APPENDICES

APPENDIX

Summary Tables: Category 12 Expenditures (Budgeted and Actual) FY03-FY12 by Component

Source: MCPS Staff, Original Document Provided July 25, 2011, Updated Document with FY11 Actuals and FY12 Budgeted Provided September 9, 2011; Variance Calculated by Office of Legislative Oversight

Category 12 Annual Expenditures / Fund Contributions

Social Security

Tax Supported

	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
BOE Request (Feb.)	70,625,296	76,793,147	79,186,293	83,976,624	89,240,819	95,965,656	102,247,140	101,060,735	102,829,772	101,881,930
BOE Final (June)	70,915,228	75,393,844	79,004,188	83,572,931	89,157,299	95,540,360	100,786,986	101,060,735	99,157,055	98,871,839
Actual	69,503,135	74,811,645	78,395,415	83,123,949	88,927,327	94,656,558	99,519,617	100,610,094	98,946,892	--
Variance	(1,412,093)	(582,199)	(608,773)	(448,982)	(229,972)	(883,802)	(1,267,369)	(450,641)	(210,163)	
Variance %	-2%	-1%	-1%	-1%	0%	-1%	-1%	0%	0%	

Non-Tax Supported

	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
BOE Request (Feb.)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	5,874,359	6,021,354	4,996,065
BOE Final (June)	N/A	N/A	N/A	N/A	N/A	N/A	3,751,948	5,874,359	6,129,682	4,931,677
Actual	N/A	N/A	N/A	N/A	N/A	N/A	4,686,545	5,771,650	6,056,314	--
Variance	N/A	N/A	N/A	N/A	N/A	N/A	934,597	(102,709)	(73,368)	
Variance %	N/A	N/A	N/A	N/A	N/A	N/A	25%	-2%	-1%	

Total

	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
BOE Request (Feb.)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	106,935,094	108,851,126	106,877,995
BOE Final (June)	N/A	N/A	N/A	N/A	N/A	N/A	104,538,934	106,935,094	105,286,737	103,803,516
Actual	N/A	N/A	N/A	N/A	N/A	N/A	104,206,162	106,381,744	105,003,206	--
Variance	N/A	N/A	N/A	N/A	N/A	N/A	(332,772)	(553,350)	(283,531)	
Variance %	N/A	N/A	N/A	N/A	N/A	N/A	0%	-1%	0%	

NOTES:
Data Source: BMA and backup worksheets
Amounts for Non-Tax Supported not isolated in separate general ledger accounts prior to the FY 09 Final Budget.

Category 12 Annual Expenditures / Fund Contributions

Retirement Fund Contributions

Tax Supported

	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
BOE Request (Feb.)	16,341,121	20,199,146	27,757,274	35,384,384	42,538,181	56,718,684	59,589,311	63,763,669	64,067,873	71,153,041
BOE Final (June)	16,411,614	19,905,122	27,742,617	35,189,710	55,702,204	56,513,644	58,981,200	59,419,658	62,422,441	65,442,044
Actual	16,428,670	19,821,944	27,917,203	35,189,710	55,705,804	56,651,146	59,719,558	59,580,157	62,019,905	--
Variance	17,056	(83,178)	174,586	0	3,600	137,502	738,358	160,499	(402,536)	
Variance %	0%	0%	1%	0%	0%	0%	1%	0%	-1%	

Non-Tax Supported

	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
BOE Request (Feb.)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	8,680,937	9,072,460	12,243,509
BOE Final (June)	N/A	N/A	N/A	N/A	N/A	N/A	6,548,053	8,705,513	8,653,645	12,346,428
Actual	N/A	N/A	N/A	N/A	N/A	N/A	6,629,233	8,935,983	9,270,437	--
Variance	N/A	N/A	N/A	N/A	N/A	N/A	81,180	230,470	616,792	
Variance %	N/A	N/A	N/A	N/A	N/A	N/A	1%	3%	7%	

Total

	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
BOE Request (Feb.)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	72,444,606	73,140,333	83,396,550
BOE Final (June)	N/A	N/A	N/A	N/A	N/A	N/A	65,529,253	68,125,171	71,076,086	77,788,472
Actual	N/A	N/A	N/A	N/A	N/A	N/A	66,348,791	68,516,140	71,290,342	--
Variance	N/A	N/A	N/A	N/A	N/A	N/A	819,538	390,969	214,256	
Variance %	N/A	N/A	N/A	N/A	N/A	N/A	1%	1%	0%	

NOTES:
Data Source: BMA and backup worksheets
Both FY 2012 Request and FY 2012 Final tax supported numbers include a $4,377,655 budget shift from local funds to grant funds for the Jobs Education Fund
Both FY 2011 Tax suppoted budget and FY 2011 tax supported actuals contain the $17,510,621 funds for the Jobs Education Fund
Amounts for Non-Tax Supported not isolated in separate general ledger accounts prior to the FY 09 Final Budget.

