Today’s Presentation

1. Changes in State Law

2. FY13 MCPS Operating Budget: Options and Decisions

3. MOE and Funding of Other County Agencies
Responsibilities

County Council:

Determines annual budget appropriation for each County agency.

Oversees County fiscal policies and sets tax rates.

Board of Education:

Decides how to spend dollars appropriated by the Council.

Sets MCPS goals and policies.
Changes in State Law

General Assembly:

• Approved phased-in transfer of teacher pension costs to counties.

• Amended Maintenance of Effort (MOE) law to withhold income tax revenue from counties equal to reduction in per-student contribution.
Maintenance of Effort Law

County per student contribution: once raised, cannot be lowered to reflect changes in:

- economic conditions
- community needs

Decision to fund above MOE in any year sets an irreversibly higher annual contribution requirement.

Waiver: Council does not have authority to rebase per student contribution without approval of State and/or Local Boards of Education.
Future year resources uncertain because of unpredictability, volatility of:

- Economic conditions / tax revenues
- Intergovernmental aid
- School enrollment
- Past Commitments (e.g., retiree health costs)

Maintenance of Effort Law

In setting annual budgets, Council must assess resource availability not only for upcoming year, but for all future years as well.
Given uncertainty of future year revenues, MOE law introduces new risk for counties (with stable or growing public school enrollment):

*Are future resources so certain to allow for a permanent, irreversible increase in County’s largest spending category?*
MCPS FY13 Operating Budget: Options and Decisions
BOE Measures to Control Personnel Costs

FY10

• No cost-of-living adjustment

FY11

• No step increases or cost-of-living adjustments
• Increase in class size of one student (saved $16.2 million by eliminating 252 FTEs)
BOE Measures to Control Personnel Costs

FY12

• No step increases or cost-of-living adjustments

• Elimination of 266 school-based FTEs (saved $15.0 million)

Eliminated Positions Included (150 FTEs):

- Academic Intervention Teachers
- College Prep Teachers
- English Composition Teachers
- Instrumental Music Teachers
- Paraeducators / Lunch Room Aides
- Reading Recovery Teachers
- Special Education Staffing
- Assistant School Administrators
- Counselors
- ESOL Teachers
- Media Assistants
- Parent Comm. Coordinators
- Reserve Teachers
FY13 MCPS Personnel Costs
salaries, FICA, group insurance, pension for active employees

BOE Approved Total Cost $1,734.4 million

Includes:

• Salary Increases $51.7 million
  (two steps, longevity adjustments, raises for employees not eligible for steps/longevity)

• Increased Copays, Reduced Travel - $4.7 million

Cost without approved compensation changes $1,687.4 million
### FY13 MCPS Personnel Costs

<table>
<thead>
<tr>
<th></th>
<th>Total Cost (millions)</th>
<th>FY13 FTEs</th>
<th>Avg. Cost / FTE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Without Comp. Changes</td>
<td>$1,687.4</td>
<td>19,752</td>
<td>$85,400</td>
</tr>
<tr>
<td>BOE Approved</td>
<td>$1,734.4</td>
<td>19,752</td>
<td>$87,800</td>
</tr>
</tbody>
</table>

Compensation changes increased average cost per FTE by $2,400
Personnel Costs

Average Cost per FTE

\[ \times \]

Number of FTEs

= Total Personnel Cost

= $1,734.4 million
FY13 MCPS FTEs and Average Cost Per FTE
(at total personnel cost of $1,734.4 million)
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(at total personnel cost of $1,734.4 million)
FY13 MCPS FTEs and Average Cost Per FTE
(at total personnel cost of $1,734.4 million)

Increase of $2,400 per FTE
FY13 MCPS FTEs and Average Cost Per FTE
(at total personnel cost of $1,734.4 million)

- 20,302 FTEs
- $1,734.4 million
- 550 fewer FTEs
- 19,752 FTEs
- $87,800
- $85,400
FY13 MCPS FTEs and Average Cost Per FTE
(at total personnel cost of $1,734.4 million)

- Same personnel cost as approved by BOE
- Restore 150 school-based FTEs
- $2,000 increase in average compensation
MCPS Personnel Costs

Total FY13 Costs: $1,734.4 million

Excludes:

- Additional Annualized Cost of May 2013 Step
  (deferred until FY14) $22.5 million

- Additional Annualized Savings from Increased Co-pays - $4.6 million

Annualized FY13 Costs: $1,752.3 million
## FY13 MCPS Personnel Costs

<table>
<thead>
<tr>
<th></th>
<th>Total Cost (millions)</th>
<th>FTEs</th>
<th>Avg. Cost / FTE</th>
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<tr>
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<td>$1,687.4</td>
<td>19,752</td>
<td>$85,400</td>
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<tr>
<td>BOE Approved</td>
<td>$1,734.7</td>
<td>19,752</td>
<td>$87,800</td>
</tr>
<tr>
<td>Annualized Cost (incl. 2(^{nd}) step)</td>
<td>$1,752.3</td>
<td>19,752</td>
<td>$88,700</td>
</tr>
</tbody>
</table>

