

Fiscal Planning
and the
New Maintenance of Effort Law

Office of Legislative Oversight Presentation to

Montgomery County Council

October 16, 2012

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.

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.

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

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

Assistant School Administrators

Counselors

ESOL Teachers

Media Assistants

Parent Comm. Coordinators

Reserve Teachers

Special Education Staffing

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

	Total Cost (millions)	FY13 FTEs	Avg. Cost / FTE
Without Comp. Changes	\$1,687.4	19,752	\$85,400
BOE Approved	\$1,734.4	19,752	\$87,800

**Compensation changes increased
average cost per FTE by \$2,400**

Personnel Costs

Average Cost per FTE

x

Number of FTEs

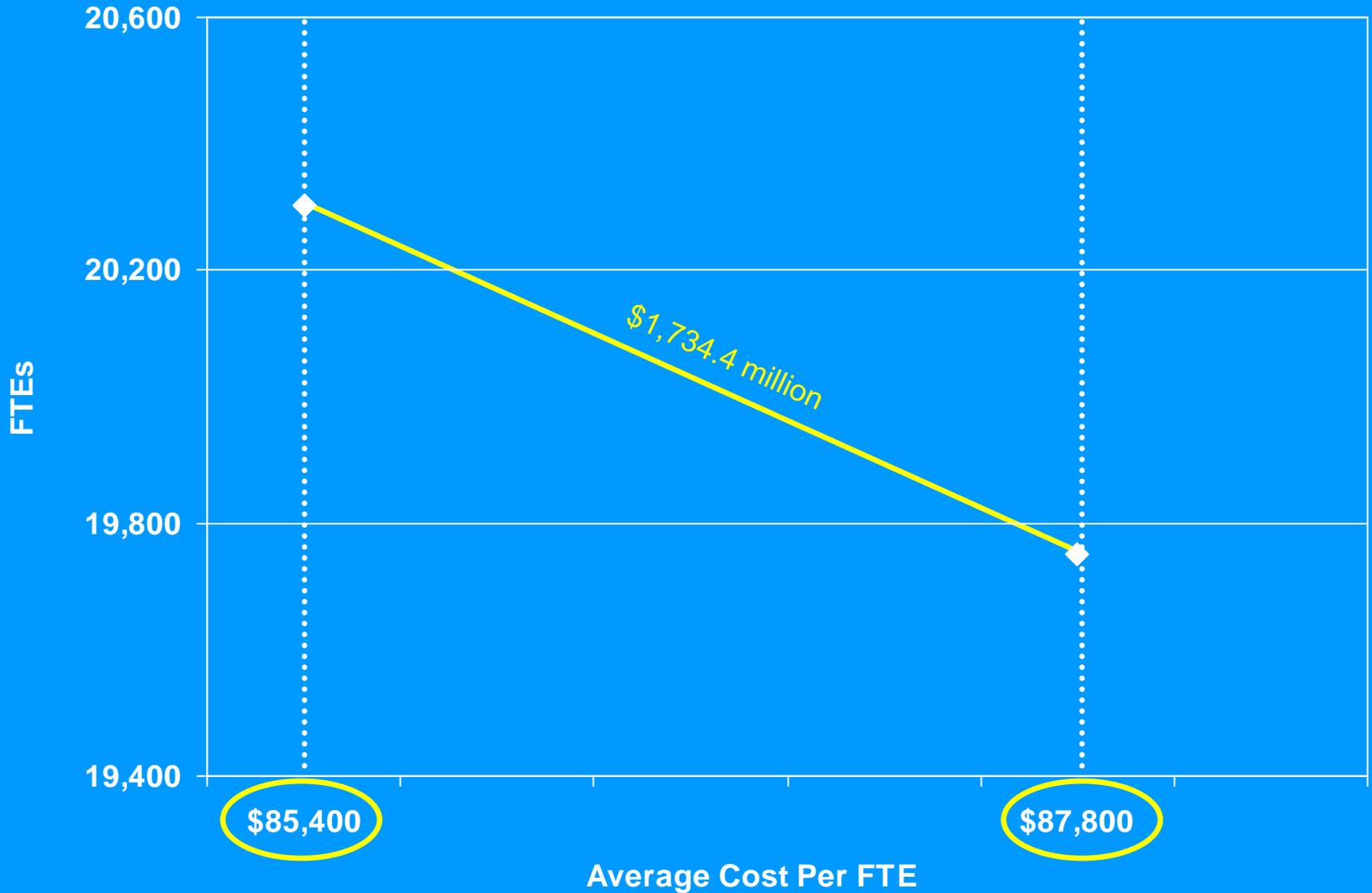
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Total Personnel Cost

