and Human Services by Uma, Ahluwalia, Director

Presentation - Housing Opportunities Commission by Annie Alston, Executive Director

Presentation - Department of Housing and Community Affairs, by Rick Nelson, Director

Materials Distributed:

- -Power Point Handout: Overview Department of Health and Human Services; Fact Sheet & Community Guide
- -Power Point Handout: Overview Housing Opportunities Commission; "Budget in Brief" & Fact Sheet
- -Power Point Handout: Overview Department of Housing and Community Affairs
- OLO Report No. 2009-8 The Department of Economic Development Review of Budget and Strategies
- OLO Report No. 2008-5 Overview of Revenue, Expenditures, & Other Financial Data for Municipalities & Special Taxing Districts in Montgomery County

Communications Consolidation Progress Report Park Police/County Police Communications Consolidation Steering Committee dated September 15

CARS Meeting and Presentation - ORC Commissioners Fidler, Fosler, Echavarren, Heltemes, & Ricks attended

September 29, 2010

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



OFFICES OF THE COUNTY EXECUTIVE

Isiah Leggett County Executive Timothy L. Firestine Chief Administrative Officer

MEMORANDUM

March 24, 2010

TO:

Jerry Weast, Superintendent, Montgomery County Public Schools

Hercules Pinkney, Interim President, Montgomery College

Royce Hanson, Chairman, Montgomery County Planning Board

Jerry Johnson, General Manager, Washington Suburban Sanitary Commission

Steve Farber, Staff Director, Office of the County Council

FROM:

Timothy L. Firestine, Chief Administrative Officer

SUBJECT:

Cross-Agency Resource-Sharing Committee

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

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

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

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

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

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

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

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

Next Steps:

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

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

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

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

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

TLF:st

Cross-Agency Resource-Sharing Committee (CARS)

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

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

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

Subcommittee	Recommendation	Response	Implemt. Date
Fleet		Expand to include all departments within all agencies with the goal of strategically locating joint use fueling facilities and reducing the number of facilities currently in use. The subcommittee's next report (due Dec.1st) for this action item should include potential savings and a detailed implementation plan.	FY12
Executive Summary of Recommendations	2. Share Specialized Equipment Use/Towing	Expand this action item to include other equipment. Create list of equipment that can be shared by agencies and a process by which that equipment can be identified, reserved, maintained and replaced on a shared basis. The Subcommittee's next report (due Dec.1st) for this action item should include potential savings and a detailed implementation plan.	FY12
Detailed Recommendations Report	3. Training Consolidation	Move forward with implementation of this action item.	FY12
	4. Shared purchasing - combine bids for new vehicles equipment	Refer to General Note 1 in Procurement section. Advance implementation of this action item to FY12. Compile a cross-agency list of all related contracts and work with the Procurement Subcommittee to implement this action item.	FY12
	5. Grants vehicles/equipment	Start cost/benefit analysis and preliminary implementation plan.	Post FY12
	10. CNG – Fast Fill	Unclear as to how this is a cross agency benefit. Is this intended to address expansion of CNG fueling operatons? If so, isn't it a component of item #1?	
	7. Shared maintenance space	Expand this action item to include shared use of fleet personnel and also advance implementation to FYI2. Pursue shared use of space and personnel to support work overflow and down periods, if any, when equipment maintenance backlogs can be addressed. Work with OMB and County Attorney on MOU and personnel charge-back between agencies. The Subcommittee's next report (due Dec.1st) for this action item should include potential savings and a detailed implementation plan.	FY12
	8. Emergency Communications	Start assessment to develop cost/benefit analysis and preliminary implementation plan.	Post FY12
	9. Parts Solicitation	Refer to General Note 1 in Procurement section. Advance implementation of this action item to FY12. Compile a cross-agency list of all related contracts and work with the Procurement Subcommittee to implement this action item.	FY12
	11. Grants Applications	Start cost/benefit analysis and preliminary implementation plan.	Post FY12

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

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

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

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

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

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

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

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

Methodology and Data Sources Office of Legislative Oversight

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

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

Issue Paper A – Employee Salaries

Data Sources

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

Option #1: Salary Rollback

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

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

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

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

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

Option #3: Changes to Step Increases

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

County Government	MCPS	Montgomery College	M-NCPPC
0.35%	0.48%	0.50%	0.34%

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

Issue Paper B – Health Benefits for Active Employees

Data Sources

• All Agencies – Approved FY11 Budget documents

County Government

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

MCPS

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

Montgomery College

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

M-NCPPC

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

Assumptions:

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

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

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

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

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

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

Option #2: Change to Fixed Employer Contribution

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

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

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

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

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

MEMORANDUM

April 12, 2010

TO:

Management and Fiscal Policy Committee

FROM:

Stephen B. Farber, Council Staff Director

SUBJECT:

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

Government

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

The tables place pay changes in four categories:

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

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

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

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

MONTGOMERY COUNTY GOVERNMENT

REC

1 1	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11(v)
Police (FOP)											
Increment	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	0.0%
General adjustment (COLA)	2.7%	(b)	(d)	2.0%	2.0%(g)	2.75%	(m)	-	4.0%	0.0%	0.0%
Lump-sum payment	-	`-	`-	-	-	_	-	-	_	-	-
Top of range adjustment	-	-	-	-	(h)	-	-	-	-	-	_
Other	-	_	-	_	· -	(k)	-	(0)	-	-	-
Fire (IAFF)								` ` `			
Increment	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	0.0%
General adjustment (COLA)	2.9%	(c)	5.0%	3.5%	3.5%	(1)	(n)	5.0%	2%+2%(s)	0.0%	0.0%
Lump-sum payment	-	-	-		-	-		-	_ `	•	_
Top of range adjustment	-	_		-	-	~	-	-	_	-	-
Other	-	-	-	(e)	(e)	-	-	-	-	(t)	-
Office, Professional, and Technical					-1	- 100					
Bargaining Unit/Service, Labor, and											1
Trade Bargaining Unit (MCGEO)					*						
Increment	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	0.0%
General adjustment (COLA)	(a)	3.25%	3.5%	3.75%(f)	2.0%(g)	2.75%	(m)	4.0%	4.5%	0.0%	0.0%
Lump-sum payment	_	-	-	-	-	-		-	-	-	-
Top of range adjustment		-	-	-	(i)	•	-	(p)	-	(u)	-
Non-Represented											
Increment	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	0.0%
General adjustment (COLA)	(a)	3.25%	3.5%	2.0%	2.0%(g)	2.75%	(m)	4.0%	4.5%	0.0%	0.0%
Lump-sum payment	•	-	-	-	-	(q)	(q)	(q)	(q)	~	-
Top of range adjustment	-	_	-	-	(j)	(r)	(r)	(r)	(r)	-	