Compensation changes will increase average cost per FTE by $3,300 (or 3.9%) by end of FY13.
FY13 MCPS FTEs and Average Cost Per FTE
(at total personnel cost of $1,734.4 million)
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(at total personnel cost of $1,734.4 million)
FY13 MCPS FTEs and Average Cost Per FTE
(at total personnel cost of $1,734.4 million)

Average Cost Per FTE

FTEs

19,400
19,800
20,200
20,600

$87,800 $88,700

Annualized Cost
(FY14 Base)

BOE Approved

$18 m
FY13 MCPS FTEs and Average Cost Per FTE
(at total personnel cost of $1,734.4 million)

MOE formula increases County contribution proportional to enrollment growth.

FY14 MOE
$23.5 m

Average Cost Per FTE
FTEs

Annualized Cost (FY14 Base)

BOE Approved

$87,800
$88,700

FY14 MOE
FY13 MCPS FTEs and Average Cost Per FTE
(at total personnel cost of $1,734.4 million)

MOE formula increases County contribution proportional to enrollment growth.

Annualized Cost (FY14 Base)

BOE Approved

$87,800

$88,700

FY14 MOE

$23.5 m

$18 m
## Compensation in FY13 MCPS Budget

### Salary Cost Increases

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Step (July 2012)</td>
<td>$33.2 m</td>
</tr>
<tr>
<td>Second Step (May 2013)</td>
<td>$4.4 m</td>
</tr>
<tr>
<td></td>
<td>($26.6 m in FY14)</td>
</tr>
<tr>
<td>Longevity Increases</td>
<td>$5.9 m</td>
</tr>
<tr>
<td>2% Raises for Employees Ineligible for Steps/Longevity</td>
<td>$7.0 m</td>
</tr>
</tbody>
</table>

### Benefit Cost Decreases

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased Copays</td>
<td>-$4.6 m</td>
</tr>
<tr>
<td>($- $9.1 m in FY14)</td>
<td></td>
</tr>
<tr>
<td>Benefits Unchanged</td>
<td></td>
</tr>
<tr>
<td>Employee Health Insurance Cost Share</td>
<td>$6.5 m (half year)</td>
</tr>
<tr>
<td></td>
<td>$13.1 m (full year)</td>
</tr>
<tr>
<td>per 5% increase</td>
<td></td>
</tr>
</tbody>
</table>
## FY13 Compensation Alternatives

<table>
<thead>
<tr>
<th>Compensation Alternative</th>
<th>FY13 Savings Compared to Board Approved Package</th>
</tr>
</thead>
<tbody>
<tr>
<td>Award $2,000 Lump Sum in lieu of Salary Increases</td>
<td>$3.2 million</td>
</tr>
<tr>
<td>Award Single Step (no May 2013 step)</td>
<td></td>
</tr>
<tr>
<td>in July 2012</td>
<td>$4.4 million</td>
</tr>
<tr>
<td>in September 2012</td>
<td>$9.9 million</td>
</tr>
<tr>
<td>in January 2013</td>
<td>$21.0 million</td>
</tr>
<tr>
<td>Postpone Longevity Increases</td>
<td>$5.9 million</td>
</tr>
<tr>
<td>Reduce Salary Increases for Employees Ineligible for Steps/Longevity</td>
<td></td>
</tr>
<tr>
<td>from 2% to 1%</td>
<td>$3.5 million</td>
</tr>
<tr>
<td>from 2% to 0%</td>
<td>$7.0 million</td>
</tr>
</tbody>
</table>
### Compensation Alternative Example 1

<table>
<thead>
<tr>
<th>Restore 150 Positions Cut in FY12</th>
<th>Cost: $7.7 m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Academic Intervention Teachers</td>
<td></td>
</tr>
<tr>
<td>College Prep Teachers</td>
<td></td>
</tr>
<tr>
<td>English Composition Teachers</td>
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<td>Parent Comm. Coordinators</td>
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<tr>
<td>Reserve Teachers</td>
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<td>Asst. School Administrators</td>
<td></td>
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</tr>
<tr>
<td>Reading Recovery Teachers</td>
<td></td>
</tr>
<tr>
<td>Special Education Staffing</td>
<td></td>
</tr>
</tbody>
</table>

### Alternative Compensation Package

| Award Single Step (or lump sum equivalent)                                                      | Savings: $7.9 m |
| 1% for Step/Longevity Ineligible Employees                                                     |              |
### Compensation Alternative Example 2

