

REVISED

MEMORANDUM

April 29, 2022

TO: Education and Culture Committee

FROM: Nicole Rodríguez-Hernández, Legislative Analyst
Essie McGuire, Senior Legislative Analyst

SUBJECT: Worksession – Montgomery County Public Schools FY23 Operating Budget and FY23-28 Capital Improvements Program

PURPOSE: Review and make recommendations for Council consideration

Expected Participants:

- Jimmy D’Andrea, Chief of Staff, Montgomery County Public Schools
- Dr. Kara Trenkamp, Director of Technology Innovation and Support, MCPS
- Rob Reilly, Associate Superintendent, Office of Finance, MCPS
- Thomas Klausing, Executive Director of Finance, MCPS
- Ivón Alfonso-Windsor, Supervisor of the Budget Unit, MCPS
- Rich Harris, Fiscal and Policy Analyst, Office of Management and Budget (OMB)
- Veronica Jaua, Fiscal and Policy Analyst, OMB

Staff Report Summary

- The Committee will review additional information on the MCPS FY23 operating budget and make recommendations for the Council’s consideration.
- The new information in this staff report includes compensation and benefits, public testimony, Council staff operating budget recommendations, and the FY23-28 Technology Modernization project.
- The total requested and recommended compensation costs is \$2.4 billion, an increase of 5.94% from FY22.
- Council staff recommends the following:
 - A total appropriation of **\$2,910,027,627**, which includes technical amendments discussed today and previously. This amount is an increase of **\$129,515,437** over the FY22 approved.
 - A tax-supported appropriation of **\$2,719,660,177** which includes a County Contribution of **\$1,839,071,460** and a **\$25,000,000** re-appropriation in fund balance. The County Contribution is **\$86,409,225** over the FY22 approved.
- The Committee will review and make a recommendation for the Council’s consideration on the FY23-28 Technology Modernization Capital Improvements Program project. The County Executive included Current Revenue: General reductions in his Affordability Reconciliation PDF that create modest impacts on MCPS’ requested totals for FY23 and FY24. The recommendation also include a technical amendment on funding sources. Council staff notes MCPS has ESSER funding and other available resources that could meet the recommended reduction.

On [April 20](#), the Education and Culture (E&C) committee received an overview of Montgomery County Public Schools' FY23 operating budget as requested by the Board of Education and recommended by the County Executive. The staff report and session discussed the following:

1. Board of Education's request and County Executive's recommendation;
2. Maintenance of Effort;
3. Revenue Sources: state and Blueprint, local, fund balance, and emergency relief funding;
4. Racial Equity and Social Justice overview; and
5. Programmatic service changes and expenditure adjustments

In today's worksession the Committee will make a recommendation for the Council's consideration on the MCPS FY23 operating budget. The Committee will consider the following additional information:

- A. Operating Budget Overview Update** provides a summary of the Committee's April 20 meeting.
- B. Compensation and Benefits** summarizes information provided to the Government Operations and Fiscal Policy Committee on April 21 (and to the Council on April 26) relating to pay adjustments, retirement benefits, and insurance costs.
- C. Technical Grant Fund and State Aid Updates** will reflect updated information from the Maryland State Department of Education.
- D. Public Testimony** summarizes testimony provided to the Council.
- E. Operating Budget Recommendation** notes Council staff's recommendations.
- F. Technology Modernization** discusses the FY23-28 CIP review for this project as current revenue serves as a significant funding source.

A. Operating Budget Overview

On April 13, Council President Alborno transmitted a memo to the Council outlining his recommended approach to the FY23 operating budget process. Specifically, he states:

"Our challenge for this year will be to adopt a budget that more closely adheres to adopted fiscal policies and reduces additions to the base budget, while simultaneously funding the most critical direct services."

Council staff has incorporated the Council President's recommended budget approach as an analysis lens when reviewing MCPS' requested FY23 operating budget and the Executive's recommended FY23 operating budget for MCPS.

Budget Highlights. The FY23 Operating Budget for Montgomery County Public Schools (MCPS) as requested by the Board of Education (BOE) and as recommended by the County Executive is summarized below.

FY22 Operating Budget	BOE Request	CE Rec	Difference
Total Budget: Funds Change from Approved FY22	\$2,961,746,414 \$181,234,224	\$2,909,710,667¹ \$129,198,477	(\$52,035,747)
County Contribution Change from Approved FY22	\$1,887,507,207 \$134,844,972	\$1,839,071,460 \$86,409,225	(\$48,435,747)
Amount over MOE Revised Amount over MOE ²	\$165,542,931 \$135,195,087	\$117,107,184 \$86,759,340	(\$48,435,747)

1. Board of Education Request.

- The Board’s requested tax-supported budget and the Executive’s recommended tax-supported budget both exceed the Council’s FY23 approved tax-supported Spending Affordability Guidelines set for MCPS.
- The Board of Education requests a total of \$2,961,746,414 for the FY23 MCPS Operating Budget. This amount represents an increase of \$181,234,224 or 10.3% compared to the approved FY22. The FY23 tax supported budget request is \$2,768,095,924, an increase of \$166,699,117 or 6.41% from the approved.
- The 2022 General Assembly approved a new FY23 MOE level, requiring a local contribution that is at least equal to the FY21 local contribution amount. The revised amount over MOE is \$134.8 million. The Board’s requested local contribution is \$1.9 billion.
- The Board projects a total enrollment of 161,235 students for FY23, an increase of 3,003 students from the FY22 official enrollment count of 158,232 students on September 30, 2021. The FY22 budget originally projected 164,890 students, but due to continued impacts on enrollment from the COVID 19 health pandemic, public school systems across the state saw declines in official enrollment.
- The Board’s request includes an increase of \$19.4 million for “key investments” to support areas such as: (1) most poverty impacted schools; (2) wellbeing, safety, and security; (3) digital learning and support; and (4) Blueprint focus areas. Additional increases are included for new specialist positions, compensation and benefits, and state-related programs.