= \$1,734.4 million

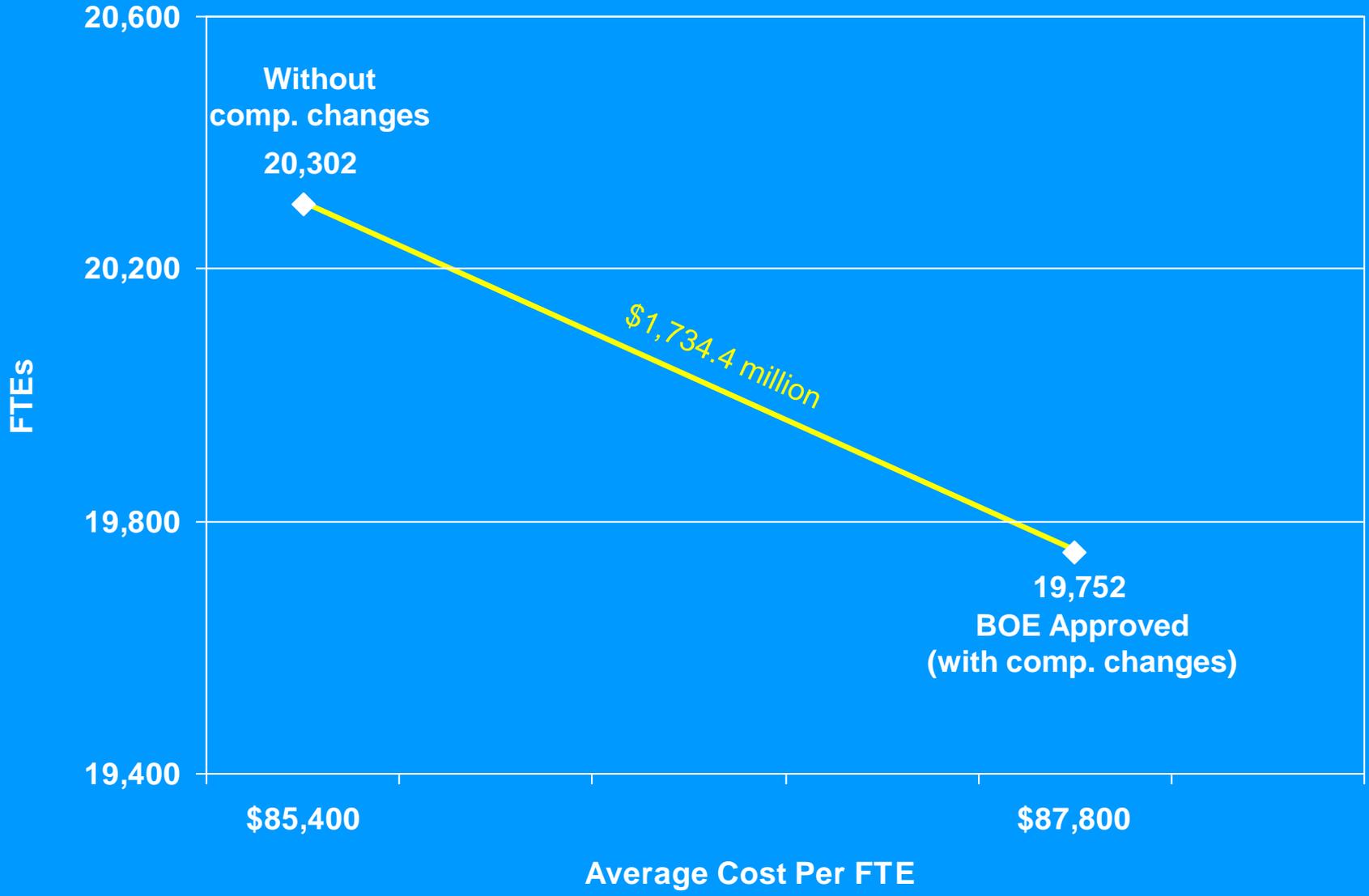
FY13 MCPS FTEs and Average Cost Per FTE

(at total personnel cost of \$1,734.4 million)