Category 12 Annual Expenditures / Fund Contributions

Active Employee Group Insurance

Tax Supported Appropriation

	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
BOE Request (Feb.)	93,935,391	116,380,526	134,814,167	144,718,429	163,957,297	174,234,117	179,560,959	206,482,768	221,448,717	232,326,432
BOE Final (June)	94,568,107	116,295,929	134,472,850	144,355,575	163,640,219	171,806,039	174,970,684	198,437,624	216,235,797	215,479,233
Actual	95,568,107	119,450,237	134,808,793	143,996,295	163,097,978	175,402,265	183,053,381	205,809,932	216,495,691	--
Variance	1,000,000	3,154,308	335,943	(359,280)	(542,241)	3,596,226	8,082,697	7,372,308	259,894	
Variance %	1%	3%	0%	0%	0%	2%	5%	4%	0%	

Non-Tax Supported

	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
BOE Request (Feb.)	NA	NA	NA	NA	NA	NA	N/A	15,896,717	16,357,146	16,675,470
BOE Final (June)	NA	NA	NA	NA	NA	NA	13,491,512	16,841,861	16,838,606	15,258,374
Actual	NA	NA	NA	NA	NA	NA	11,694,563	14,640,046	16,771,270	--
Variance							(1,796,949)	(2,201,815)	(67,336)	
Variance %							-13%	-13%	0%	

Total

	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
BOE Request (Feb.)	NA	NA	NA	NA	NA	NA	N/A	222,379,485	237,805,863	249,001,902
BOE Final (June)	NA	NA	NA	NA	NA	NA	188,462,196	215,279,485	233,074,403	230,737,607
Actual	NA	NA	NA	NA	NA	NA	194,747,944	220,449,978	233,266,961	--
Variance							6,285,748	5,170,493	192,558	
Variance %							3%	2%	0%	

NOTES:
Data Source: BMA and backup worksheets
Amounts for Non-Tax Supported not isolated in separate general ledger accounts prior to the FY 09 Final Budget.
Total Tax Supported amounts reduced by the Employee Benefit Plan amounts for retirees which are all tax supported

Category 12 Annual Expenditures / Fund Contributions

Risk Management Fund Contributions (Self Insurance)

Tax Supported

	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
BOE Request (Feb.)	8,984,875	10,142,841	12,981,152	13,166,885	8,072,434	8,816,602	7,500,905	9,452,775	13,109,272	15,527,152
BOE Final (June)	8,984,875	10,142,841	12,981,152	13,166,885	8,072,434	7,904,802	7,500,905	9,452,775	13,109,272	15,527,152
Actual	8,984,875	10,142,841	12,981,152	13,166,885	8,072,434	7,904,802	7,500,905	9,452,775	13,121,576	--
Variance	0	0	0	0	0	0	0	0	12,304	
Variance %	0%	0%	0%	0%	0%	0%	0%	0%	0%	

Non-Tax Supported

	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
BOE Request (Feb.)	338,425	378,479	607,978	616,975	342,896	370,718	299,495	299,495	496,348	496,348
BOE Final (June)	338,425	378,479	607,978	616,975	342,896	370,718	299,495	299,495	496,348	496,348
Actual	338,425	378,479	607,978	616,975	342,896	370,718	299,495	299,495	496,348	--
Variance	0	0	0	0	0	0	0	0	0	
Variance %	0%	0%	0%	0%	0%	0%	0%	0%	0%	

Total

	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
BOE Request (Feb.)	9,323,300	10,521,320	13,589,130	13,783,860	8,415,330	9,187,320	7,800,400	9,752,270	13,605,620	16,023,500
BOE Final (June)	9,323,300	10,521,320	13,589,130	13,783,860	8,415,330	8,275,520	7,800,400	9,752,270	13,605,620	16,023,500
Actual	9,323,300	10,521,320	13,589,130	13,783,860	8,415,330	8,275,520	7,800,400	9,752,270	13,605,620	--
Variance	0	0	0	0	0	0	0	0	0	
Variance %	0%	0%	0%	0%	0%	0%	0%	0%	0%	

NOTES:
Data Source: BMA and backup worksheets
Risk Insurance is paid to the county. All are considered Tax Supported except for the allocation of Workers Compensation to Food Services

Category 12 Annual Expenditures / Fund Contributions

Tuition Reimbursement

Tax Supported

	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
BOE Request (Feb.)	1,357,698	1,367,698	1,367,698	1,688,844	2,388,844	2,588,844	3,488,844	3,888,844	4,088,844	4,088,844
BOE Final (June)	1,357,698	1,367,698	1,367,698	1,688,844	2,388,844	2,588,844	3,488,844	3,888,844	4,088,844	3,039,746
Actual	1,602,163	1,984,213	2,221,923	2,517,393	3,347,804	3,597,350	3,883,005	3,602,212	3,826,537	--
Variance	244,465	616,515	854,225	828,549	958,960	1,008,506	394,161	(286,632)	(262,307)	
Variance %	18%	45%	62%	49%	40%	39%	11%	-7%	-6%	

Non-Tax Supported

	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
BOE Request (Feb.)										
BOE Final (June)										
Actual										--
Variance										
Variance %										