¹ The revised County Executive’s total budget recommendation reflects a **technical amendment** in carryover funds to accurately reflect MCPS’ April 2022 Monthly Financial Report fund balance status.

² The revised MOE calculation is based on the 2022 General Assembly approved House Bill 1450. It changes the unique formula previously prescribed for FY23 and instead requires counties to use the FY21 local contribution amount (\$1,752,312,120) as the FY23 MOE funding level.

- The Board will utilize \$25.0 million in fund balance for the FY23 operating budget.

2. County Executive Recommendation.

- The revised County Executive recommendation totals \$2,909,710,667, a \$52.0 million decrease from the Board's request but a \$129.2 million increase over approved FY22. The decrease reflects a \$3.6 million technical amendment relating to the Enterprise Fund discussed on April 20.
- The Executive recommends a \$48.4 million or 2.6% decrease from the Board's requested County Contribution, but an \$86.4 million increase over the FY22 approved.
- MCPS also benefits from total of \$347.6 million in additional FY23 County support (Recreation, Health and Human Services, etc.) for the school system above the MCPS local appropriation.

3. Maintenance of Effort (MOE) and Required County Contribution Fund Levels.

- Starting in FY23, the State requires counties to fund the greater of MOE or the local share of all wealth-equalized formulas (Blueprint)³. For MCPS, MOE is greater than the Blueprint local share. The Board's request and the County Executive's recommendation for the County Contribution are significantly higher than final FY23 MOE funding level of \$1.75 million⁴.
- If the recommended County Contribution amount were approved, the potential FY24 MOE per-pupil funding could raise from \$10,938⁵ to \$11,912.
- The recommended amount over MOE is a substantial outlier compared to prior years (from \$750,000- \$21.2 million within FY18-FY21).
- The State has recently sought to mitigate any impact on school systems due to declining official enrollment counts as a result of the COVID-19 pandemic through MOE revisions.

³ Blueprint local share includes compensatory education, English language learner, special education, comparable wage index, full-day pre-kindergarten, college and career readiness, transitional supplemental instruction, and career ladder grant programs. Note some of the formulas included will be included/excluded at different times during the 10-year period. The Feb. 10, 2022, E&C/HHS meeting discusses the fiscal implications of Blueprint more in depth.

https://www.montgomerycountymd.gov/council/Resources/Files/agenda/cm/2022/20220310/20220310_ECHHS1.pdf

⁴ MSDE and DLS do not currently agree on what the MOE funding total would be for FY23.

⁵ MCPS notes \$10,938 as the per-pupil amount which is derived from the **actual** FY22 local contribution divided by the Sept. 30, 2019, enrollment. However, divided by the typical school year enrollment count (Sept. 30, 2020) the per-pupil amount is \$11,192.

4. Revenue Summary.

The table below shows the FY21 actual and FY22 approved MCPS operating budget by revenue along with the FY23 BOE request and FY23 County Executive recommendation.

FY21 Actual –FY23 Requested MCPS Operating Budget by Revenue Source

Source	FY21 Actual		FY22 Approved		FY23 BOE Request		FY23 CE Rec		FY22 CE Rec- Revised*	
	\$	%	\$	%	\$	%	\$	%	\$	%
County	1,752,612,120	63.6%	1,752,662,235	63.0%	1,887,507,207	63.7%	1,839,071,460	62.8%	1,839,071,460	63.2%
Fund Balance	25,000,000	0.9%	25,000,000	0.9%	25,000,000	0.8%	45,000,000	1.5%	25,000,000	0.9%
State	798,259,622	29.0%	822,232,792	29.6%	863,737,957	29.2%	863,737,957	29.5%	863,737,957	29.7%
Federal	83,806,189	3.0%	83,978,035	3.0%	88,351,003	3.0%	88,351,003	3.0%	88,351,003	3.0%
Other Sources	13,881,204	0.5%	12,281,204	0.4%	11,291,137	0.4%	11,291,137	0.4%	11,291,137	0.4%
Enterprise Funds	80,928,149	2.9%	82,588,149	3.0%	84,089,335	2.8%	80,489,335	2.7%	80,489,335	2.8%
Special Funds	1,769,775	0.1%	1,769,775	0.1%	1,769,775	0.1%	1,769,775	0.1%	1,769,775	0.1%
Grand Total	2,756,257,059	100.0%	2,780,512,190	100.0%	2,961,746,414	100.0%	2,929,710,667	100.0%	2,909,710,667	100.0%
Tax-Supported Total	2,563,107,999	93.0%	2,584,707,485	93.0%	2,768,095,924	93.5%	2,739,660,177	93.5%	2,719,660,177	93.5%

*The revised CE recommendation includes a technical amendment that reflects MCPS' April 2022 Monthly Financial Report fund balance status.

- The April 2022 Monthly Financial report projects \$25.0 million to be used for FY23 with an additional \$2.2 million as projected available FY23 Start-of-Year Fund Balance (7/1/22). While several factors may still affect the ultimate year-end amount, MCPS will achieve sufficient fund balance to meet the \$25.0 million target for use in the FY23 budget.
- The Governor’s FY23 operating budget increased State Aid by approximately \$41.5 million over the FY22 level for a FY23 total of \$863.7 million.
- The Governor’s budget also includes \$38.8 million (a \$7.5 million increase) in restricted and unrestricted State Aid for the first official year of the Blueprint’s 10-year funding period.
- MCPS has received approximately \$420 million in emergency relief funding. As of March 31, 2022, the total available is approximately \$165.0 million. ESSER III eligibility overlaps significantly with MCPS requested programmatic service changes.