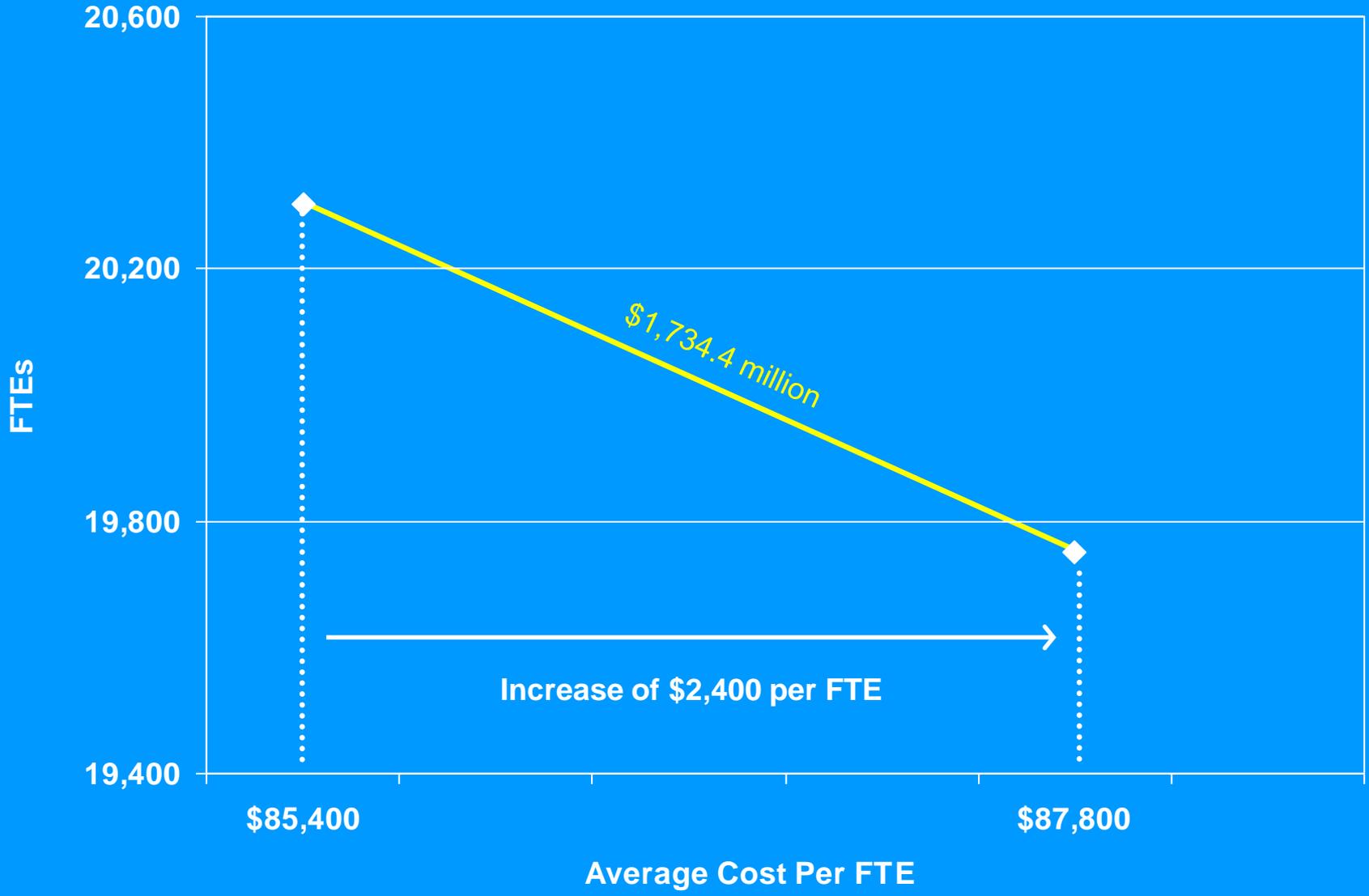
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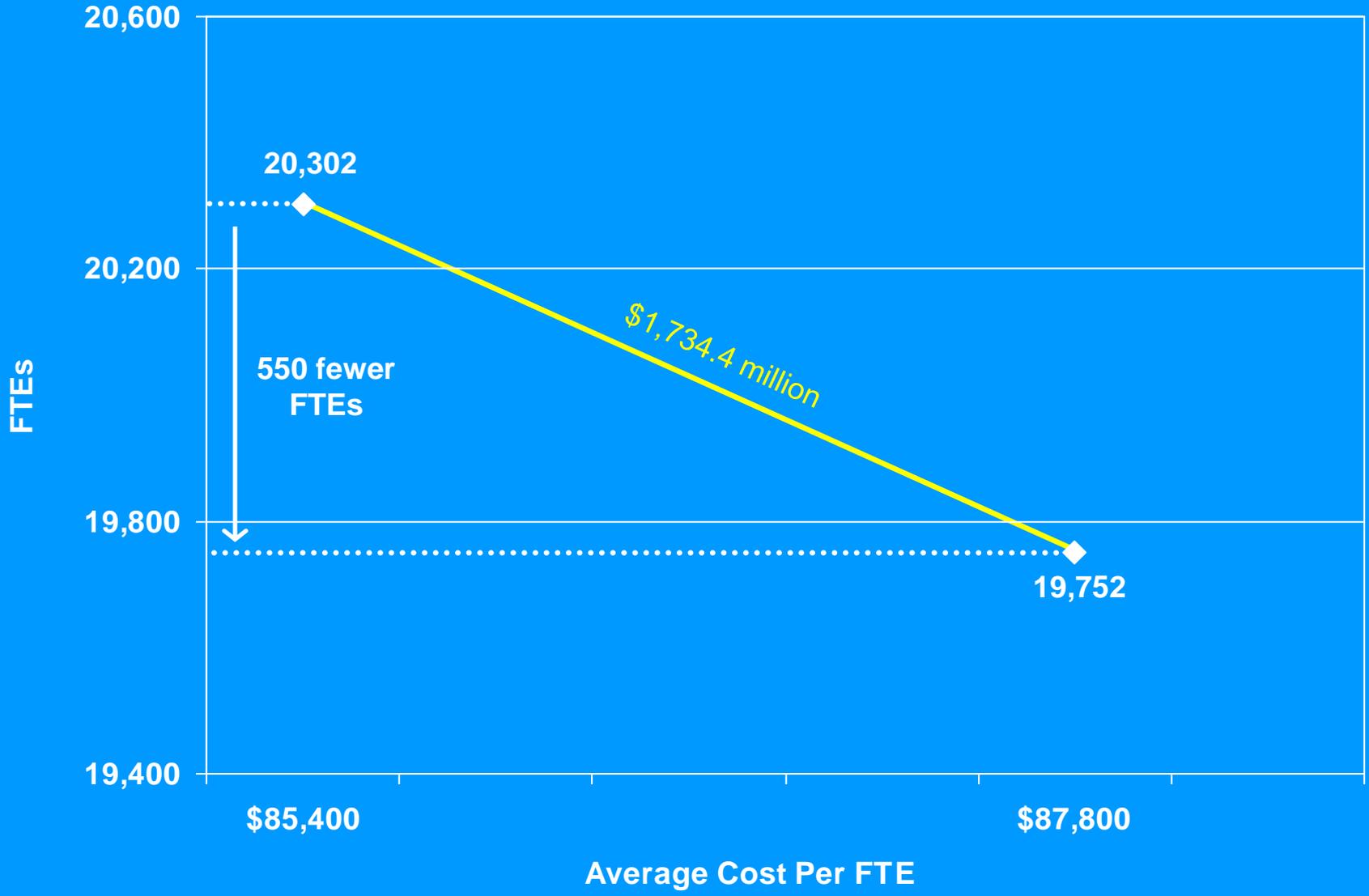
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