#### Restore 150 Positions Cut in FY12

<table>
<thead>
<tr>
<th>Position Type</th>
<th>Cost: $7.7 m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Academic Intervention Teachers</td>
<td></td>
</tr>
<tr>
<td>College Prep Teachers</td>
<td></td>
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</table>

#### Alternative Compensation Package

<table>
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<tr>
<th>Compensation Package</th>
<th>Savings: $9.7 m</th>
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</thead>
<tbody>
<tr>
<td>Award $2,000 Lump Sum in lieu of Salary Increases</td>
<td></td>
</tr>
<tr>
<td>Raise Health Insurance Employee Cost Share by 5%</td>
<td></td>
</tr>
</tbody>
</table>
## FY13 MCPS Budget

Net Annualized Cost of FY13 Compensation Changes:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>FY13</td>
<td>$47 million</td>
</tr>
<tr>
<td>FY14</td>
<td>$18 million ($27m for 2nd step minus $9m from co-pay savings)</td>
</tr>
<tr>
<td>Total</td>
<td>$65 million (equivalent to cost of 750 FTEs)</td>
</tr>
</tbody>
</table>
FY14 Cost Comparison

Second Step, Full Year Cost:
$26.6 million

Decrease Class Size 1 Student:
$16.2 million

Restore 150 Positions:
$7.7 million
BOE had room in FY13 budget to accommodate $47 million increase in personnel costs.

Options:

• Restore cut positions (↑ number of FTEs);

• Increase compensation (↑ cost per FTE); or

• Combination of both.
Summary Points: MCPS Approved Budget

• Board of Education allocated $47 million entirely to compensation increases – no restoration of cut positions.

• Total annualized cost of FY13 MCPS compensation changes is $65 million.

• Annualized cost of FY13 compensation increases is equivalent to cost of 750 FTEs.
FY13 MCPS appropriation was sufficient to increase compensation and restore staffing reductions.

Example: Funding was sufficient to:

- Restore 150 school-based positions cut in FY12.

AND

- Award a single step increase and longevity adjustments.
BOE decisions that will impact FY14 budget include:

- Deferred cost of second step
  (exceeds cost of reducing class size by one student and
  restoring 150 school-based positions)

- Salary increases in base budget
  (unlike lump sum, permanent increase in personnel costs)

- Continued demand for position restorations

- Increased health insurance co-pays / maintenance of health insurance cost share
MOE and Funding Available for County Agencies (based on approved Fiscal Plan)
Given uncertainty of future year revenues, MOE law introduces new risk for counties (with stable or growing public school enrollment):

Are future resources so certain to allow for a permanent, irreversible increase in County’s largest spending category?
Approved Fiscal Plan

Does not show possible variations in:

- **Revenue generation**
  (from changes in economic conditions or tax rates)

- **State Aid**
  (assumes no future year change in school aid)

- **Amount set aside for non-operating budget uses**
  (debt service, reserves, PAYGO, OPEB)

- **Allocation of resources among agencies**
County Resources Available for Agency Use: FY13 - FY18

Projected Resources

County Government / MNCPPC

College

MCPS

<table>
<thead>
<tr>
<th>FY13 - FY18 (Projected)</th>
<th>2.4%</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY04 - FY08 (Actual)</td>
<td>8.7%</td>
</tr>
</tbody>
</table>

Average Annual Growth Rate
County Resources Available for Agency Use: FY13 - FY18

Note: MOE funding level is based on MCPS enrollment projections and includes funding for pension transfer.

Minimum Avg. Annual MCPS Growth Rate (Enrollment + Pension) 1.3%
Summary Points: Fiscal Planning Under New MOE Law

- Projected FY13-18 rate of growth for agency resources is significantly below mid-2000’s rate.

- Funding MCPS above MOE could require offsetting reductions in other agency budgets and/or tax increases (based on current revenue projections and school enrollment trends).

- MOE protects MCPS against revenue downturns; MCG and MNCPPC bear entire risk of declining resources.
Summary Points: Fiscal Planning Under New MOE Law

• New MOE requirements remove Council’s discretion over about one half of budget.

• Given irreversible nature of exceeding MOE, Council must assess certainty of future year resources before making budget decisions.
Fiscal Planning Under New MOE Law: Council’s Responsibilities

To oversee budgeting and fiscal policies in light of:

- community needs (K-12 education, public safety, health & human services, transportation, economic development, etc.)
- projected revenues and volatility of economy
- new MOE requirements
- tax burden on residents/businesses
- long-term financial stewardship (e.g. protecting AAA rating).
Fiscal Planning Under New MOE Law: Board of Education’s Responsibilities

To make funding decisions that:

• allocate finite resources to address school system’s priority needs

• are sustainable within projected long-term resource availability.
Fiscal Planning
and the
New Maintenance of Effort Law