5. Expenditure and Programmatic Adjustments.

The Board’s requested budget includes additions totaling \$186,356,836 over the actual FY22 County Contribution of \$1,754,247,868. The new expenditures are highlighted below.

Recommended Fiscal Year 2023 Expenditure and Programmatic Adjustments

Item	Increase
Compensation/Benefits	
Continuing Salaries	\$96,091,034
Employee Benefits	\$11,000,343
EBP- Employee Benefits	\$30,000,000
Key Positions	

Staff Development Teachers (ES)	\$149,388
Staff Development Teachers (MS)	\$484,584
Staff Development Teachers (HS)	\$605,730
Reading Specialists	\$143,938
Media Specialist	\$83,035
School counseling, residency, administration specialist	\$118,300
Pre-Kindergarten	\$299,114
Security Assistants	\$300,000
Key Investments	
Most Poverty Impacted Schools Total	
Testing Coordinator Stipends	\$678,195
Consulting Principal	\$180,890
Well-being, Safety, and Security Total	
Communications Firm	\$500,000
Security Rover Positions	\$866,201
Cluster Security Coordinators	\$351,030
Security Training Coordinators	\$245,820
Summer Training	\$243,950
~100 Security Cameras in ES	\$250,000
Digital Learning & Support	
Human Capital Management System	\$5,000,000
Digital Learning Platform Expansion	\$1,248,408
Enhance Existing Technology	\$800,000
Pre-K Expansion	
	\$3,330,199
Community Schools	
	\$3,248,476
National Board-Certified Teachers	
Salary Increases	\$2,500,000
State Related Expenditures	
State Revenue Adjustment (actual minus estimate) ⁶	\$3,377,073
State Teacher Pension System	
Rate Increases	\$8,779,223
Private School Pre-K Providers	
To recover funding allocated to private providers through MCPS ⁷	\$2,706,356
Miscellaneous	
New School/Additional Space ⁸	\$5,879,007

⁶Council staff highlights the State revenue adjustment is a requested County Contribution increase to close the gap between their originally estimated State Aid total and actuals. Final State Aid awards from MSDE are forthcoming.

⁷ Council staff highlights that MCPS originally estimated \$6.5 million in FY23 pre-kindergarten funding but received \$12.5 million (a \$6.6 million increase) from the State with the note that \$2.7 million would be provided to publicly funded private providers. As a result, MCPS' requested \$2.7 million increase in County Contribution is not adjusting for lost revenue (compared to estimates) as the actual State Aid is still \$3.3 million higher than MCPS' original estimates.

⁸ Specifically related to Gaithersburg Elementary School #8 and Clarksburg Elementary School #9.

	Rate Changes/Other	\$6,896,542
Total		\$186,356,836

When reviewing the details of the additions included in the requested FY23 operating budget (table above), it is important to also consider the full breadth of available funding resources as well as increases to existing revenue sources.

Revenue Sources Summary

New/Increases in Revenue Sources	Amount
Savings Due to Declines in Enrollment	\$7,764,789
Realignment Savings	\$2,184,089
Recommended County Contribution Increase	\$84,823,592
State Aid Increase ⁹	\$41,505,165
Monthly Financial Report Available Balance	\$2,151,287
Est. Subtotal	\$138,428,922
ESSER III Available Funds (3/31/22)	\$164,960,010
Est. Total	\$303,388,932

B. Compensation and Benefits

This section reviews pay adjustments, retirement costs, and active and retiree group insurance benefit costs included in the Board's FY23 budget request, as summarized in the table below. The Council reviewed compensation and benefits for all agencies on April 26.

MCPS FY22 Approved and FY23 Requested Tax Supported Compensation Costs

Agency	FY22 Approved	FY23 Request	% Change
Wages and Social Security	\$1,797,940,420	\$1,906,212,631	6.02%
Retirement	\$69,047,240	\$73,236,564	6.07%
State Retirement Pension Shift	\$55,308,257	\$64,087,480	15.87%
Active Employee Group Insurance	\$276,904,401	\$307,973,659	11.22%
Retiree Group Insurance Pay-As-You-Go Funding	\$29,138,436	\$29,138,436	-
Total MCPS Request	\$2,228,338,754	\$2,380,648,770	6.8%
OPEB Pre-Funding*	\$73,048,269	\$57,415,939	(21.4%)
Total All Funding	\$2,301,387,023	\$2,438,064,709	5.94%

*Funded outside of MCPS' budget

⁹ Final state aid award may have increased from the Governor's FY23 recommendation.

The Board transmitted a letter on March 31, 2022 (©1) providing detailed information on the group insurance and pension fund expenditures within State Category 12, Fixed Charges.

1. Pay Adjustments

The Board of Education currently is engaged in contract negotiations with its employee bargaining units. The Board's recommended FY23 budget includes \$107 million in placeholders (\$96 million for salaries and \$11 million for benefits) for employee compensation increases. The major MCPS employee pay increases for FY22 took effect in the third quarter of the fiscal year. As a result, the Board's recommended FY23 budget includes approximately \$76.1 million in annualized FY22 compensation cost increases.

2. Retirement Benefits

MCPS provides a core pension benefit for employees in permanent positions who are not eligible for a State pension as well as a supplemental benefit for all permanent employees. MCPS is the sole school district in the State of Maryland to provide a pension supplement. The Board of Education budget assumes no changes to MCPS employee retirement plan benefits in FY23.