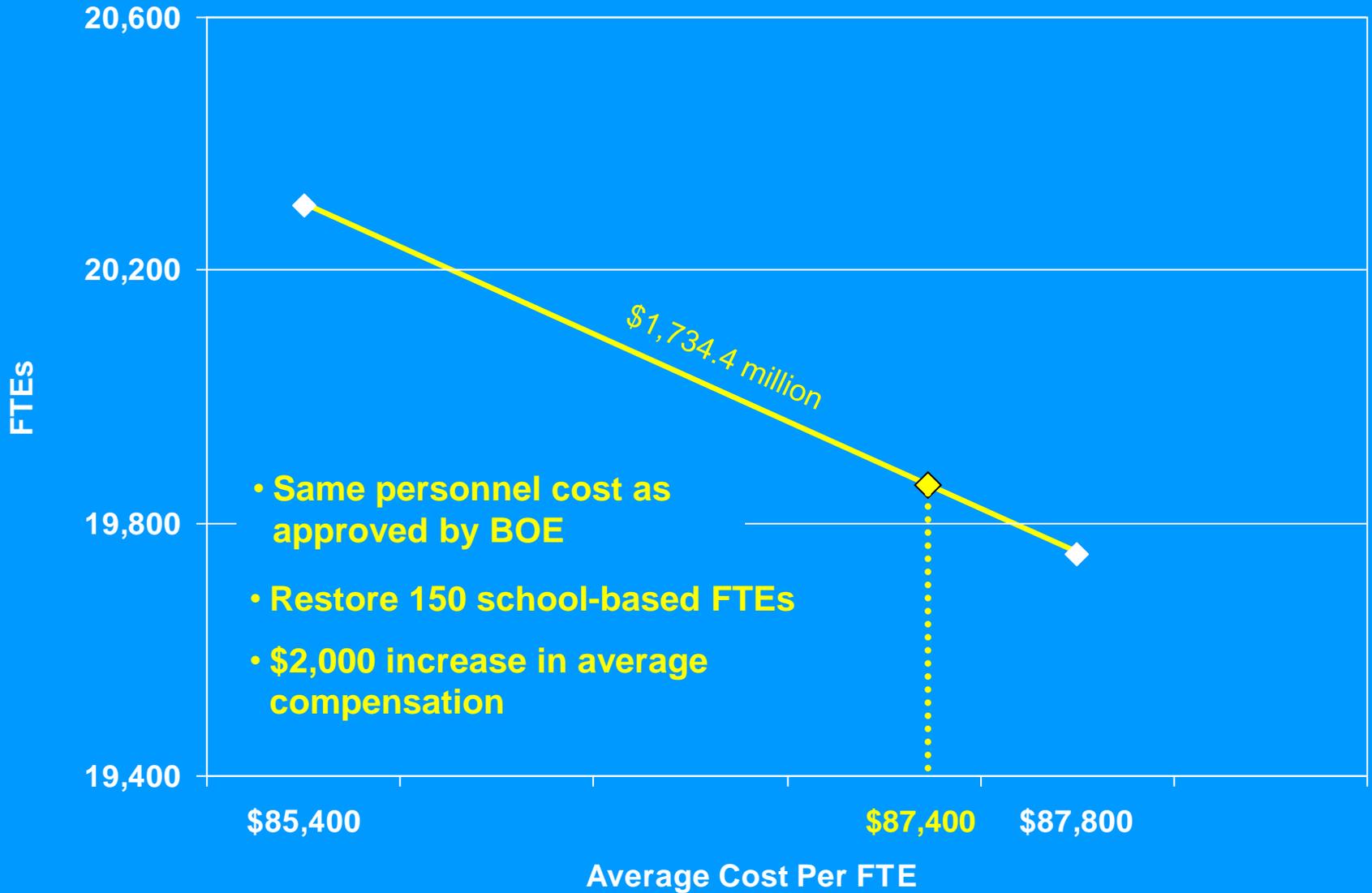
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FY13 MCPS FTEs and Average Cost Per FTE