Total

	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
BOE Request (Feb.)	1,357,698	1,367,698	1,367,698	1,688,844	2,388,844	2,588,844	3,488,844	3,888,844	4,088,844	4,088,844
BOE Final (June)	1,357,698	1,367,698	1,367,698	1,688,844	2,388,844	2,588,844	3,488,844	3,888,844	4,088,844	3,039,746
Actual	1,602,163	1,984,213	2,221,923	2,517,393	3,347,804	3,597,350	3,883,005	3,602,212	3,826,537	--
Variance	244,465	616,515	854,225	828,549	958,960	1,008,506	394,161	(286,632)	(262,307)	
Variance %	18%	45%	62%	49%	40%	39%	11%	-7%	-6%	

NOTES:
Data Source: BMA and backup worksheets
All tuition reimbursements are tax supported

Category 12 Annual Expenditures / Fund Contributions

Partnership Tuition

Tax Supported

	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
BOE Request (Feb.)	2,044,774	1,703,052	1,852,338	1,986,238	1,993,786	2,699,901	2,316,818	1,816,239	1,638,239	1,493,776
BOE Final (June)	2,044,774	1,703,052	1,852,338	1,986,238	1,993,786	2,699,901	2,316,818	1,638,239	1,638,239	1,493,776
Actual	2,044,774	1,402,053	1,228,605	1,819,431	1,889,159	2,078,657	1,566,247	1,317,073	1,202,060	--
Variance	0	(300,999)	(623,733)	(166,807)	(104,627)	(621,244)	(750,571)	(321,166)	(436,179)	
Variance %	0%	-18%	-34%	-8%	-5%	-23%	-32%	-20%	-27%	

Non-Tax Supported

	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
BOE Request (Feb.)										
BOE Final (June)										
Actual										--
Variance										
Variance %										

Total

	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
BOE Request (Feb.)	2,044,774	1,703,052	1,852,338	1,986,238	1,993,786	2,699,901	2,316,818	1,816,239	1,638,239	1,493,776
BOE Final (June)	2,044,774	1,703,052	1,852,338	1,986,238	1,993,786	2,699,901	2,316,818	1,638,239	1,638,239	1,493,776
Actual	2,044,774	1,402,053	1,228,605	1,819,431	1,889,159	2,078,657	1,566,247	1,317,073	1,202,060	--
Variance	0	(300,999)	(623,733)	(166,807)	(104,627)	(621,244)	(750,571)	(321,166)	(436,179)	
Variance %	0%	-18%	-34%	-8%	-5%	-23%	-32%	-20%	-27%	

NOTES:
Data Source: BMA and backup worksheets
All Partnership Tuition Expenses are tax supported

Category 12 Annual Expenditures / Fund Contributions

Grant Funded Employee Benefits

Non-Tax Supported

	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
BOE Request (Feb.)	17,757,247	11,023,933	11,570,944	12,094,148	13,106,205	13,751,414	14,490,815	20,955,720	21,628,840	23,163,753
BOE Final (June)	18,991,148	11,330,100	11,925,381	12,352,963	13,835,444	14,668,851	14,119,786	21,768,909	21,907,105	21,782,241
Actual	19,801,274	12,167,265	14,115,906	15,819,094	15,390,803	16,405,300	16,115,778	21,745,246	21,930,642	--
Variance	810,126	837,165	2,190,525	3,466,131	1,555,359	1,736,449	1,995,992	(23,663)	23,537	
Variance %	4%	7%	18%	28%	11%	12%	14%	0%	0%	

NOTES:
Data Source: BMA
Amounts include unemployment, workers compensation, employee health benefits, social security, and retirement