For FY23, the cost of funding the MCPS pension benefits will be \$71.7 million (over and above the local contribution to the State Teacher's Pension Plan). In February 2016, the Office of Legislative Oversight (OLO) issued a report that presents options to reduce MCPS pension costs. In each subsequent year, the Council has encouraged MCPS to achieve savings in retirement costs as discussed in the OLO report.

In 2012 the Maryland General Assembly shifted a portion of the annual funding requirement for the State-run teacher pension system to the counties. The shift of pension costs to the counties was phased in over four years (FY13 through FY16). Beginning in FY16, the County's teachers' pension contribution was counted in the Maintenance of Effort calculation. Effective in FY23, the State raised the mandatory Board contribution to the State Teacher's Pension Plan from 4.17% to 5.12% of employee payroll. This change in the local contribution rate is a major factor in the 19% growth in the MCPS obligation for FY23. The FY23 amount of the MCPS contribution to the State pension fund is \$73.5 million (\$63.5 million in tax supported funds and \$6.6 million in grant funds).

3. Group Insurance

Active Employees. The Board of Education does not plan any changes to active employee group insurance benefits in FY23. The Board's request reflects an increase because in FY21 and FY22 MCPS was able to draw down on excess group insurance fund balance and lower its tax supported request. MCPS continues to provide a health premium cost share split substantially different than the cost share split for County Government. For the past several years, the Council has encouraged MCPS to align its cost share for active employees with that of County Government. If MCPS did so, it would result in estimated annual savings in the

range of \$25 million. MCPS’ cost share structure continues to include credits of 1% each for completing a biometric screening and a health risk assessment.

Retiree Pay-As-You-Go Funding. In addition to the \$29.1 million in tax supported funding, the Board of Education’s request and the County Executive’s recommendation for MCPS includes \$27.2 million in MCPS funding allocated to the Consolidated OPEB Trust to fund retiree pay-as-you-go costs. In FY15, the Council reduced MCPS’ tax supported retiree health pay-as-you-go funding by \$27.2 million and added \$27.2 million to MCPS’ portion of the Consolidated OPEB Trust to hold MCPS OPEB spending harmless. In FY16 and each year since, this use of \$27.2 million has continued but without the corresponding replacement of expenditures in the Trust. As a result, the net effect is continued increases in MCPS OPEB Trust balance but by smaller amounts that would occur otherwise.

OPEB Pre-Funding. The Executive recommends \$57.4 million in tax supported OPEB prefunding for MCPS in FY23, fully meeting the actuarially determined contribution.

Group insurance fund balance. MCPS maintains separate fund accounts for active and retired employees. The table below shows the FY21 year-end balance for each fund as well as the FY22 projected year-end balance. The Council recommends a 5% policy target for each fund, the active employee expenditures were projected to end FY21 below the target, which is the same for FY22.

Agency	FY21 Year-End Fund Balance		Future Fund Balance Projections
	\$'s	% of Expend.	
MCPS: Active Employees	\$17.6 million	4.6%	<ul style="list-style-type: none"> Projected FY22 year-end fund balance of \$3.1 million or 2.9%.
MCPS: Retired Employees	\$39.3 million	30.5%	<ul style="list-style-type: none"> Projected FY22 year-end fund balance of \$24.6 million or 17.2%.

C. Technical Updates to Grant Fund and State Aid

MCPS staff has updated Council staff on the following two changes related to State and federal resources.

1. MSDE notified MCPS that within the Current Fund, the Concentration of Poverty funding--\$8,657,336--from the *Blueprint for Maryland’s Future* is now unrestricted funding. There are no required Council actions for this change.
2. MCPS has received an additional \$316,960 in *Individuals with Disabilities Education Act* (IDEA) grant funding. **Council staff recommends a technical amendment to update the Grant Fund and Total Budget totals to reflect this increase.**

D. Public Testimony. During the April budget public hearings, 16 individuals testified with a majority of individuals advocating for the full funding of the MCPS budget. Additional issues mentioned include supportive comments on mental health and Wellness Centers; later school start times; school safety; special education supports, and racial equity.

E. Council Staff Operating Budget Recommendations

Council staff recommends the following:

- A total appropriation of **\$2,910,027,627**, which includes the technical amendments previously discussed. This amount is an increase of **\$129,515,437** over the FY22 approved.
- A tax-supported appropriation of **\$2,719,660,177** which includes a County Contribution of **\$1,839,071,460** and a **\$25,000,000** re-appropriation in fund balance. The County Contribution is **\$86,409,225** over the FY22 approved.

In Council staff’s view, this funding level provides sufficient resources given the increased funding in the County contribution, State Aid, and available Federal funding to support the Board of Education’s requested priorities and program objectives, recognizing that fiscal constraints and affordability considerations will require some adjustments and prioritization within the scope of the request. This funding level also recognizes the Council’s efforts to mitigate future fiscal impacts given concerns about the sustainability of the County budget overall going forward. The school system’s plans to evaluate and monitor the programs and efforts supported by Federal funding will be critical in the upcoming year to determine the level and types of services that are both needed and sustainable as the school system continues to transition through this stage of the COVID-19 pandemic experience.

F. Technology Modernization Project: FY23-28 Capital Improvements Program

	Total 6 Years	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28
FY21-26 Amended	149,421	21,868	24,143	26,746	26,664	25,000	25,000		
BOE FY23-28 Request	162,658			26,846	26,964	27,237	26,843	26,795	27,973
CE FY23-28 Recommendation	153,410			26,746	26,664	25,000	25,000	25,000	25,000

The requested FY23-28 six-year total reflects an increase of 8.14%. This project funds technology needs to support the following four goals: 1) students will use technology to become actively engaged in learning; 2) schools will address the digital divide through equitable access to technology; 3) staff will improve technology skills through professional development; and 4) staff will use technology to improve productivity and results.