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

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

MONTGOMERY COUNTY PUBLIC SCHOOLS

REC

									REC			
	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	
Teachers (MCEA)												
Increment	1.5-3.9%	1.5-3.9%	1,5-3.9%	1.5-3.9%	1.5-3.9%	1.5-3.9%	1,5-3.9%	1.5-3.9%	1.5-3.9%	1.5-3.9%	1.5-3.9%	
Increment-weighted average (a)	1.6%	1.7%	1.9%	1.9%	1.9%	2.0%	1.9%	2.2%	2.3%	2.1%	2.1% (v)	
Negotiated salary schedule increase	5.0%(g)(i)	4.0% (g)	4.0% (g)	4.0% (g)	2.0%	2.75%	4.0%(0)	4.8%(p)	5.0%(q)	0.0%(t)	0.0%(u)	
Lump-sum payment (b)	\$300	\$400	\$400	\$400	\$400	\$400	\$400 ´	\$400	\$400	\$400	\$400	
Top of range adjustment	(h)	-	_	-	-		-		-	-	-	
Admin. and Supervisory Personnel									7777			
(MCAAP)								·		1		
Increment	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.00%	3.00%	
Increment-weighted average (a) (d)	1.0%	1.0%	0.9%	0.8%	0.9%	1.1%	0.9%	1.1%	1.2%	1.1%	.9% (v)	
Negotiated salary schedule increase	5.125%(i)	3.0%	3.0%	3.0%(j)	2.0%(m)	2.0%(n)	4.0%(0)	4.8%(p)	5.0%(q)	0.0%(t)	0.0%(u)	
Lump-sum payment	- ''] -	- "	\$1,500(1)	\$1,500(Í)	\$1,500-	\$1,500-	\$1,500-	\$1,500-	\$1,500-	
Top of range adjustment			-	-			\$3,000(1)	\$3,000(i)	\$3,000(1)	3,000(1)	3,000(1)	
Business and Operations										1		
Administrators (MCBOA)							Í			1		
Increment					Ì			1	(r)	3.00%	3.00%	
Increment-weighted average									(r)	1.6%	1.8% (v)	
Negotiated salary schedule increase		Ì							(r)	0.0%(t)	0.0%(u)	
Lump-sum payment			İ						-	-	-	
Top of range adjustment									(r)	\$1,500-	\$1,500-	
										\$4,500(s)	\$4,500(s)	
Supporting Services Employees		·										
(SEIU Local 500)											10.550	
Increment	1.9-5.5%	1.7-5.5%	1.7-5.6%	1.6-5.6%	1.6-5.6%	1.6-5.6%	1.9-5.6%	1.9-5.6%	1.9-5.5%	1.9-5.5%	1.9-5.5%	
Increment-weighted average (a)	1.6%	1.7%	1.8%	1.9%	1.8%	1.9%	1.6%	1.9%	1.8%	1.7%	1.4% (v)	
Negotiated salary schedule increase	5.0%(i)	3.0%	3.0%	3.0% (k)	2.0%	2.75%	4.0%(o)	4.8%(p)	5.0%(q)	0.0%(t)	0.0%(u)	
Lump-sum payment (c)	\$100	\$100	\$100	\$100	\$100	\$200	\$200	\$200	\$200	\$200	\$200	
Top of range adjustment	J	<u> </u>		<u> </u>	<u> </u>		· •	<u></u>	L.,			
Non-Represented	All non-repres									egotiator)		
Increment	receive the san	ne increments	and other sal	ary adjustme	nts as the bar	gaining units i	for which the	se positions a	re covered.			
Negotiated salary schedule increase												
Lump-sum payment												
Top of range adjustment												