(at total personnel cost of \$1,734.4 million)



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**

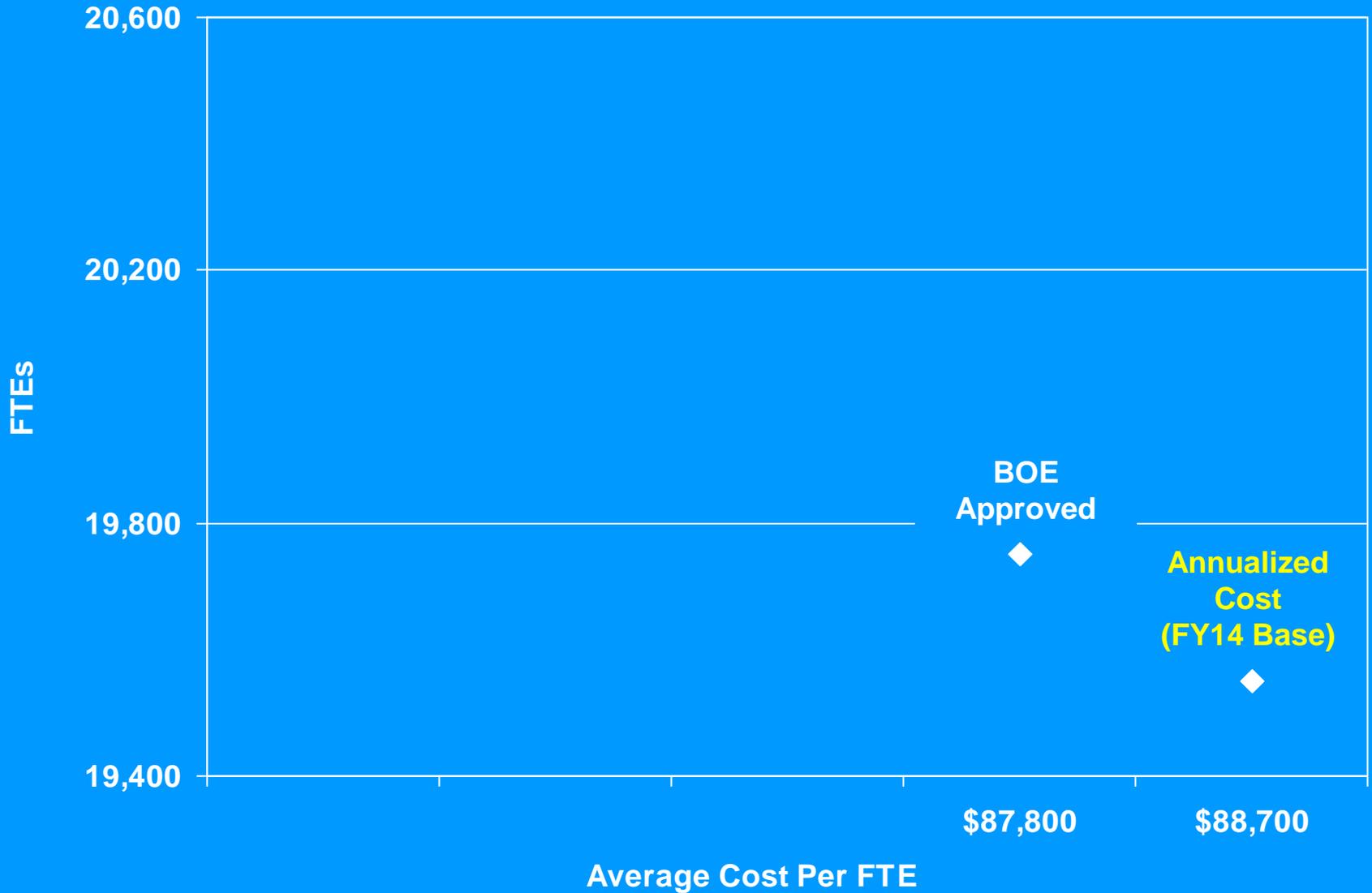
FY13 MCPS Personnel Costs

	Total Cost (millions)	FTEs	Avg. Cost / FTE
Without BOE Comp. Changes	\$1,687.4	19,752	\$85,400
BOE Approved	\$1,734.7	19,752	\$87,800
Annualized Cost (incl. 2 nd step)	\$1,752.3	19,752	\$88,700

Compensation changes will increase average cost per FTE by \$3,300 (or 3.9%) by end of FY13.

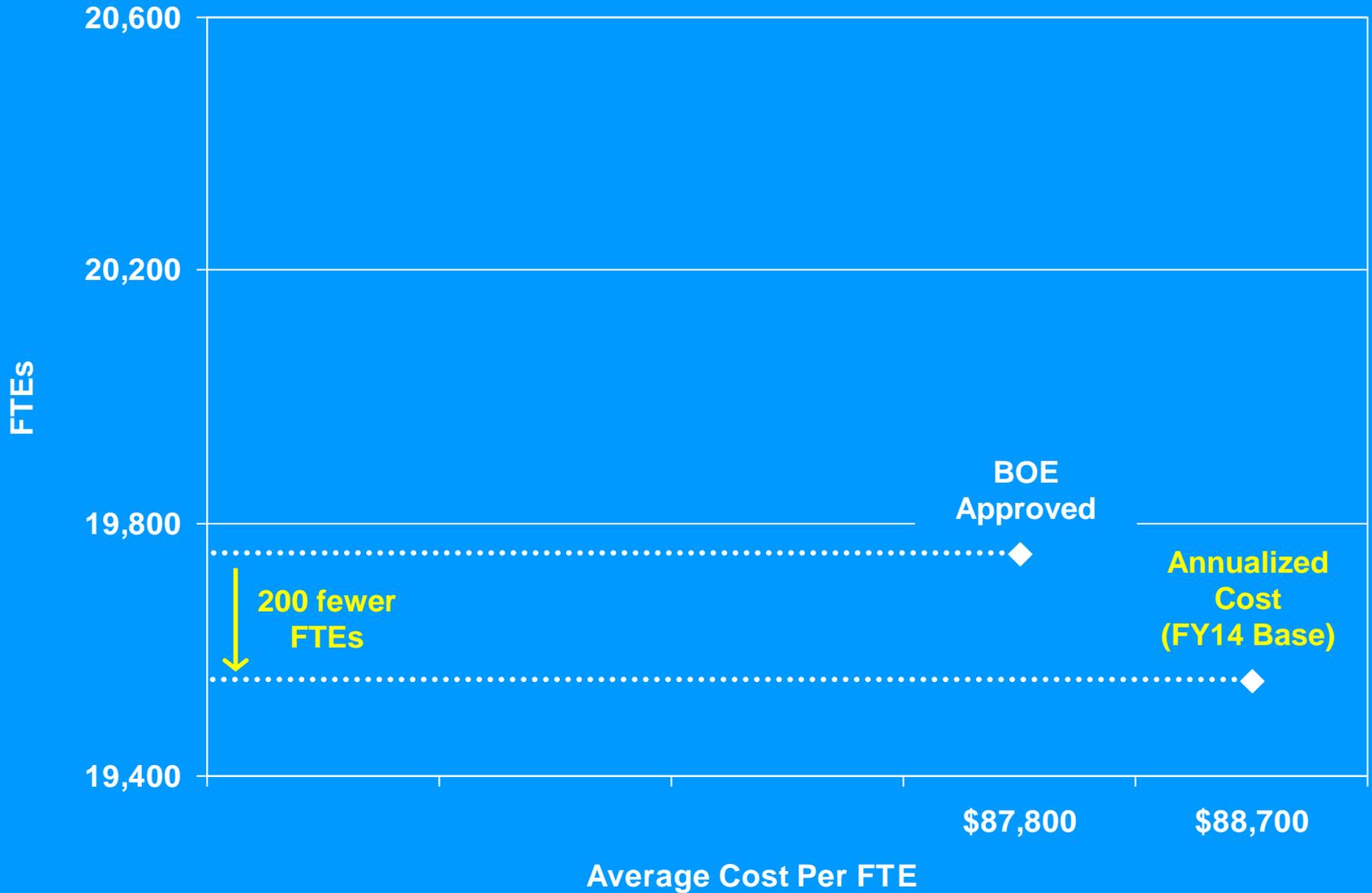
FY13 MCPS FTEs and Average Cost Per FTE

(at total personnel cost of \$1,734.4 million)