In MCPS’ Affordability Reconciliation PDF, the County Executive reduced a total of \$9.248 million in Current Revenue: General across the six-year period. The majority of this reduction is in fiscal years 25-28. The recommended reduction reflects a decrease of \$100,000 in FY23 and \$300,000 in FY24. Council staff recommends the Committee further review impacts to the FY25-28 funding level in the next CIP cycle.

Council staff notes that ESSER funding and other existing resources are available and eligible for technology needs which may be able to meet the \$400,000 reduction.

The Executive’s recommendation also includes technical adjustments to the funding sources: 1) Current Revenue: General and 2) Recordation tax.

OMB notes *“The technical adjustments... were performed to flatline the usage of Recordation Tax and preserve the balance between these two funding sources. The level of expenditures was not impacted for which MCPS is still able to spend as programmed. The funding switches raised the amount of Recordation Tax at the same level of FY26 as approved in the last CIP budget cycle and reduced Current Revenue: General to minimize the impact on the operating budget.”*

MCPS and Council staff concur with the funding source technical adjustment.

This packet contains:

Category 12 Letter

Technology Modifications PDFs

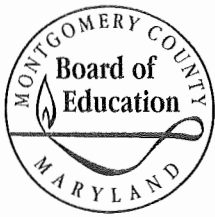
County Executive Affordability Reconciliation

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MONTGOMERY COUNTY BOARD OF EDUCATION

Expanding Opportunity and Unleashing Potential

850 Hungerford Drive ♦ Room 123 ♦ Rockville, Maryland 20850

March 31, 2022

The Honorable Gabe Albornoz
President, Montgomery County Council
Stella B. Werner Office Building
100 Maryland Avenue, 6th Floor
Rockville, Maryland 20850

Dear Mr. Albornoz:

As requested in then-County Council President Roger Berliner's memorandum of January 18, 2012, this letter provides the information regarding State Expenditure Category 12 for Montgomery County Public Schools (MCPS). The Board of Education's Fiscal Management Committee closely monitors the expenditures in this category as we do with all expenditures through our monthly financial monitoring process and financial reports to the Board. I look forward to working with you, councilmembers, Board members, and the interim superintendent of schools to continue to address the fiscal challenges we face.

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

On January 14, 2014, the Board of Education authorized maintaining the contribution rate to the pension fund at or exceeding the actuarial rate percentage until the funded ratio of the plan reached 80 percent of the actuarial value of assets. This action was prudent to improve the ability of the plan to satisfy its liabilities. It also was expected to have a positive impact on future contribution rates once the 80 percent funding level was attained. A series of difficult budget environments prevented implementation of the strategy beginning with Fiscal Year (FY) 2016.

On December 13, 2016, the superintendent of schools recommended to the Board of Education that we resume the funding strategy of contribution levels that would increase the funding ratio even if future actuarial studies were to recommend reductions in contribution rates until the point in time where a 90 percent actuarial funding ratio was achieved. A higher funding ratio benefits the pension fund in two ways during capital market downturns. One, a larger cushion protects the pension fund from reducing to a funding level that would be considered critical and/or endangered. Two, financial downturns typically place upward pressure on employer contributions and that pressure would be greater if the funding ratio were to be at reduced levels. Essentially, the Board is attempting to protect Category 12 expenditures from future spikes in difficult economic periods. During the long term, contributed dollars should compound over time with investment gains in the portfolio. This will reduce future Category 12 expenditures by limiting pressure on the employer

contribution level. The interim superintendent of schools is managing and building the MCPS budget with this strategy in mind as much as possible given the fiscal limitations of funding.

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

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

FY 2022	\$66.8 million
FY 2023	\$57.7 million
FY 2024	\$58.6 million
FY 2025	\$55.9 million
FY 2026	\$52.7 million
FY 2027	\$47.7 million

The estimated annual required contributions by MCPS for FY 2022 and FY 2023 are based on an investment return assumption of 7.0 percent. The estimates for FY 2024 through FY 2027 are based on 6.75 percent.

It is important to note that estimated required contributions made by our actuary do not reflect the impact of a few provisions of the *Blueprint for Maryland's Future* legislation. These provisions include the requirement that teacher salaries increase by 10 percent by July 1, 2023. Another provision is that the starting teacher salary be at least \$60,000 by July 1, 2025. Finally, the estimates for required contributions do not reflect *Blueprint* legislation provisions that National Board certified teachers of record will receive a \$10,000 salary increase beginning July 1, 2022, and National Board certified teachers in low-performing schools also will receive a salary increase of \$7,000 beginning July 1, 2022.

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

The calculation of the annual employer contribution primarily is based on actuarial work performed by the MCPS actuary, GRS Retirement Consulting. The actuary's estimate of the percentage of salary that is required to be contributed each year is applied to the anticipated salaries to be paid from the MCPS Operating Budget, then adjusted based on the goals expressed in the first section of this letter. The percentage contribution is based on a number of assumptions including:

- **Salary adjustments:** Actuarial assumptions include pay increases for the next three years of 3.5 percent per year. It is important to note these are assumptions only. No additional salary increases have been negotiated or agreed upon. If the salary change is a different percentage, then pension costs will be impacted. This also could be impacted by the number

of personnel hired and required salary amounts as a result of the *Blueprint for Maryland's Future* legislation.