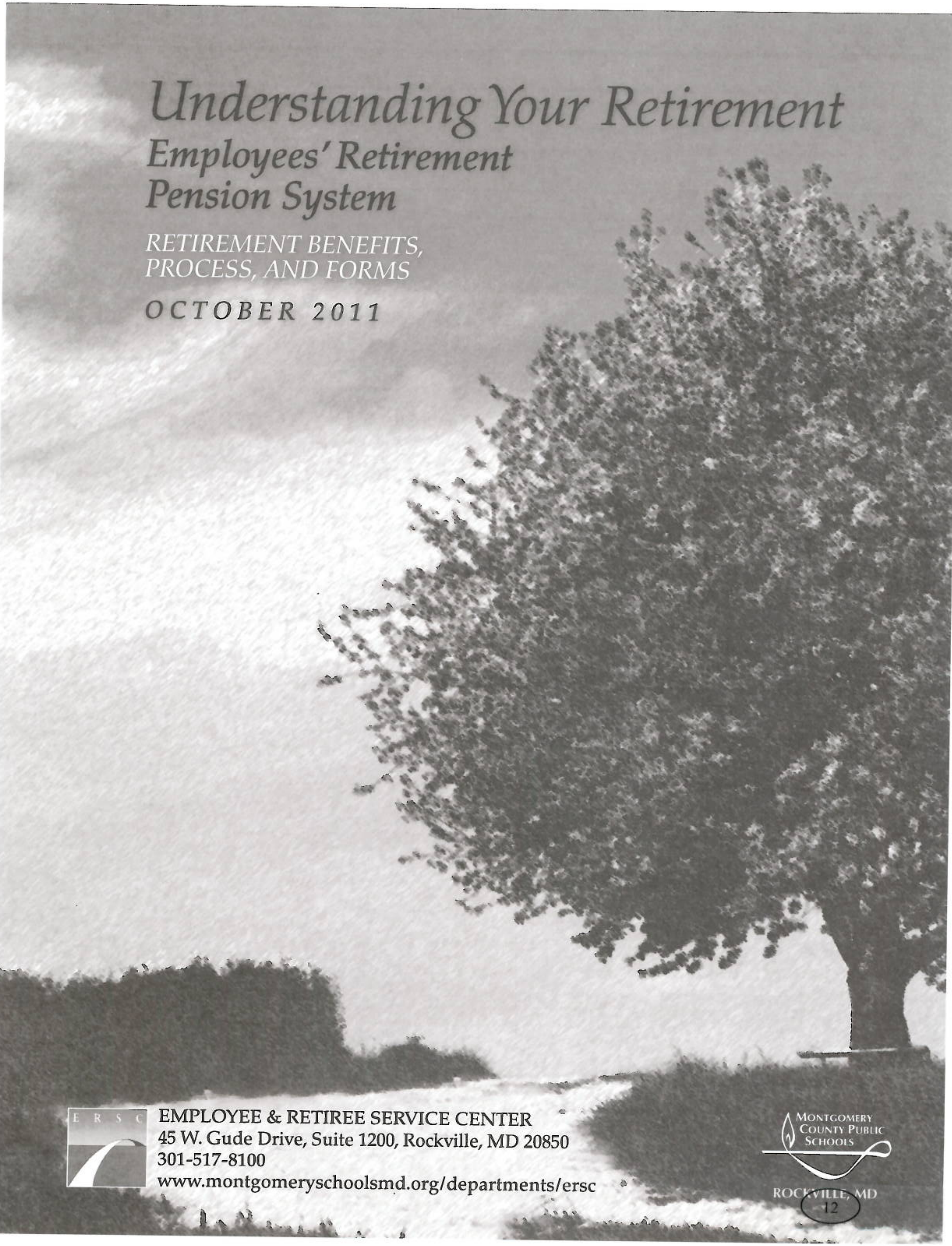
Category 12 Annual Expenditures / Fund Contributions

Enterprise Funded Employee Benefits

Non-Tax Supported

	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
BOE Request (Feb.)								10,899,437	10,962,256	11,823,578
BOE Final (June)	6,719,136	7,983,726	8,498,013	9,353,462	9,718,123	10,243,235	10,786,961	10,899,437	10,930,160	11,803,222
Actual	6,442,367	7,709,003	8,385,741	9,006,434	9,327,876	9,887,448	8,574,197	8,588,295	10,716,393	--
Variance	(276,769)	(274,723)	(112,272)	(347,028)	(390,247)	(355,787)	(2,212,764)	(2,311,142)	(213,767)	
Variance %	-4%	-3%	-1%	-4%	-4%	-3%	-21%	-21%	-2%	

NOTES:
Data Source: BMA
Amounts include unemployment, workers compensation, employee health benefits, social security, and retirement



Understanding Your Retirement

Employees' Retirement Pension System

RETIREMENT BENEFITS, PROCESS, AND FORMS

OCTOBER 2011

E R S C

EMPLOYEE & RETIREE SERVICE CENTER
45 W. Gude Drive, Suite 1200, Rockville, MD 20850
301-517-8100
www.montgomeryschoolsmd.org/departments/ersc

Montgomery County Public Schools
Rockville, MD

Eligibility for Retirement

Eligibility for retirement is based on your system membership and the date you were hired with MCPS.

Retirement System

Employees hired prior to January 1, 1980, who are members of the Retirement System, qualify to retire as follows:

Retirement System Members (closed to new employees as of December 31, 1979)			
Type of retirement			
Normal Retirement	• 30 years of credited service—at any age OR • Age 60 with 5 years of credited service		
Early Retirement	25 years of credited service—any age		
Penalty for Early Retirement		MCPS	State
	1 year	2%	6%
	2 years	5%	12%
	3 years	9%	18%
	4 years	14%	24%
	5 years	20%	30%

Pension System

Retirement eligibility for pension system members is as follows:

Pension System Members Hired on or before June 30, 2011	
Type of retirement	
Normal Retirement	• 30 years of eligibility service–at any age **OR** • Age 62 with 5 years of eligibility service
Early Retirement	15 years of eligibility service AND age 55
Penalty for Early Retirement	6% per year (.5% for each month prior to age 62)

Pension System Members Hired on or after July 1, 2011	
Type of retirement	
Normal Retirement	• Age 65 with at least 10 years eligibility service **OR** • Age + Years of Eligibility Service = 90
Early Retirement	15 years eligibility service AND age 60
Penalty for Early Retirement	6% per year (.5% for each month prior to age 65)

Disability Retirement

In the unfortunate event that an injury or illness permanently incapacitates you from performing your job duties, disability retirement is available to plan participants in addition to normal and early retirement.