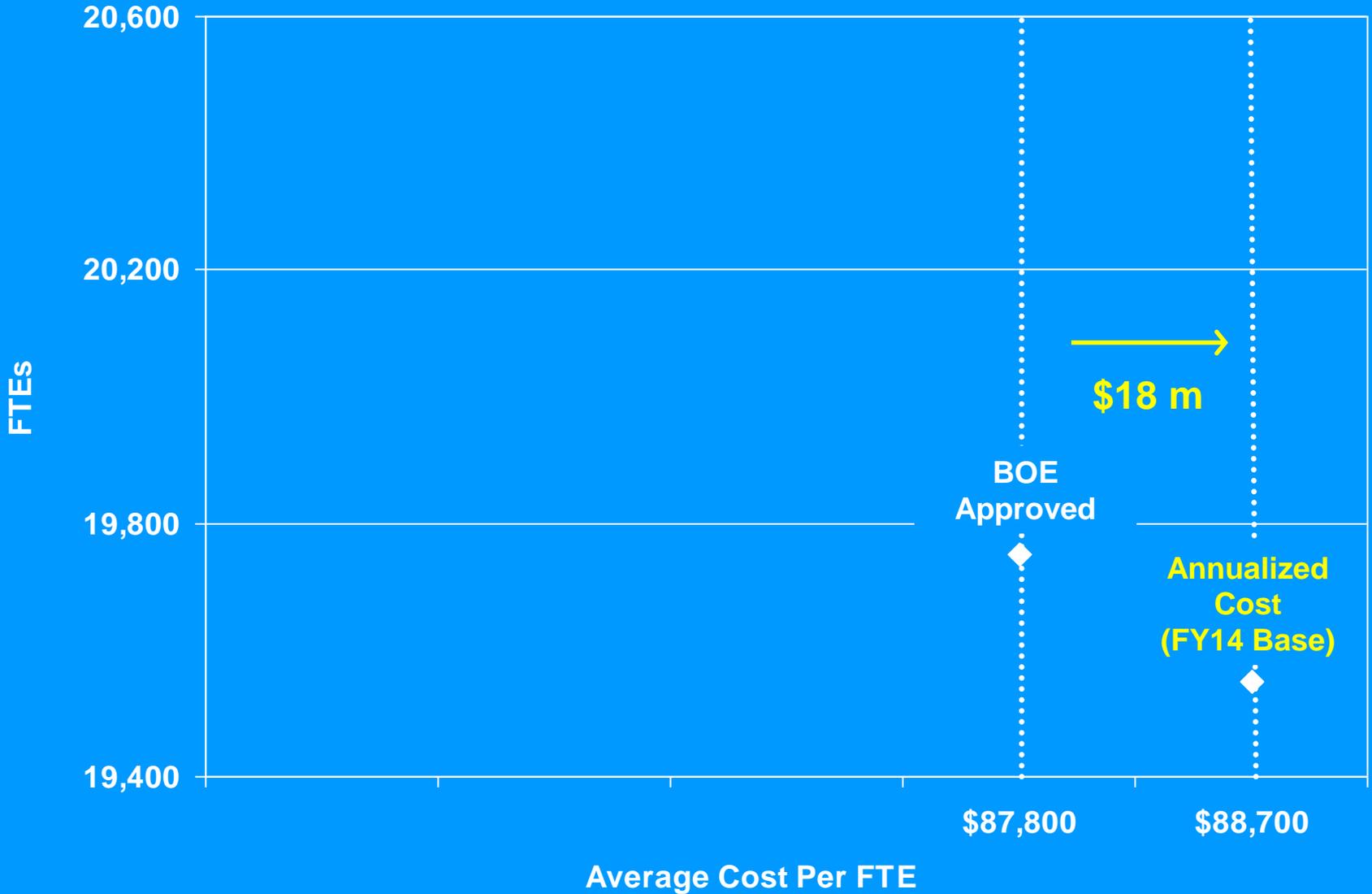
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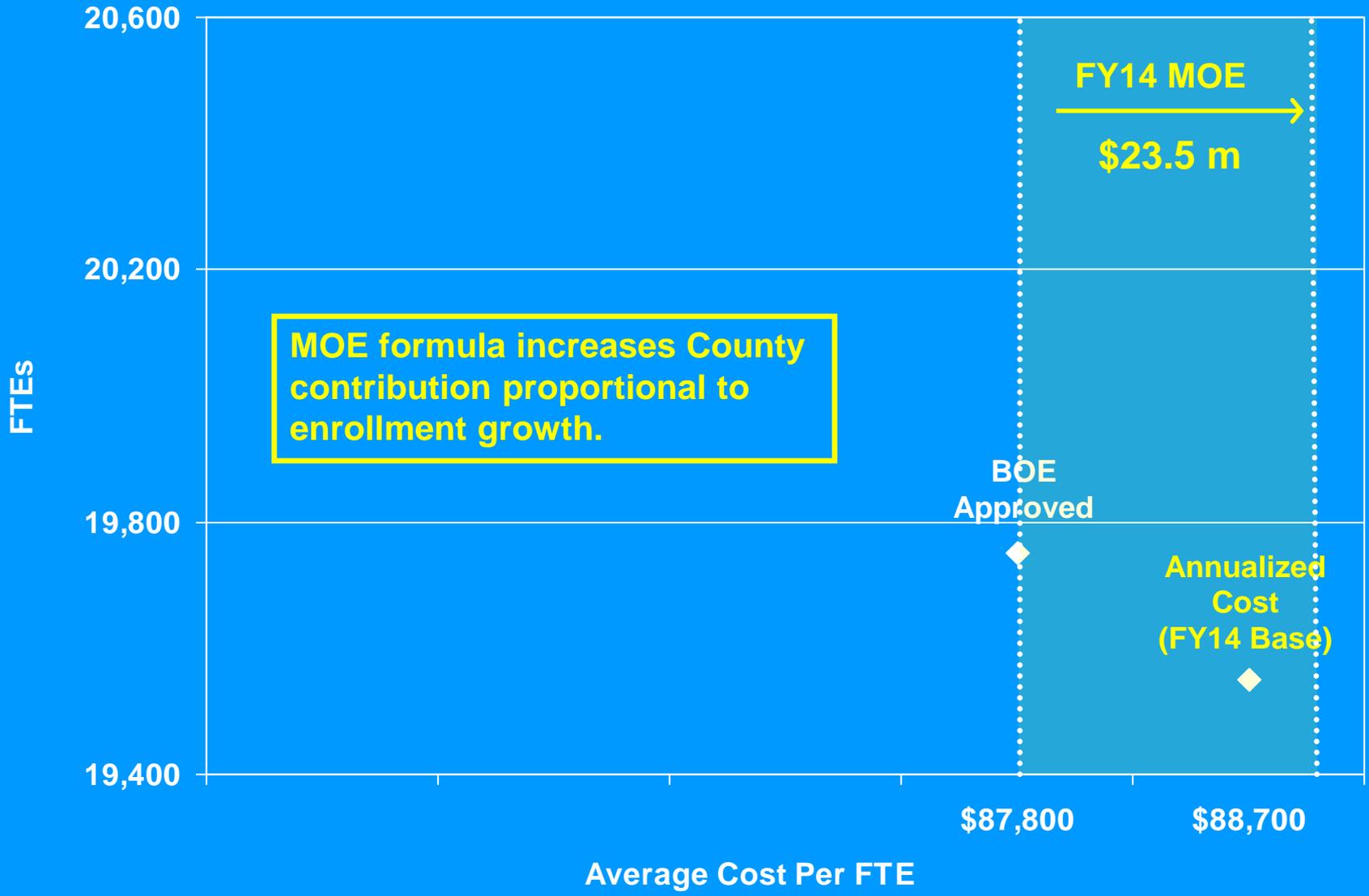