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



- (g) The negotiated agreement with MCEA provided salary scale changes for an average increase in the salary schedule of 5.0% for FY 2001 and 4.0% for FY 2002 while an additional 1.0% from the State was applied to this salary schedule each year for a net increase of 6.0% for FY 2001 and 5.0% for FY 2002. For FY 2003 and FY 2004, the negotiated agreement with MCEA provided salary scale changes for an average increase in the salary schedule of 4.0% and added two more days to the work year for 10-month employees for an equivalent of an additional 1.0% applied to the salary schedule for a net increase of 5.0% for each year. The FY 2004 negotiated agreement with MCEA provided for a salary schedule increase of 4.0% implemented on 10/31/03 for 12-month unit members and 12/1/03, for 10-month unit members, resulting in a 3.66% salary impact.
- (h) In FY 2001, a 2.25% longevity payment was negotiated for teachers who have been at the top of the scale for 6 years.
- (i) In FY 2001, the salary increase was funded in part through a change in the employee benefits program and structure for a net budgetary increase of 5% for salary.
- (j) For FY 2004, the negotiated agreement with MCAAP provided for a salary schedule increase of 3.0% implemented on 10/7/03, for 12-month unit members and 11/8/03, for 11-month assistant school administrators, resulting in a 1.87% salary impact.
- (k) For FY 2004, the negotiated agreement with SEIU Local 500 provided for a salary schedule increase of 3.0% implement on 10/7/03 for 12 month unit members and 11/8/03, for all other unit members, resulting in a 2,05% salary impact.
- (I) Effective October 1, 2004, the negotiated agreement with MCAAP provided an annual longevity supplement of \$1,500 for each unit member who completed ten or more years as an administrator and/or supervisor with MCPS. Effective December 1, 2006, the negotiated agreement with MCAAP provided an annual longevity supplement of \$1,500 for each unit member who completed five or more years as an administrator and/or supervisor with MCPS. Subsequent to that date, the negotiated agreement with MCAASP provided an annual longevity supplement of \$3,000 for each unit member who completed ten or more years as an administrator and/or supervisor with MCPS.
- (m) For FY 2005, the negotiated agreement with MCAAP provided for a salary schedule increase of 2.0% implemented on 10/2/04, for 12-month unit members and 11/13/04, for 11-month assistant school administrators, resulting in a 1.49% salary impact.
- (n) For FY 2006, the negotiated agreement with MCAAP provided for a 2% salary schedule increase and salary scale adjustments equivalent to an average of an additional 0.75%.
- (o) For FY 2007, the negotiated agreement with MCEA and SEIU Local 500 provided for a salary schedule increase of 3.0% on 7/1/06 and an additional 1.0% effective mid-year, resulting in a 3.5% salary impact. The negotiated agreement with MCAAP provided for a salary schedule increase of 4.0% and scale adjustments effective November 1, 2006, resulting in a 3.5% average salary impact.
- (p) For FY 2008, the negotiated agreement with MCAAP, MCEA, and SEIU Local 500 provided for a 4.8% salary schedule increase and other compensation changes equivalent to an average of an additional 0.2% for a total of 5.0%.
- (q) For FY 2009, the negotiated agreement with MCAAP, MCEA, and SEIU Local 500 provides for a 5.0% salary schedule increase.
- (r) During FY 2008, the BOE approved the formation of a fourth bargaining unit The Montgomery County Business and Operations Administrators (MCBOA). In FY 2009, the compensation for these employees was included in the SEIU salary numbers.
- (s) Unit members will receive a \$1,500 longevity supplement at 5, 10, and 15 years of service.
- (t) The 2008-2010 contracts with MCAAP, MCBOA, MCEA, and SEIU Local 500 included, for FY 2010, a 5.3% COLA and other salary-related improvements. Due to the fiscal situation, the unions have agreed to forgo the FY 2010 COLA and salary-related improvements.
- (u) Due to the fiscal situation, there is no COLA budgeted for FY 2011. MCPS is currently in negotiations with all unions on a new contract.
- (v) The FY 2011 Board of Education budget request contains increases for increments. However, due to the fiscal situation, this is subject to current negotiations with all unions on a new contract.

MONTGOMERY COLLEGE

DEC

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

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



MARYLAND-NATIONAL CAPITAL PARK AND PLANNING COMMISSION

REC

	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11
Non-Represented											
Increment	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	(n)
General adjustment (COLA)	(a)	(c)	(d)	2.5% (f)	2.7%	2.8%	3.0%	3.25%	3.25%	0%	(n)
Lump-sum payment	•	-	-	- ``	-	-	- '	-	-	-	-
Top of range adjustment	-	-	_	_	-	-	(i)	} -	-		-
Service/Labor, Trades, and											
Office/Clerical Bargaining											
Units (MCGEO, Local 1994)											
Increment	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	(m)	(m)(n)
General adjustment (COLA)	(a)	(c)	(d)	2.5% (f)	2.7%	2.8%	3.0%	3.25%	3.25%	(m)	(m)(n)
Lump-sum payment	•	-	-	-	-	-	-	-	-	-	-
Top of range adjustment	-	-	-	-	-	-	(i)	(i)	-	_	-
Park Police (FOP, Lodge 30)											
Increment	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	(l)(n)
General adjustment (COLA)	(b)	(b)	(e)	(e)	(g)	(h)	(i)	(k)	(1)	(l)	(l)(n)
Lump-sum payment	•	-	_	-	-	-	-	-	-	-	-
Top of range adjustment	•	-	-	-	(g)	-	_	-	-	-	_

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



November 2009

Montgomery County Employees' Retirement System

2009 Actuarial Valuation Report

Census Data as of June 30, 2009 Plan Year Beginning July 1, 2009

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

MERCER



SECTION V — Summary of Plan Provisions

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

1. Effective Date of the Plan

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

2. Employee Eligibility Requirements

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

3. Membership Groups and Eligibility

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

4. Member Contributions

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

A. Optional non-integrated plan:

- Group A: 6% of regular base earnings.
- Group B: 7% of regular base earnings.
- Group D: 7½% of regular base earnings.
- Group E: 8½% (effective 7/1/2001; previously 7½%) of regular base earnings.
- Group F: 81/2% (effective 7/1/2001; previously 71/2%) of regular base earnings.
- Group G: 81/2% (effective 7/1/2001; previously 71/2%) of regular base earnings.
- Group H: 6% of regular base earnings.

B. Optional integrated plan:

- Group A: 4% (effective 7/1/2001; previously 3%) of regular base earnings up to the maximum Social Security wage base plus 6% of the excess.
- Group B: 4½% (effective 7/1/2001; previously 3½%) of regular base earnings up to the maximum Social Security wage base plus 7% of the excess.
- Group D: Not applicable.
- Group E: 43/4% of regular base earnings up to the maximum Social Security wage base plus 81/2% of the excess (effective 7/1/2001; previously 33/4% of regular base earnings up to the maximum Social Security wage base plus 71/2% of the excess).
- Group F: 43/4% of regular base earnings up to the maximum Social Security wage base plus 81/2% of the excess (effective 7/1/2001; previously 4% of regular base earnings up to the maximum Social Security wage base plus 8% of the excess).
- Group G: 5½% of regular base earnings up to the maximum Social Security wage base plus 9¼% of regular earnings that exceed the wage base; member contributions revert back to 4¾% up to the maximum Social Security wage base and 8½% of regular earnings that exceed the wage base after 25 years of credited service (effective 7/1/2007; previously 4¾% of regular base earnings up to the maximum Social Security wage base plus 8½% of the excess).
- Group H: 4% (effective 7/1/2001; previously 3%) of regular base earnings up to the maximum Social Security wage base plus 6% of the excess.