- **Changes in workforce size:** The number of MCPS employees increased by 39 members from those included in the actuarial valuation as of July 1, 2020 (24,184 to 24,223).
- **Investment Performance:** The assumed FY 2022 investment return for the pension fund will be 7.00 percent, the same rate as the prior valuation. The actuaries have recommended a review and potential reduction of the investment return assumption prior to the next valuation, as market conditions continue to be volatile.
- **Plan Modifications:** The pension plan changes effective July 1, 2011, are amortized over a 30-year closed period, which is consistent with the method used to incorporate the impact of the July 1, 2006, changes.
- **Actuarial Assumptions:** MCPS' actuary completed an experience study during 2019. Experience studies typically are performed every five years. Findings from this experience study included retirees living longer, employees retiring later, and inflation that has been less than previous periods. MCPS adopted the revised assumptions beginning with the FY 2019 actuarial valuation, and there were no changes in the actuarial assumptions in the July 1, 2021 valuation.

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

The comparison of current fiscal year budgeted versus actual revenue and expenditures as of January 31, 2022, is enclosed for active employees and retirees (Enclosures A and B, respectively).

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

The following FY 2022 amounts for the two funds are based on revenues and expenses as of January 31, 2022.

Active employees	
Beginning fund balance	\$17.6 million
Projected change to fund balance	<u>-14.5 million</u>
Projected ending fund balance	\$ 3.1 million
Retirees	
Beginning fund balance	\$39.3 million
Projected change to fund balance	<u>-14.7 million</u>
Projected ending fund balance	\$24.6 million

The active fund balance is projected to decrease by \$14.5 million, leaving a balance of \$3.1 million at the end of FY 2022. The retiree fund balance is projected to decrease by \$14.7 million by the end of FY 2022, which will result in a fund balance of \$24.6 million.

The MCPS Group Insurance Trust Fund for both active and retired employees began FY 2022 with a \$56.9 million fund balance. This balance was a result of experiencing higher claims costs than expected during FY 2021, as expenditure trend increases experienced a seven percent increase more than the prior year. The expenditure increases realized within the trust fund for active employees were more than ten percent compared to the rate applied in developing the FY 2021 budget. Subsequently, fund balance was reduced during the course of FY 2021, decreasing by approximately \$5.6 million from \$62.5 million to \$56.9 million. In recognition of the reduced balance, MCPS acted to increase the MCPS FY 2022 Operating Budget by an additional \$12.6 million. The amount of \$2.8 million already was included in the budget to support increases in employee enrollment in the MCPS Employee Benefits Program. The overall net change to the budget in FY 2022 was an increase of \$15.4 million. By increasing the budget appropriation, the expectation was for the fund to generate a net gain in FY 2022 in an effort to increase the fund balance to a more appropriate reserve level. At this time, MCPS is projecting a combined net loss of \$29.1 million in FY 2022 between both the active employees and the retirees trust fund, reducing the fund balance from \$56.9 million to \$27.8 million. With the support of our health consultants, MCPS is continuing to work to achieve its goal to maintain the fund balance to a target of between \$15.0 and \$25.0 million.

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

Sincerely,



Brenda Wolff
President

BW:MBM:ESD:RR:tk

Enclosures

Copy to:

Members of the Montgomery County Council
Members of the Board of Education
Executive Staff
Mr. Klausing
Ms. Webb

MCPS Employee Benefit Trust Fund
Schedule of FY 2022 Budgetary Expenditures for the Active Employee Trust Account
As of June 30, 2022 (Actual Through January 31, 2022)

Enclosure A

	FY 22 Budget	YTD Actual	Projected Remaining	FY 22 Total	Variance Gain/(Loss)
Revenue:					
County Appropriation	\$277,362,500	\$220,000,000	\$57,362,500	\$277,362,500	\$0
Enterprise Funds	9,295,000	4,115,218	4,034,080	8,149,298	(1,145,702)
Capital Projects	1,175,000	-	-	-	(1,175,000)
Supported Programs	9,575,000	4,598,391	4,540,840	9,139,231	(435,769)
Employee Payments	58,820,000	25,107,933	29,065,576	54,173,509	(4,646,491)
Optional Life	690,000	363,424	350,000	713,424	23,424
Investment Earnings	500,000	1,613	-	1,613	(498,387)
Rebates/Recoveries/Other	18,250,000	15,511,293	27,000,000	42,511,293	24,261,293
Total Revenue	\$375,667,500	\$269,697,873	\$122,352,996	\$392,050,869	\$16,383,369
Expenditures:					
Premiums:					
MetLife/Voya Life	\$3,500,000	\$1,603,833	\$1,411,797	\$3,015,630	\$484,370
Dental	1,500,000	1,052,228	591,152	1,643,380	(143,380)
Kaiser Permanente Health Plan	49,500,000	27,753,827	20,000,000	47,753,827	1,746,173
CareFirst HMO	3,550,000	2,002,800	1,496,425	3,499,225	50,775
CareFirst POS	3,825,000	2,150,874	1,600,739	3,751,613	73,387
Benefit Strategies Cobra	150,000	103,737	-	103,737	46,263
CareMark, Inc.	225,000	98,879	100,000	198,879	26,121
Claims:					
CareFirst Dental	16,500,000	9,024,037	6,869,274	15,893,311	606,689
CareFirst HMO	100,000,000	55,374,786	42,636,614	98,011,400	1,988,600
CareFirst POS	133,000,000	78,947,734	57,709,000	136,656,734	(3,656,734)
Prescription	93,000,000	56,923,995	38,378,011	95,302,006	(2,302,006)
CareFirst Vision	725,000	439,960	250,000	689,960	35,040
Administrative Expenses:	1,725,000	3,025	-	3,025	1,721,975
Total Expenditures	\$407,200,000	\$235,479,714	\$171,043,012	\$406,522,726	\$677,274