Two types of disability retirement are available: ordinary disability and accidental disability.

Ordinary Disability: This benefit is available to employees who become permanently incapacitated due to illness. You are eligible for ordinary disability benefits if you—

- have a minimum of five years of eligibility service,
- are permanently incapacitated and unable to perform your job duties due to medical reasons,
- are not eligible for accidental disability, and
- there is no other available assignment for which you are qualified or capable of performing.

Accidental Disability: This benefit is available to employees who become permanently incapacitated due to a job-related accident. You are eligible for accidental disability if—

- your disability was the result of a job-related accident,
- you are permanently incapacitated and unable to perform your job duties due to medical reasons, and
- there is no other available assignment for which you are qualified or capable of performing.

Contact ERSC to speak with a retirement specialist about disability retirement options.

Vesting

What if I leave MCPS before I am eligible to retire?

Vesting is also dependent on the date you were hired with MCPS.

Employees who were hired on or before June 30, 2011, are considered vested after five years of eligibility service. If you have five or more years of eligibility 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 the time of termination. Your benefit will be paid to you at your normal retirement date—age 60 or 62, depending on your plan membership. You may choose to receive this future benefit or you may choose to receive your contributions and interest in one lump sum upon your resignation. You may elect to receive a lump sum refund of your contributions and interest or to roll over funds into an Individual Retirement Account (IRA), Roth IRA, or a qualified plan such as a 403(b) or 457(b). If you choose to receive a refund of your contributions and interest, you will not be eligible for a future retirement benefit.

Employees who were hired on or after July 1, 2011, are considered vested after **ten** years of eligibility service. If you have **ten** or more years of eligibility 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. You may choose to receive this future benefit or you may choose to receive your contributions and interest in one lump sum upon your resignation. You may elect to receive a lump sum refund of your contributions and interest or to roll over funds into an Individual Retirement Account (IRA), Roth IRA, or a qualified plan such as a 403(b) or 457(b). If you choose to receive a refund of your contributions and interest, you will not be eligible for a future retirement benefit.

Benefit Amount

Benefit Formula Components

Both the Retirement and Pension Systems are defined benefit plans—your retirement benefit is based on a formula. These retirement benefit formulas use two key components.

1. **Average Final Salary (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 and the year you were hired with MCPS.

   Members of the Retirement System—The highest 3 years of salary during your career

   Members of the Pension System who were hired on or before June 30, 2011—The highest 3 *consecutive* years of salary during your career

   > Example: Joe Smith joined MCPS in 2000 and is retiring July 1, 2011. His highest 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] ÷3)

   Members of the Pension System who were hired on or after July 1, 2011—The highest 5 *consecutive* years of salary during your career

   > Example: Jane Smith joined MCPS on July 1, 2011, and will retire July 1, 2021. Her five highest years of salary were $68,300, $70,000, $71,700, $73,400, and $75,160. Her average final salary is $71,712 ([$68,300 + $70,000 + $71,700 + $73,400 + $75,160] ÷5)

2. **Credited service**—Employees earn credited service based on membership in the retirement or pension system. One year of credited service is defined as 10 months from September to June. See "Service Toward Retirement" for more details.

Formulas Used to Calculate Your Benefit Amount

Using these components, each system calculates its own formula for benefits. In addition, your benefit formula is calculated differently based on the date you were hired with MCPS. The following charts define each system's benefit formula and specify which formula applies.

Retirement System

Employees who were hired with MCPS prior to July 1, 1976, and who are still members of the Retirement System receive a retirement benefit based on the following formula:

Core Benefit	1.8181% x Average Final Salary (AFS) x Credited Service
Supplemental Benefit	.18181% x AFS x Credited Service

Pension System

Pension System Members Hired on or before June 30, 2011
Core Benefit
Calculate *the* ***greater of*** .008 x Average Final Salary (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 2011 is $59,300. The projected SSIL for 2012 is $61,900.

Pension System Members Hired on or after July 1, 2011
Core Benefit
1.5% x Average Final Salary (AFS) x credited service
Supplemental Benefit
.2% x AFS x credited service

Cost-of-Living Adjustments

Your benefit is adjusted during your retirement years based on an annual cost-of-living adjustment (COLA). Typically, a COLA is applied to your retirement benefit each year.

When You Receive a COLA

The date you will receive your first COLA depends on the date you choose to retire. The COLA is added to MCPS Core and Supplement Plan benefits as of January 1 each year and to the State Teachers' Pension Plan (State core plan) benefits as of July 1 each year. MCPS Core and Supplemental Pension Plan members must be retired for at least one month to receive a COLA on January 1. Members of the state core plan must be retired for one full year before receiving a July 1 COLA. This means that in some instances, retiring one month later will result in a one-year delay in receipt of your first cost-of-living adjustment. If the calculated COLA is negative, it is allowed to accumulate from year-to-year and offset against future positive COLA adjustments.