C. Mandatory integrated plan:

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

5. Credited Service

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

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

6. Average Final Earnings

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

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

7. Social Security Wage Base

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

8. Social Security Maximum Compensation Level

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

9. Social Security Retirement Age

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

10. Regular Earnings

Gross pay for actual hours worked, excluding overtime.

11. Benefits

A. Normal Retirement Date:

Age and Service Requirement:

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

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

B. Benefit Amount:

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

2. Integrated plans:

a. From date of retirement to Social Security Retirement Age:

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• For groups other than Groups E, F or G: 2% of average final earnings multiplied by years of credited service, up to a maximum of 36 years, plus sick leave credits.

- Group E: 2.4% of average final earnings for each of the first 25 years of credited service, plus 2% of average final earnings for each year of credited service more than 25 years up to a maximum of 31 years, plus sick leave credits.
- Group F: 2.4% of average final earnings multiplied by years of credited service, up to a maximum of 36 years of service including sick leave credits. (effective 7/1/2008; previously 2.4% of average final earnings for each year of credited service, up to a maximum of 30 years, plus sick leave credits. Sick leave credit in excess of 30 years is credited at 2% of average final earnings).
- Group G: 2.5% of average final earnings for each of the first 20 years of credited service, plus 2% of average final earnings for each year of credited service after 20 years up to a maximum of 31 years, plus sick leave credits (effective 7/1/2007; previously 2% of average final earnings for each of the first 20 years of credited service, plus 3% of average final earnings for each year of credited service from 21st year through 24th year, plus 8% of average final earnings for the 25th year of credited service, plus 2% of average final earnings for each year of credited service after 25 years up to a maximum of 31 years, plus sick leave credits).

b. From attainment of Social Security Retirement Age:

- For Groups A, B or H: 1.25% of average final earnings up to Social Security maximum covered compensation plus 2% of average final earnings above Social Security maximum covered compensation, multiplied by years of credited service up to 36 years, plus sick leave credits.
- Group D: 1% of average final earnings up to Social Security maximum covered compensation plus 2% of average final earnings above Social Security maximum covered compensation, multiplied by years of credited service up to 36 years, plus sick leave credits.
- Group E: 1.25% (effective 7/1/2009: 1.65%) of average final earnings up to Social Security maximum covered compensation for each year of credited service up to a maximum of 31 years plus sick leave credits, plus 2.4% of average final earnings above Social Security maximum covered compensation for each of the first 25 years, and 2% of average final earnings above Social Security maximum covered compensation for each year of credited service after 25 years up to a maximum of 31 years, plus sick leave credits. Sick leave credits used for years in excess of 25 years is credited at 2% of average final earnings above Social Security maximum covered compensation.

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

12. Early Pension

A. Age and service requirements:

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

Employees' Retirement Pension System October 2009

Understanding Your Retirement Retirement Benefits, Process, and Forms





Employee & Retiree Service Center 7361 Calhoun Place, Suite 190, Rockville, MD 20850 301-517-8100

www.montgomeryschoolsmd.org/department/ersc



Eligibility for Retirement

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

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

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

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

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

Benefit Amount

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

Retirement System:

Core Benefit

1.8181% x AFS x Credited Service

Supplemental Benefit

.18181% x AFS x Credited Service

Pension System:

Core Benefit

Calculate the greater of .008 x AFS up to the SSIL plus .015 x AFS in excess of the SSIL multiplied by years of credited service prior to 7/1/98 Or .012 x AFS x years of credited service prior to 7/1/98.

Plus .018 x AFS x years of credited service after 7/1/98

Supplemental Benefit -

.0008 x AFS up to the SSIL *Plus* .0015 x AFS in excess of the SSIL Multiplied by years of credited service to 7/1/98 *Plus* .002 x AFS x years of credited service after 7/1/98.

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

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

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

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

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

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

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

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

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

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

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

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

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

Additional Service Credits

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

Active Duty Military Service - Granted Service

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

Service that may be purchased:

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

Previous Service

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

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

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

Leave of Absences

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

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

Procedure to Purchase Service

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

Credit for Sick Leave

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

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

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

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

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

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

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

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

November 2009

Montgomery County Employees' Retirement System

2009 Actuarial Valuation Report

Census Data as of June 30, 2009 Plan Year Beginning July 1, 2009

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

MERCER



SECTION III — Plan Liabilities and Contributions (continued)