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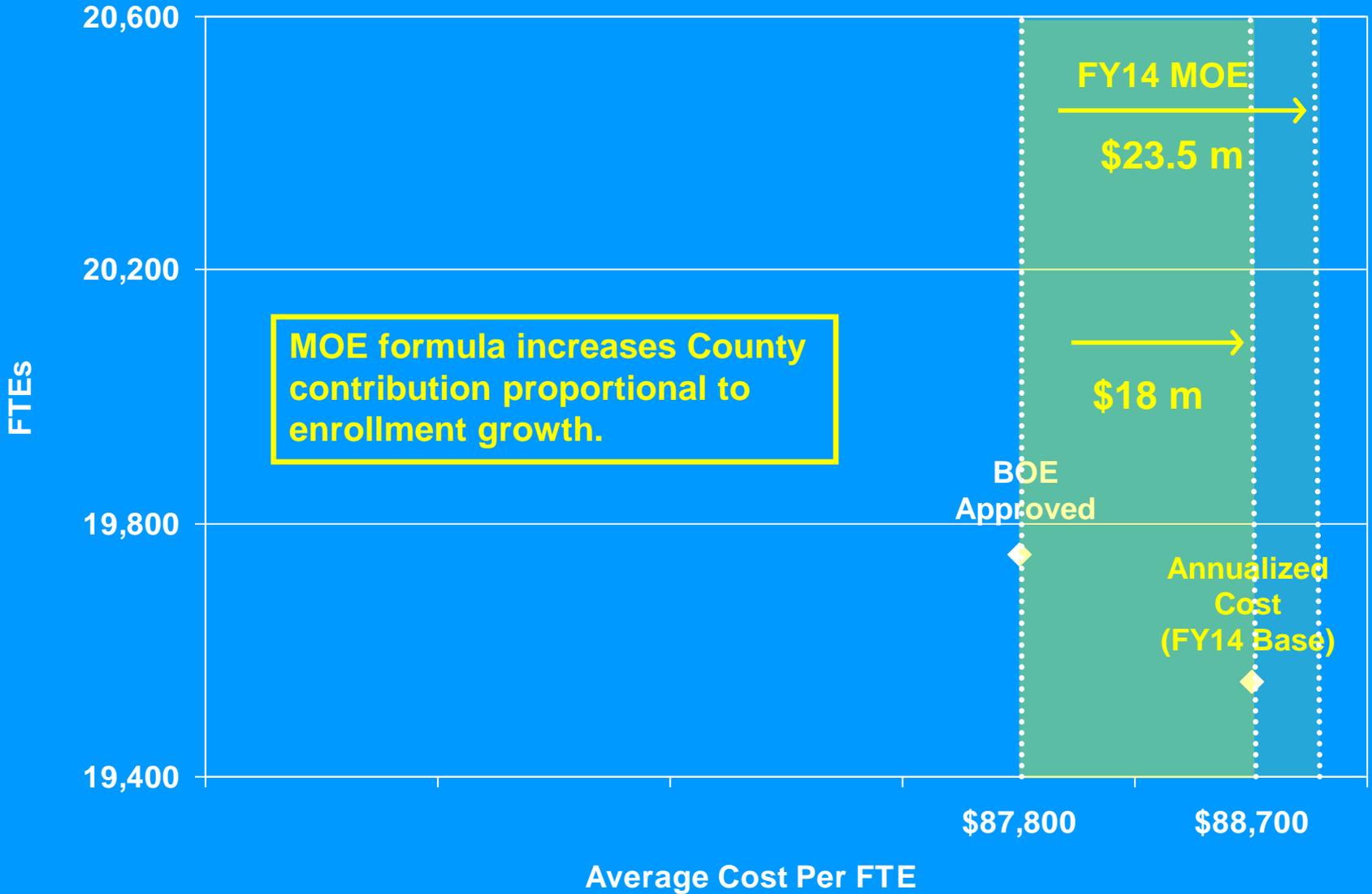
FY13 MCPS FTEs and Average Cost Per FTE