How COLAs are Calculated

Both the state core plan and MCPS core plan use the Consumer Price Index (CPI) to calculate your cost-of-living adjustment. The U.S. Department of Labor publishes the annual CPI, and it is the most widely used measure of inflation. The CPI provides information about price changes in the nation's economy to government, business, labor, and private citizens, and is used as a guide to make economic decisions.

For benefits based on credited service earned **prior to July 1, 2011**, the annual COLA you receive as a retiree will be applied according to the yearly CPI with a three percent cap, with no additional conditions. The COLA for all service earned prior to July 1, 2011, is applied in the same way regardless of your core plan membership.

For benefits based on the credited service earned **after July 1, 2011,** the annual COLA you receive as a retiree will be calculated differently from benefits based on credited service earned prior to this time. The State core plan and MCPS core and supplemental plans will handle COLAs for this period of time differently.

> **State core plan members:** You will receive a conditional COLA for benefits based on credited service earned after July 1, 2011. A conditional COLA is only applied if certain conditions are met for that year. If the State Teacher Pension Trust's investment returns meet their expectations for the year, then a COLA will be applied that is equal to the CPI with a two and a half percent cap. If the plan does not do as well as expected during the year, then the adjustment will be equal to the CPI but will be capped at one percent. For additional information about the conditional COLA, please visit the Maryland State Retirement Agency website at www.sra.state.md.us.
>
> **MCPS core plan members:** The COLA for benefits based on credited service earned after July 1, 2011, will be based on the CPI and capped at two percent. No additional conditions will be applied to obtain the yearly COLA.

County supplement plan members (all employees, regardless of core plan membership): The COLA for benefits based on credited service earned after July 1, 2011, will be based on the CPI and capped at two percent. No additional conditions will be applied to obtain the yearly COLA.

Postretirement Benefit Plan

Medical, Dental, Prescription, Vision, and Life Insurance Coverage

Medical, dental, prescription, and life insurance benefits work differently when you are a retiree than when you are an active employee. The following pages offer an overview of retiree benefit options and rules. Complete information can be found in the *Retiree Benefit Summary*, available on the ERSC website.

You may elect to add, continue, or cancel coverage at the time of retirement. You must make an election for each component of the benefit plan. Submit MCPS Form 455-22: *Retiree Benefit Plan Enrollment* with your retirement forms to ERSC at least 30 days prior to the effective date of your retirement. If after retirement you move out of the service area for your health plan, you and your covered dependents must transfer to a different plan (see "Moving out of the Service Area" in this document).

Eligibility for Postretirement Benefits

Employees hired on or before June 30, 2006, are eligible for postretirement benefits if they have at least five years of eligibility service at retirement. Employees hired on or after July 1, 2006, are eligible for postretirement benefits if they have at least ten years of eligible service at retirement.

However, if you were hired between July 1, 2006, and June 30, 2011, and you retire with at least five years of eligible service, you will be eligible for postretirement benefits if—

- you were at least 55 years old as of July 1, 2011, or
- you will have at least 30 years eligible service in the State Teachers' Pension Plan upon retirement.

Note:
If you were **not** eligible for benefits coverage as an active employee, you will **not** be eligible for benefits coverage as a retiree.

POLICY BOARD OF EDUCATION OF MONTGOMERY COUNTY

Related Entries:
Responsible Office: Chief Operating Officer

Funding Retirement/Pension System

A. PURPOSE

To set forth the priorities of the Montgomery County Public Schools (MCPS) Employees' Retirement and Pension System

B. ISSUE

The MCPS Employees' Retirement and Pension System will provide supplemental retirement/pension plan benefits for eligible employees who are members of the Maryland State Teachers' Retirement and Pension System or provide full retirement/pension plan benefit for eligible employees who are not eligible for membership in the Maryland system.

C. POSITION

1. In 1995 the Board of Education created a Board of Investment Trustees to oversee the investment of the pension assets based on an Investment Policy approved by the Board of Investment Trustees.

2. The Board of Investment Trustees shall review the Investment Policy annually and update as necessary to reflect prudent investment practice.

3. The results of the annual actuarial study will be made available at the conclusion of each fiscal year to establish funding percentages for the Board of Education's next annual operating budget request based on the actuarial unit credit cost method. Assumptions used in developing the actuarial valuation are determined by the Board of Education and will be kept current and adjusted as economic and demographic conditions change.

4. The study will include a funding percentage known as the "normal cost contribution" rate which when applied to annual compensation shall represent the cost of operating the plan during the current year.

5. The study also will include a funding percentage known as the "accrued liability" rate which when applied to annual compensation will produce an amount sufficient to liquidate the additional accrued liability over a period of no less than 15 years from the date of the actuarial valuation reducing such gain or loss.

6. The study also will include a funding percentage known as "expenses", which when applied to the annual compensation will represent the cost to manage and administer the plan during the current year.