Schedule of Amortization Bases as of July 1, 2009

Commence Com		Initial	Initial		Remaining	
	Date of	Amortization	Amortization		Amortization	
Туре	Establishment	Base	Period	Outstanding Balance	Period	Annual Payment
(1)	(2)	(3)	(4)	(5)	(6)	(7)
a. Charges					le constitution de la constituti	
Initial Unfunded Actuarial Liability	June 30, 1975	N/A		\$52,690,686	15	\$5,699,843
N/A	June 30, 1976	N/A	40	5,813,634	7	1,033,926
N/A	June 30, 1977	N/A	40	2,497,386	8	402,390
N/A	June 30, 1978	N/A	40	13,130,251	9	1,946.194
N/A	June 30, 1979	N/A	40	16,862,805	10	2,326,905
N/A	June 30, 1980	N/A_	40	13,215,718	11	1,714,082
N/A	June 30, 1981	N/A	40	17,758,701	12	2,181,934
N/A	June 30, 1982	N/A	40	9,319,510	13	1.091,780
N/A	June 30, 1983	N/A	40	3,250,690	14	365,094
N/A	June 30, 1984	N/A	40	6,467,243	15	699,594
N/A	June 30, 1985	N/A	40	2,130,835	16	222,900
Actuarial Loss	June 30, 1988	\$57,914,504	40	46,520,176	19	4,485,219
Actuarial Loss	June 30, 1990	34,819,340	40	29,248,642	21	2,703,662
Actuarial Loss	June 30, 1994	72,258,133	40	64,684,645	25	5,610,721
Assumption Changes	June 30, 1995	33,514,000	40	30,381,331	26	2,602,305
Actuarial Loss	June 30, 1995	16,196,226	40	14,682,316	26	1,257,609
Change in Asset Valuation Method	June 30, 1997	51,860,075	40	56,160,089	28	4,705,430
Other FOP Plan Changes	June 30, 1999	16,968,798	40	16,019,897	30	1,317,598
IAFF Plan Changes	June 30, 1999	36,638,276	40	34,589,442	30	2,844,900
Plan Changes	June 30, 2001	121,889,595	40	116,884,913	32	9,464,520
Actuarial Loss	June 30, 2002	122,203,119	40	117,994,021	33	9,488,864
Actuarial Loss	June 30, 2003	151,672,593	40	147,377,538	34	11,777,120
IAFF Plan Changes	June 30, 2004	11,435,318	40	11,176,354	35	887,933
Actuarial Loss	June 30, 2004	130,299,954	40	127,349,175	35	10,117,570
IAFF Plan Changes	June 30, 2005	27,484,387	40	27,006,315	36	2,134,116
Actuarial Loss	June 30, 2005	137,895,563	40	135,496,963	36	10,707,356
Assumption Changes	June 30, 2005	1,027,123	40	1,009,259	- 36	79,754
Actuarial Loss	June 30, 2006	83,285,550	40	82,241,848	37	6,466,981
Plan Changes	June 30, 2008	94,993,794	40	14,502,512	39	1,130,459
RIP Early Retirement Window	June 30, 2008	18,343,779	10	17,077,517	9	2,531,263
Plan Change - Imputed Pay	June 30, 2009	67,227,011	40	67,227,011	40	5,220,063
Actuarial Loss	June 30, 2009	56,163,099	40	56,163,099	40	4,360,969
Total Charges	3 4 7 7 8 1			\$1,356,930,522		\$117,579,054

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SECTION III — Plan Liabilities and Contributions (continued)

Schedule of Amortization Bases as of July 1, 2009

	T	Initial	Initial		Remaining	
	Date of	Amortization	Amortization		Amortization	
Туре	Establishment	Base	Period	Outstanding Balance	Period	Annual Payment
(1)	(2)	(3)	(4)	(5)	(6)	(7)
b. Credits						
Combined Actuarial Gain and Group						
Annuity Purchase	June 30, 1986	(\$43,474,897)	40	(32,985,017)	17	(\$3,348,269)
Actuarial Gain	June 30, 1987	(644,889)	40	(5,038,252)	18	(497,770)
Actuarial Gain	June 30, 1989	(16,236,391)	40	(13,367,712)	20	(1,260,676)
Actuarial Gain	June 30, 1991	(9,138,354)	40	(7,817,262)	22	(709,578)
Actuarial Gain	June 30, 1992	(28,212,761)	40	(24,537,168)	23	(2,190,673)
Actuarial Gain	June 30, 1993	(32,886,924)	40	(29,132,898)	24	(2,562,022)
Actuarial Gain	June 30, 1996	(4,734,110)	40	(4,341,286)	27	(367,596)
Actuarial Gain	June 30, 1997	(75,266,469)	40	(69,752,845)	28	(5,844,313)
Actuarial Gain	June 30, 1998	(100,422,700)	40	(93,970,108)	29	(7,797,652)
Actuarial Gain	June 30, 1999	(104,935,212)	40	(99,067,179)	30	(8,148,041)
Actuarial Gain	June 30, 2000	(78,586,205)	40	(74,798,036)	31	(6,102,085)
Assumption Changes	June 30, 2000	(8,695,143)	40	(8,276,002)	31	(675,163)
Actuarial Gain	June 30, 2001	(17,209,707)	40	(16,503,097)	32	(1,336,304)
Assumption Changes	June 30, 2006	(54,558,233)	40	(53,874,529)	37	(4,236,354)
Actuarial Gain	June 30, 2007	(56,555,609)	40	(56,101,516)	38	(4,391,447)
Actuarial Gain	June 30, 2008	(14,375,594)	40	(14,320,102)	39	(1,116,240)
Plan Change - Addition of GRIP	June 30, 2009	(2,453,246)	40	(2,453,246)	40	(190,490)
Total Credits		4.4		(\$606,336,255)	4400	(\$50,774,673)
c. Total			1984	\$750,594,267		\$66,804,381

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

Note: The remaining amortization period for the initial amortization base was rounded to the nearest whole year.

The change in the asset valuation method is amortized over a 40-year period with a five-year phase-in.

Source of County Government ERS Contribution Increases, 2000-2009

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

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

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

^{*} For employees hired after July 1, 1978.

Sources: Montgomery County Employee Retirement Plans CAFRs

[^] Other factors include pay increases, market gains and losses, changes in actuarial assumptions, timing of contributions.

⁺ Annual increases or decreases may not add to "Annual Contribution" due to rounding.

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

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

Certain employees of the:

State Department of Assessments and Taxation District Court of Maryland

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

Agencies and Municipalities that Participate in Montgomery County Group Insurance Plans

Arts and Humanities Commission

Maryland Department of Assessments and Taxation – Montgomery County Assessment Office

Bethesda Urban Partnership

Chevy Chase View

Circuit Court Judges

District Court of Maryland Employees and Judges

Housing Opportunities Commission

Mont County Television

Maryland Department of Public Safety and Correctional Services -

Parole and Probation Office

Montgomery County Revenue Authority

State's Attorney's Office

Strathmore Hall Foundation, Inc.