MCPS Employee Benefit Trust Fund

Enclosure B

Schedule of FY 2022 Budgetary Expenditures for the Retired Employee Trust Account
As of June 30, 2022 (Actual Through January 31, 2022)

	FY 22 Budget	YTD Actual	Projected Remaining	FY 22 Total	Variance Gain/(Loss)
Revenue:					
County Appropriation	\$29,138,436	\$20,000,000	\$9,138,436	\$29,138,436	\$0
Retiree Withholdings	41,215,000	23,998,760	17,370,173	41,368,933	153,933
Interest Earnings	300,000	2,320	1,750	4,070	(295,930)
Rebates/EGWP Subsidies	46,000,000	31,499,780	(4,206,725)	27,293,055	(18,706,945)
OPEB Shift to Trust Fund	27,200,000	17,200,000	10,000,000	27,200,000	-
Total Revenue	\$143,853,436	\$92,700,860	\$32,303,635	\$125,004,494	(\$18,848,942)
Expenditures:					
Premiums:					
MetLife/Voya Life	\$4,300,000	\$2,228,395	\$1,860,000	\$4,088,395	\$211,605
Dental	550,000	676,314	210,000	886,314	(336,314)
Kaiser Permanente Health Plan	9,600,000	5,551,516	4,000,000	9,551,516	48,484
CareFirst HMO	1,400,000	618,640	440,000	1,058,640	341,360
CareFirst POS	2,762,856	1,533,268	1,060,000	2,593,268	169,588
Benefit Strategies Cobra	3,000	2,110	-	2,110	890
CareMark, Inc.	1,050,000	635,232	500,000	1,135,232	(85,232)
Claims:					
CareFirst Dental	5,080,000	3,208,709	2,720,246	5,928,955	(848,955)
CareFirst HMO	20,000,000	8,220,318	7,593,295	15,813,613	4,186,387
CareFirst POS	29,000,000	17,040,116	14,506,366	31,546,481	(2,546,481)
Prescription	77,000,000	40,597,479	29,510,820	70,108,299	6,891,701
CareFirst Vision	68,000	79,334	80,672	160,006	(92,006)
Administrative Expenses:	220,500	216,435	-	216,435	4,065
Total Expenditures	\$151,034,356	\$80,607,866	\$62,481,399	\$143,089,264	\$7,945,092

Technology Modernization (P036510)

Category	Montgomery County Public Schools	Date Last Modified	01/13/22
SubCategory	Countywide	Administering Agency	Public Schools
Planning Area	Countywide	Status	Ongoing

Total	Thru FY21	Est FY22	Total 6 Years	FY 23	FY 24	FY 25	FY 26	FY 27	FY 28	Beyond 6 Years
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EXPENDITURE SCHEDULE (\$000s)

Planning, Design and Supervision	536,775	345,251	28,866	162,658	26,846	26,964	27,237	26,843	26,795	27,973	-
TOTAL EXPENDITURES	536,775	345,251	28,866	162,658	26,846	26,964	27,237	26,843	26,795	27,973	-

FUNDING SCHEDULE (\$000s)

Current Revenue: General	245,952	84,542	16,165	145,245	18,198	22,899	25,930	23,450	26,795	27,973	-
Federal Aid	25,184	25,695	(511)	-	-	-	-	-	-	-	-
Recordation Tax	265,639	235,014	13,212	17,413	8,648	4,065	1,307	3,393	-	-	-
TOTAL FUNDING SOURCES	536,775	345,251	28,866	162,658	26,846	26,964	27,237	26,843	26,795	27,973	-

APPROPRIATION AND EXPENDITURE DATA (\$000s)

Appropriation FY 23 Request	26,846	Year First Appropriation	FY03
Appropriation FY 24 Request	26,964	Last FY's Cost Estimate	476,221
Cumulative Appropriation	375,932		
Expenditure / Encumbrances	-		
Unencumbered Balance	375,932		

PROJECT DESCRIPTION

The Technology Modernization (Tech Mod) project is a key component of the Montgomery County Public School strategic technology plan, Educational Technology for 21st Century Learning. This plan builds upon the following four goals: students will use technology to become actively engaged in learning, schools will address the digital divide through equitable access to technology, staff will improve technology skills through professional development, and staff will use technology to improve productivity and results. An FY 2019 appropriation was approved to continue this project and the technology modernization program to our schools throughout the system. However, due to fiscal constraints, the County Council approved a reduction of \$3.622 million in FY 2019 from the Board of Education's request. An FY 2020 appropriation was approved to continue this project; however, due to fiscal constraints, the County Council shifted expenditures from FY 2021 and FY 2022 to FY 2023 and FY 2024. An FY 2021 appropriation was approved to continue this project and provide technology modernization to schools throughout the system. However, due to fiscal constraints, the County Council, in the adopted FY2021-2026 CIP, reduced the FY2021 and FY2022 expenditures for this project with respect the Board of Education's request. An FY 2022 appropriation was approved to continue this level of effort project and provide technology modernization to schools throughout the system. An FY 2023 appropriation is requested to continue this level of effort project and provide technology modernization to schools systemwide.

FISCAL NOTE

FY19 and FY20 funding switch between Recordation Tax and Current Revenue General for \$10,296,000 and 6,280,000 respectively. FY21 reduction in requested Current Revenue: General for \$3.616 million and in FY22 for \$1.0 million with the assumption that in FY21 there will be \$1.2 million in Federal E-Rate.

FY21 supplemental for \$1,815,267 under Federal E-Rate Reimbursement

COORDINATION

FY 2023 -- Salaries and Wages: \$5M, Fringe Benefits: \$893K, Workyears: 36.5 FY 2024-2028 -- Salaries and Wages \$24M, Fringe Benefits \$5M, Workyears: 182.5.