7. The amount of money calculated by applying the sum of the "normal contribution", the "expenses", and the "accrued liability" rate to the budgeted annual compensation less the employee contribution portion will be included in the fixed charges category of the superintendent of schools' annual recommended operating budget.

8. MCPS will have as a funding goal each year the improvement of the asset to accrued liability ratio toward the 100 percent funded level by the end of the amortization period.

9. Any modifications to plan benefits will be announced in a timely manner prior to Board action allowing opportunities to receive input from active/retired employees and all employee organizations.

D. DESIRED OUTCOME

Montgomery County Public Schools will maintain a plan of retirement/pension benefits which is adequately funded and will provide employees income during their retirement years.

E. IMPLEMENTATION STRATEGIES

1. Every three to five years a credentialed actuarial firm will be contracted to evaluate the plan in terms of goals and objectives and this report will be made available to the Board of Education Fiscal Management Committee.

2. Staff will meet annually each fall with the Board of Education Fiscal Management Committee to review the annual report on the actuarial valuation of the retirement/pension plan from the actuary, actuarial plan assumptions, rate of return, and budget recommendations for the coming fiscal year.

F. REVIEW AND REPORTING

This policy will be reviewed in accordance with the Board of Education policy review process.

Policy History: Resolution No. 534-83, June 1983; amended by resolution No. 449-09, October 26, 2009.

DISCUSSION/ACTION
5.0

Office of the Superintendent of Schools
MONTGOMERY COUNTY PUBLIC SCHOOLS
Rockville, Maryland

July 28, 2008

MEMORANDUM

To: Members of the Board of Education

From: Jerry D. Weast, Superintendent of Schools

Subject: FY 2008 Operating Budget Categorical Transfer

At the end of each fiscal year, the Montgomery County Public Schools (MCPS) requests transfers among state categories to align budgeted appropriation with actual expenditures. These transfers are subject to approval by the County Council. For FY 2008, these transfers total $12,000,000, approximately 0.6 percent of the total operating budget.

Overall, the MCPS Operating Budget ended FY 2008 with an expenditure surplus of $14,500,000. Additionally, revenue was $3,400,000 greater than budgeted, so that the total savings in local contribution was $17,900,000. The County Council assumed $17.9 million of savings from FY 2008 to fund the FY 2009 Operating Budget.

The FY 2008 expenditure surplus was due in part to comprehensive expenditure restrictions and a hiring freeze imposed on November 24, 2007. Offsetting the savings from expenditure restrictions were deficits in Special Education (Category 6), Pupil Personnel Services (Category 7), Student Transportation (Category 9), and Fixed Charges (Category 12) totaling $11.4 million. In order to achieve the required expenditure savings of $14.5 million, a total of $25.9 million in savings was made in other state categories. Revenue surplus resulted from additional FY 2007 fund balance and higher than anticipated FY 2008 revenue for tuition due to more out-of-county students, federal impact aid, state reimbursement for students in nonpublic placements, and miscellaneous revenue.

During the past fiscal year, staff has closely monitored revenue and expenditures. Coordinated by the Office of the Chief Operating Officer, monitoring is led by the Department of Management, Budget, and Planning (DMBP) and the Department of Financial Services. With the assistance of the Office of the Chief Technology Officer and the Office of Human Resources, DMBP closely monitors expenditures. This financial monitoring process is extremely careful, comprehensive, and detailed. Primary and secondary account managers review each of their accounts on a monthly basis and report expenditure projections for the rest of the fiscal year. DMBP staff reviews and analyzes these projections using quantitative models, as well as knowledge of previous expenditure patterns and changing circumstances. Implementation of the Financial Management System (FMS), a comprehensive financial system integrated with the Human Resources Information System, improved the ability to monitor and control expenditures and to successfully implement expenditure restrictions. Additional tools still being developed within the FMS system will further improve financial controls during the coming fiscal year.

The Board of Education received detailed financial status reports throughout the past year. Each month, beginning in November, the Board has discussed the financial status report at its public meetings. These reports have been transmitted to the county executive, the county's Office of Management and Budget, and the County Council. Final FY 2008 expenditures are in line with the trends indicated in the monthly reports. The following is a summary of the results in each of the categories in which actual expenditures through June 30, 2008, differed from the appropriation:

Category 1, Administration, reflected a surplus of $2,678,000. The surplus is a result of greater than budgeted lapse and turnover savings ($1,700,000) and other savings as a result of the comprehensive expenditure restrictions ($900,000). These savings are 6.0 percent of budgeted expenditures.

Category 2, Mid-level Administration, reflected a surplus of $3,280,000. The surplus is a result of greater than budgeted lapse and turnover savings ($2,000,000), reductions in the acquisition of instructional materials ($225,000) and other savings as a result of the comprehensive expenditure restrictions ($1,000,000). Some of the savings resulted from using temporary part-time employees to fill some vacancies. These savings are 2.5 percent of budgeted expenditures.