Town Of Somerset

Village of Friendship Heights

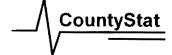
Washington Suburban Transit Commission

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

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

County Health and Retirement Benefits

Office of Human Resources 3/2/2010



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

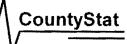
			Medical Plan							
Organization	Plans	Plan w/ Highest	Co-	Co-pays*						
	Offered	Enrollment	Office Visit	ER						
Montgomery Co	POS-2; HMO-2	Carefirst High Option POS	In-network - \$10 Out of network – 20% after deductible	In-network – \$25 (In service area) Out of network - 20% after deductible		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

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*Note: For plan w/ the highest enrollment

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

Health & Retirement Benefits

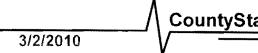


(D) Health Benefits - Percent of medical premium paid by employer

Organization		Single	Employee + Spouse	Family
Montgomery Co	All Plans	80%	80%	80%
ment was to the entered of the state of the	нмо	95%	95%	95%
MCPS	PPO	90%	90%	90%
MNCPPC	All Plans	85%	85%	85%
Montgomery College	All Plans	75%	75%	75%
A A del Ce	нмо	90%	90%	90%
Anne Arundel Co	PPO	80%	80%	80%
Driver Converte Co	нмо	78%	78%	78%
Prince George's Co	PPO	73%	73%	73%
Howard Co	НМО	90%	90%	90%
noward Co	PPO	85%	85%	85%
Baltimore Co	нмо	90%	82.5%	80%
Baitimore Co	POS	80%	77%	77%
Fairfax Co	Ail Plans	85%	75%	75%
Natl Compensation Survey (Bureau of Labor Statistics)	State & Local Govt - 2008	90%		73%
Natl Compensation Survey (Bureau of Labor Statistics)	Private Industry - 2008	81%		71%



Source: (1) OHR, Health Benefits Jurisdictional Comparison, 1/5/10
(2) U.S. Bureau of Labor Statistics, National Compensation Survey
Health & Retirement
14
Benefits



(E) Health Benefits - Average monthly employer premium

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

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

^{*} Not all organizations split employee + 1 into "employee + spouse" and "parent + child."

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

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

				Prescription		
Organization		Separate Rx Premium	Rx Deductible	Retail Co-pays Generic/Preferred/Non-Pref.	Mail Order Co-pays Gen/Pref/Non-Pref.	
Car	Caremark High	Yes	No	\$4/ n.a. / \$8	\$4/ n.a. / \$8	
Montgomery Co	Caremark Stand.	Yes	\$50	\$10/ \$20/ \$35	\$10/ \$20/ \$35	
	Kaiser (HMO)	No	No	\$5 (\$15*)	\$5	
pure は、1年2日2日 - 40名 - 40名 - 42名 - 42名 - 14日 - 14日 - 1	Caremark	Yes	No	\$5/\$10/\$25	\$0/ \$10/ \$25	
MCPS	Kaiser (HMO)	Yes	No	\$5 (\$10*)	\$5	
MNCPPC	Caremark	Yes	No	\$8/ \$16/ \$25	\$16/ \$32/ \$40	
Montgomery	CIGNA POS	No	No	\$10/ \$20/ \$40	\$20/ \$40/ \$80	
	CIGNA PPO	No	\$150	\$10/ \$20/ \$40	\$20/ \$40/ \$80	
Conege	Kaiser (HMO)	No	No	\$15(\$16*)/ n.a./ \$30(\$37*)	\$15/ n.a./ \$30	
	Blue Choice	No	No	\$5/ \$15/ \$25	\$10/ \$30/ \$50	
Anne Arundel Co	Caremark (HMO)	No	No	\$5/ \$12(\$15*)/ \$22 (\$25)	\$10/ \$30/ \$50	
Prince George's Co	MedCo	Yes	\$50/ person	\$10/ \$20/ \$40	\$20/ \$40/ \$80	
	Aetna	No	No	\$10/ \$30/ \$50	\$10/ \$30/ \$50	
Howard Co	Kaiser (HMO)	No	No	\$10(\$30*)/ \$30(\$50*)/ \$50(\$75)	\$10(\$30*)/ \$30(\$50*)/ \$50(\$75)	
	Express Scripts	Yes	No	\$5/ \$20/ \$35	\$15/\$60/\$105	
Baltimore Co	Kaiser (HMO)	No	No	\$5(\$11)/ n.a./ \$15(\$27)	\$5/ n.a./ \$15	
Fairfax Co	Carefirst	No	No	\$10/\$20/\$35	\$20/\$40/\$70	

*Note: Price at a non-preferred participating pharmacy

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

____/\ CountySta

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

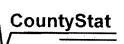
			Prescription	
Organization		Mandatory Generic Provision	Mandatory Mail Order Provision	Fourth-tier Drugs Co-pay
	Caremark High	No	Yes	No
Montgomery Co	Caremark Standard	No	Yes	No
	Kaiser (HMO)	n.a.	n.a.	n.a.
	Caremark	Yes	Yes	No
MCPS	Kaiser (HMO)	Yes	Yes	No
MNCPPC	Caremark	Yes	Yes	Yes
	CIGNA POS	No	Yes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

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

Health & Retirement Benefits



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

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

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

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



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

3/2/2010

CountyStat

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

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

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

YOS: Years of Service

Health & Retirement Benefits



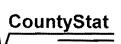
(D) Retirement Benefits (Police) - Comparison of components, FY09

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

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

YOS: Years of Service

Health & Retirement Benefits 29





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

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

Bold = Plan with the highest enrollment

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



Health & Retirement Benefits

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

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

Premiums reflect the total cost of health, prescription, dental and vision coverage. For those with Rx, dental and vision carve-outs, those supplemental premiums have been added in. Where more than 1 option exists, the plan that most closely match4ed the highest enrollment supplemental plan for Montgomery County was chosen.