Technology Modernization

(P036510)

Category	Montgomery County Public Schools	Date Last Modified	01/13/22
SubCategory	Countywide	Administering Agency	Public Schools
Planning Area	Countywide	Status	Ongoing

Total	Thru FY21	Est FY22	Total 6 Years	FY 23	FY 24	FY 25	FY 26	FY 27	FY 28	Beyond 6 Years
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EXPENDITURE SCHEDULE (\$000s)

Planning, Design and Supervision	536,775	345,251	28,866	162,658	26,846	26,964	27,237	26,843	26,795	27,973	-
TOTAL EXPENDITURES	536,775	345,251	28,866	162,658	26,846	26,964	27,237	26,843	26,795	27,973	-

FUNDING SCHEDULE (\$000s)

Current Revenue: General	239,166	84,542	16,165	138,459	18,198	22,899	25,930	23,450	23,402	24,580	-
Federal Aid	25,184	25,695	(511)	-	-	-	-	-	-	-	-
Recordation Tax	272,425	235,014	13,212	24,199	8,648	4,065	1,307	3,393	3,393	3,393	-
TOTAL FUNDING SOURCES	536,775	345,251	28,866	162,658	26,846	26,964	27,237	26,843	26,795	27,973	-

APPROPRIATION AND EXPENDITURE DATA (\$000s)

Appropriation FY 23 Request	26,846	Year First Appropriation	FY03
Appropriation FY 24 Request	26,664	Last FY's Cost Estimate	476,221
Cumulative Appropriation	375,932		
Expenditure / Encumbrances	-		
Unencumbered Balance	375,932		

PROJECT DESCRIPTION

The Technology Modernization (Tech Mod) project is a key component of the Montgomery County Public School strategic technology plan, Educational Technology for 21st Century Learning. This plan builds upon the following four goals: students will use technology to become actively engaged in learning, schools will address the digital divide through equitable access to technology, staff will improve technology skills through professional development, and staff will use technology to improve productivity and results. An FY 2019 appropriation was approved to continue this project and the technology modernization program to our schools throughout the system. However, due to fiscal constraints, the County Council approved a reduction of \$3.622 million in FY 2019 from the Board of Education's request. An FY 2020 appropriation was approved to continue this project; however, due to fiscal constraints, the County Council shifted expenditures from FY 2021 and FY 2022 to FY 2023 and FY 2024. An FY 2021 appropriation was approved to continue this project and provide technology modernization to schools throughout the system. However, due to fiscal constraints, the County Council, in the adopted FY2021-2026 CIP, reduced the FY2021 and FY2022 expenditures for this project with respect the Board of Education's request. An FY 2022 appropriation was approved to continue this level of effort project and provide technology modernization to schools throughout the system. An FY 2023 appropriation is requested to continue this level of effort project and provide technology modernization to schools systemwide.

FISCAL NOTE

FY19 and FY20 funding switch between Recordation Tax and Current Revenue General for \$10,296,000 and \$6,280,000 respectively. FY21 reduction in requested Current Revenue: General for \$3.616 million and in FY22 for \$1.0 million with the assumption that in FY21 there will be \$1.2 million in Federal E-Rate.

FY21 supplemental for \$1,815,267 under Federal E-Rate Reimbursement

COORDINATION

FY 2023 -- Salaries and Wages: \$5M, Fringe Benefits: \$893K, Workyears: 36.5 FY 2024-2028 -- Salaries and Wages \$24M, Fringe Benefits \$5M, Workyears: 182.5.



MCPS Affordability Reconciliation (P056516)

Category	Montgomery County Public Schools	Date Last Modified	02/23/22
SubCategory	Miscellaneous Projects	Administering Agency	Public Schools
Planning Area	Countywide	Status	Ongoing

Total	Thru FY21	Est FY22	Total 6 Years	FY 23	FY 24	FY 25	FY 26	FY 27	FY 28	Beyond 6 Years
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EXPENDITURE SCHEDULE (\$000s)

Other	(37,130)	-	-	(65,530)	(76,700)	(104,231)	(54,038)	8,887	56,027	104,525	28,400
TOTAL EXPENDITURES	(37,130)	-	-	(65,530)	(76,700)	(104,231)	(54,038)	8,887	56,027	104,525	28,400

FUNDING SCHEDULE (\$000s)

Current Revenue: General	(9,248)	-	-	(9,248)	(100)	(300)	(2,237)	(1,843)	(1,795)	(2,973)	-
G.O. Bonds	(27,882)	-	-	(56,282)	(76,600)	(103,931)	(51,801)	10,730	57,822	107,498	28,400
TOTAL FUNDING SOURCES	(37,130)	-	-	(65,530)	(76,700)	(104,231)	(54,038)	8,887	56,027	104,525	28,400

APPROPRIATION AND EXPENDITURE DATA (\$000s)

Appropriation FY 23 Request	(76,700)	Year First Appropriation	FY15
Appropriation FY 24 Request	(104,231)	Last FY's Cost Estimate	-
Cumulative Appropriation	-		
Expenditure / Encumbrances	-		
Unencumbered Balance	-		

PROJECT DESCRIPTION

This project reconciles the Montgomery County Public Schools' CIP request with the County Executive's recommendation based on affordability considerations. Adjustments shown in this PDF are based on the annual availability of General Obligations (G.O.) bonds within the County Executive's recommended Spending Affordability Guidelines and a desire to postpone decisions on increasing Current Revenue: General uses until the broader operating budget context is clearer. Related adjustments in estimated State Aid are reflected in the State Aid Reconciliation project.