(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)



Compensation in FY13 MCPS Budget

Salary Cost Increases

First Step (July 2012)	\$33.2 m
Second Step (May 2013)	\$4.4 m (\$26.6 m in FY14)
Longevity Increases	\$5.9 m
2% Raises for Employees Ineligible for Steps/Longevity	\$7.0 m

Benefit Cost Decreases

Increased Copays	-\$4.6 m (- \$9.1 m in FY14)
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Benefits Unchanged

Employee Health Insurance Cost Share	\$6.5 m (half year) \$13.1 m (full year) per 5% increase
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FY13 Compensation Alternatives

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

Compensation Alternative Example 1

Restore 150 Positions Cut in FY12

Academic Intervention Teachers	Asst. School Administrators
College Prep Teachers	Counselors
English Composition Teachers	ESOL Teachers
Instrumental Music Teachers	Media Assistants
Paraeducators	Lunch Room Aides
Parent Comm. Coordinators	Reading Recovery Teachers
Reserve Teachers	Special Education Staffing

Cost:
\$7.7 m

Alternative Compensation Package

Award Single Step (or lump sum equivalent)
1% for Step/Longevity Ineligible Employees

Savings:
\$7.9 m

Compensation Alternative Example 2

Restore 150 Positions Cut in FY12

Academic Intervention Teachers	Asst. School Administrators
College Prep Teachers	Counselors
English Composition Teachers	ESOL Teachers
Instrumental Music Teachers	Media Assistants
Paraeducators	Lunch Room Aides
Parent Comm. Coordinators	Reading Recovery Teachers
Reserve Teachers	Special Education Staffing

Cost:
\$7.7 m

Alternative Compensation Package

Award \$2,000 Lump Sum in lieu of Salary Increases
Raise Health Insurance Employee Cost Share by 5%

Savings:
\$9.7 m

FY13 MCPS Budget

Net Annualized Cost of FY13 Compensation Changes:

FY13	\$47 million
FY14	\$18 million (\$27m for 2nd step minus \$9m from co-pay savings)
Total	\$65 million (equivalent to cost of 750 FTEs)

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**

\$0

\$10

\$20

Summary Points: MCPS Approved Budget

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.**

Summary Points: MCPS Approved Budget

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.**

Summary Points: MCPS Approved Budget

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)**

Maintenance of Effort Law

Given uncertainty of future year revenues, MOE law introduces new risk for counties (with stable or growing public school enrollment):

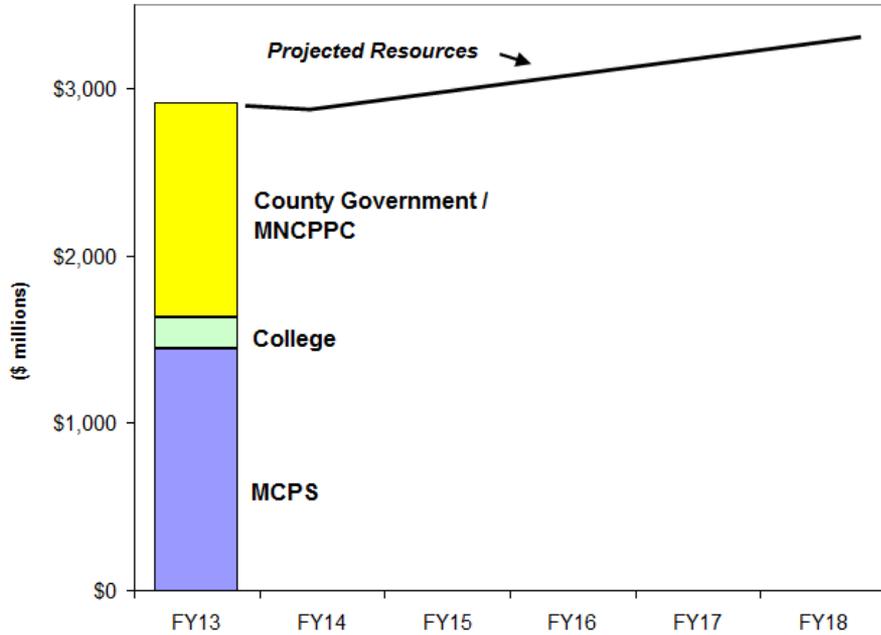
Are future resources so certain to allow for a permanent, irreversible increase in County's largest spending category?

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**

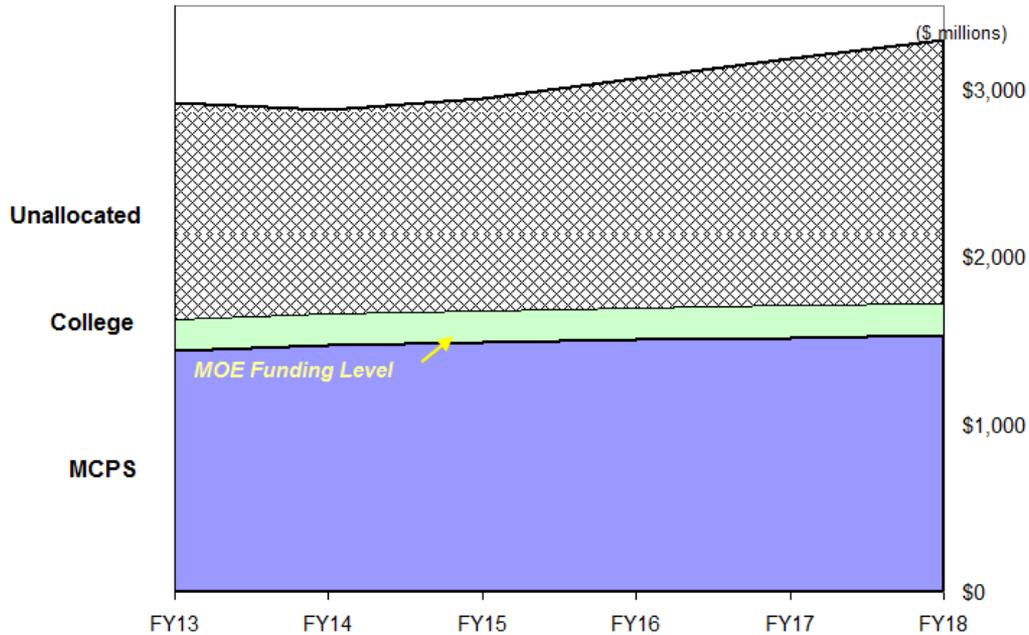
County Resources Available for Agency Use: FY13 - FY18



County Resources Available for Agency Use: Average Annual Growth Rate

FY13 - FY18 (Projected)	2.4%
FY04 - FY08 (Actual)	8.7%

County Resources Available for Agency Use: FY13 - FY18



Minimum Avg. Annual MCPS Growth Rate (Enrollment + Pension)	1.3%
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Note: MOE funding level is based on MCPS enrollment projections and includes funding for pension transfer.

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