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

Benefits

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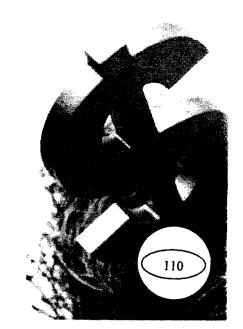




Survey of Public Pension Benefits in Maryland

Ann M. Sturner, FSA







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

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

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

Benefit Comparison for Police Officers

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

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

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

Washington, DC



Features Surveyed:

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

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



Benefit Comparison for General Employees

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

Value of Benefits for Police Officers

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

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

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

AFC = Average final compensation

CPI = Consumer price index

CS = Credited service

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

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

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

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

Washington, DC



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



Benefit Comparison for Police Officers

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



Benefit Comparison for Police Officers (cont.)

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



Benefit Comparison for General Employees

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

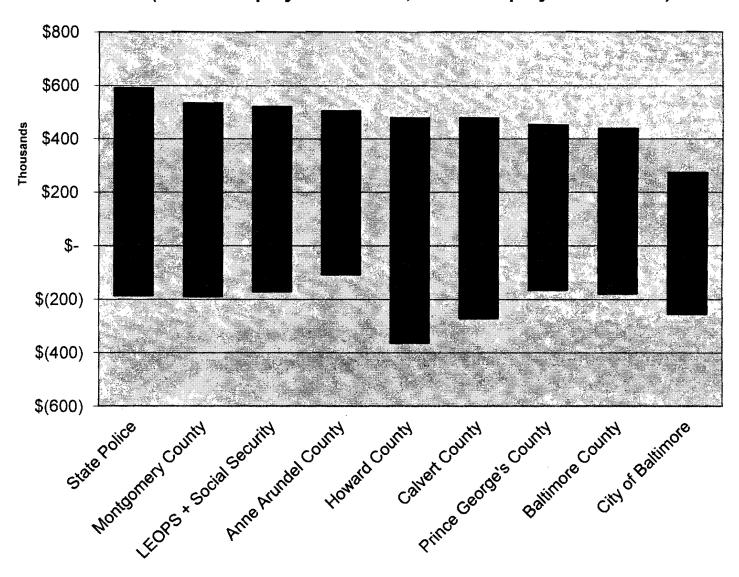


Benefit Comparison for General Employees (cont.)

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



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



For more information contact Ann Sturner at 443.573.3922 or email ASturner@boltonpartners.com

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

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

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

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

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

Retirement Plan Reform

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

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

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

Case Studies

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

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

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

		Changes to						
	Begins			Plan Formulas Changes				
Case Study	on ©	Plan Type	Eligibility	Retirement Age or Vesting	Final Salary Calculation	COLAs	Employee Contribution	Other
Alaska	121	✓		✓			✓	✓
Cobb County, GA	122	✓		1				✓
Colorado	122		✓	✓	✓	√	V	✓
Ft. Lauderdale, FL	123	V						
Georgia	123	V	✓		✓	√		✓
Gwinnett County, GA	123	V	✓					
Houston, TX	124			M			✓	√
Illinois	124		✓	✓	✓	√		✓
Michigan	125	✓						
Michigan Teachers	125	✓	✓	√	✓	✓		✓
Minnesota	126			✓		√	1	
Nebraska	126	✓						
New Jersey	127		✓	✓	✓	✓	~	
Oregon	127	V		~			· /	✓
Philadelphia, PA	128	✓						
Utah	128	✓		✓	✓	✓	✓	√

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

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

Defined Benefit Reform State of Colorado		
Date of Implementation	2010	
	The State of Colorado implemented the following changes to its defined benefit plan, the Public Employee Retirement Association (PERA):	
	 Increased contribution rates for certain employees by 2.5% for fiscal year 2011, and decreased the State's contribution by the same amount; 	
Summary of	 Increased employer contributions in PERA's state, school and Denver Public Schools divisions; 	
Changes	 Reduced post-retirement cost-of-living adjustments; 	
	 Raised age and service requirements for normal retirement; and 	
	 Capped at 8% the amount of salary increases from one year to the next that will be counted toward the calculation of highest average salary. 	
	A lawsuit has been filed challenging the retirement plan changes.	
Savings Data	The one-year modification to the contribution rates is expected to save \$37 million in FY2011. Savings data on other reforms is not known.	

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

	New Hybrid Plan State of Georgia		
Date of Implementation	2008		
	The State of Georgia established a hybrid retirement plan for new state employees hired after January 1, 2009. The plan includes a defined benefit portion that provides about half of the benefit of the former plan and a defined contribution portion with a 1% employee contribution rate. Employees may opt out of the defined contribution plan at any time. Defined benefit reforms for employees hired after July 1, 2009 include:		
Summary of Changes	 Prohibiting benefit increases to any new members of the retirement system; Eliminating "spiking" of retirement benefits by eliminating retirement benefits for salary increases in excess of 5% during the 12 months before an employee's retirement; and 		
	 Prohibiting "double dipping" by not allowing employees who retired and are re- employed by the State to receive retirement benefits until all service is complete. 		
Savings Data	Not available		

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

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

Defined Benefit Reform State of Illinois			
Date of Implementation	2010		
Summary of Changes	 The State of Illinois implemented state retirement plan reforms that will change benefits for new employees hired after January 1, 2011. Retiree cost-of-living adjustments (COLA) are limited to 3% total or 50% of CPI, whichever is less (but not less than zero). COLA payments will be lump sum payments that will not increase the amount of base pensions. Normal retirement age changed to age 67 with 10 years of service, increasing from age 60 with 8 years of service. An "Alternative Plan" for state police and firefighters allows retirement as early as age 50. The final average salary used to calculate pensions will be the average of the highest consecutive 96 months (8 years) of the employee's last 120 months (10 years), but will not take into account any salary in excess of \$106,800. 		
	• Employees who retire and return to work will have retirement benefits suspended. The State also authorized the issuance of \$3.5 billion in bonds to fund part of the State's FY10 required contribution to statewide retirement systems.		
Savings Data	Estimated at \$119 billion over the next 35 years		

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

New Hybrid Plan for New Teachers Michigan Public School Employees' Retirement System (MPSERS)			
Date of Implementation	July 2010		
	As of July 1, 2010, new teachers are enrolled in a hybrid defined benefit/defined contribution plan. The defined benefit plan has the following variables:		
	New employees contribute 9.4% of salary to the pension fund.		
	 Final average salary is based on an average of the highest five consecutive years of salary instead of the highest three years. 		
	 Employees are eligible for a pension at age 60 with 10 years of service instead of at age 46 with 30 years of service. 		
Summary of	The plan will no longer provide cost-of-living adjustments.		
Changes	New employees are also in a defined contribution plan. Employees automatically contribute 2% of salary, but may contribute more or less. Employers automatically match half of employee contributions up to 1% of salary with the option of matching up to 3% of employees' salary. Employees vest in employer contributions on a sliding scale beginning at two years, with full vesting after four years.		
	Retirees rehired by an MPSERS employer may continue collecting pensions and retiree health benefits if their new salary is one third or less of their final average compensation. Retirees, however, cannot receive these benefits if they perform services for an MPSERS employer but are employed by a third party.		
Savings Data	Not available		

Defined Benefit Reform State of Minnesota			
Date(s) of Implementation	1989, 2006, and 2011		
Summary of Changes	In 1989, the State of Minnesota raised its retirement age from 65 to 66 for new employees in several State retirement systems. The state has increased employee and employer contributions multiple times since 2001 and will do so again in 2011. In 2006, the State capped annual pension adjustments at 5% beginning in 2010.		
	In 2010, Minnesota approved a number of changes to state pension plans that go into effect January 1, 2011. Specifically, these reforms: • Temporarily reduce or eliminate post-retirement pension adjustments (COLAs)		
	 until plans have 90% of the assets needed to pay for the plans' liabilities; and Increase the vesting period for MSRS and PERA plans. 		
	The reduction/elimination of post-retirement rate increases has been challenged in court.		
Savings Data	Since 1989, the State saved \$360 million by increasing the retirement age by one year.		

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

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

New Hybrid Plan State of Oregon			
Date of Implementation	2003		
Summary of Changes	 The State of Oregon developed a hybrid plan with a defined benefit and a defined contribution portion for new participating public employees hired after August 29, 2003. Employees hired before that date retained their defined benefit plan, but pay their future contributions into a defined contribution account. Provisions of the new plan include: Normal retirement at age 65 for general employees instead of age 60, and at age 60 for public safety employees instead of age 55; Lower benefit multipliers: 1.5% for general employees instead of 1.67%; 1.8% for public safety employees instead of 2%. Employees contribute 6% of salary to a defined contribution account. 		
Savings Data	Pension system liabilities are currently growing an average of 3% per year compared to average growth before the 2003 changes of 10-12% a year.		

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

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

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Active Employee Health Benefits Reform

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

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

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

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

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

^{*46%} among large counties (≥200 employees)

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

	Indemnity	НМО	PPO	POS	HD	EPO
Surveyed Large Counties (≥200 employees)	21%	32%	80%	16%	20%	8%

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

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

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

^{*} Average of premiums for all plans offered, not based on actual enrollment

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

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

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

Case Studies

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

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

	Wellness Premium Discount Program State of Alabama				
Date of Implementation	January 1, 2010				
Program	The State of Alabama increased employee insurance premiums by \$25 per month. In 2010, employees can earn an offsetting discount of \$25 per month by completing a health assessment that screens blood pressure, cholesterol, glucose, and body mass index. Beginning in 2011, employees at low risk based on the screening automatically receive the discount. Employees with health risks may receive the discount if they:				
Summary	 Receive a doctor's certification that they have been counseled regarding their health risks or have a medical condition that prevents them from improving their health risk; 				
	Complete an approved wellness program;				
	Show improved risk levels through self-health management.				
	Employees' health risk is re-evaluated annually.				
Incentives	\$25 per month discount on health premiums				
Savings Data	Not available				

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

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

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

	Introduction of a High-Deductible Medical Plan State of Nevada					
Date of Implementation	Expected July 1, 2011					
	The State of Nevada plans to implement several changes to health coverage beginning July 1, 2011 to address a \$111.2 million gap in funding for group insurance for active employees and retirees. The State will replace the current PPO with a high-deductible PPO medical plan that:					
	 Increases the deductible from \$800 to \$1,600 for individuals and \$2,000 to \$4,000 for families. 					
	 Increases out-of-pocket maximums from \$3,700 to \$3,900 for individuals and from \$7,400 to \$7,800 for families. 					
Summary of Plan Changes	• Decreases co-insurance from 80% to 75%.					
	Additionally, the State will add Health Savings Accounts for active employees and Health Reimbursement Arrangements for retirees. The State will contribute \$600 per primary participant and \$200/per dependent (up to a maximum of \$1,200) per year to these accounts.					
	Nevada will also eliminate vision coverage except for annual eye exams; eliminate certain lab tests performed at hospitals; eliminate dental coverage except for preventive care; eliminate health coverage for spouses/domestic partners with access to other employer-based insurance; and allow 90-day supplies of certain drugs.					
Savings Data	Not available					

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

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

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Retiree Health Benefits Reform

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

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

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

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

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

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

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

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

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

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

^{*} Responses from 2,136 of 8,044 jurisdictions surveyed

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

Case Studies

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

Case Study	Begins on ©	Lower Government Contribution	Increase Retirement Age and/or Years of Service	Terminate Certain Benefits	Consolidate with Other Jurisdictions/ Medicare	Other
Gainesville, FL	140	✓				
Harris County, TX	141	√	√			
Illinois	141				√	
Kentucky	142	✓				
North Carolina	142		√			
Oakland County, MI	142	√	√			
Ohio	143	✓				
Oregon	143			√		✓
Pennsylvania	144	✓				V
South Carolina	144	✓				
United Auto Workers	144					✓
Utah	145					1
West Virginia	145	√		✓		✓
3M	145			✓		

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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