Category 3, Instructional Salaries, reflected a surplus of $10,754,000. The projected surplus is primarily a result of greater than anticipated lapse savings ($5,200,000). As a result, approximately 80 teacher and supporting services positions were held in reserve rather than being allocated to schools. Teacher vacancies filled with long-term substitutes have resulted in savings in position accounts. There are savings due to lower than projected usage of extracurricular activities stipends ($900,000), substitutes ($1,100,000), and stipends for supervisors of student teachers ($200,000). Additional savings are projected because of training activities limited by the comprehensive expenditure restrictions ($2,000,000) and reduced usage of staff development substitutes ($900,000). Lower than projected usage of long-term leave resulted in additional savings ($700,000). These savings were partially offset by higher than projected payout of sick and annual leave for terminated employees in this category ($300,000).

Category 4, Textbooks and Instructional Supplies, reflected a surplus of $6,607,000. The surplus is a result of postponing acquisition of textbooks and instructional materials until FY 2009 ($4,400,000); lower spending for textbooks, media center supplies, and instructional materials in accounts not allocated to schools ($2,000,000); additional savings in instructional materials in the Office of the Chief Technology Officer ($100,000); and lower than projected expenditures for training materials purchased by the Office of Organizational Development ($100,000).

Category 5, Other Instructional Costs, reflected a surplus of $1,578,000. The surplus is a result of savings as a result of the comprehensive expenditure restrictions. Savings included lower than anticipated school copier contractual services expenditures ($200,000), staff development expenditures ($800,000), printing services ($300,000), and school furniture and equipment ($300,000).

Savings in regular instruction program costs in Categories 3, 4, and 5 are 2.2 percent of budgeted expenditures.

Category 6, Special Education, reflected a deficit of $3,961,000. The deficit is due primarily to a higher than anticipated cost for special education students referred to private placements. This is the result of increases for tuition rates and supplementary services ($3,500,000). There is also a deficit of $1,000,000 due to lower than projected revenue for Medicaid that resulted from changes in reimbursement rates imposed by the federal government. The shortfall in Medicaid revenue increased local funding for special education expenditures. This deficit is partially offset by a net surplus in position costs ($1,400,000) due to higher than anticipated lapse and turnover. There also were higher than budgeted costs for part-time salaries and contractual expenses, partially offset by a net surplus in other accounts resulting from the comprehensive expenditure restrictions ($900,000).

Category 7, Student Personnel Services, reflected a deficit of $108,000. The deficit is the result of lower than anticipated salary lapse and turnover.

Category 8, Health Services, reflected a surplus of $14,000 due to lower than anticipated program needs.

Category 9, Student Transportation, reflected a deficit of $4,430,000. The projected deficit is predominately the result of actual diesel fuel costs ($3,400,000). Prices paid by MCPS for diesel fuel have been as high as $4.40 per gallon. Higher fuel costs reflect the nationwide increase in the cost of gasoline and other petroleum products. Fuel costs have averaged approximately $3.28 per gallon compared to the budgeted amount of $2.50 per gallon. The deficit also resulted from higher than budgeted personnel costs, including lower than anticipated salary lapse ($1,000,000).

Category 10, Operation of Plant and Equipment, reflected a surplus of $547,000. The surplus resulted from higher than anticipated lapse and turnover savings ($200,000) and savings in expenditures for electricity as a result of new bidding procedures ($350,000). Savings in Category 10 are 0.5 percent of the budgeted expenditures.

Category 11, Maintenance of Plant, reflected a surplus of $904,000. The surplus resulted from higher than budgeted lapse and turnover savings ($700,000) and other savings resulting from the comprehensive expenditure restrictions ($200,000). Savings in Category 11 are 2.7 percent of budgeted expenditures.

Category 12, Fixed Charges, reflected a deficit of $2,918,000. Actual costs for the Employee Benefit Plan (EBP) were at budgeted levels. However, increased cost projections make it prudent to increase the contribution to the EBP reserve, as recommended by the County Council benefits consultant, by $2,000,000. These resources will be available in future years to offset unexpected cost increases. The projected deficit also is due to the increased cost of reimbursements for employee tuition expenses ($1,000,000), which was partially offset by a surplus resulting from lower than anticipated social security payments and other items included in Category 12 ($100,000).

I recommend the Board of Education approve the following resolution regarding categorical transfers:

WHEREAS, Category 6, Special Education, reflected a deficit as of June 30, 2008, as a result of higher than expected tuition costs for nonpublic placement of special education students and lower than projected revenue for Medicaid; and

WHEREAS, Category 7, Student Personnel Services, reflected a deficit as of June 30, 2008, as a result of lower than expected lapse and turnover savings; and

WHEREAS, Category 9, Student Transportation, reflected a deficit as of June 30, 2008, as a result of higher than expected costs for bus fuel and personnel costs; and

WHEREAS, Category 12, Fixed Charges, reflected a deficit as of June 30, 2008, as a result of higher than anticipated costs in tuition reimbursement for employees and an increased contribution to the Employee Benefit Plan; and

WHEREAS, The required funds are available for transfer from Category 1, Administration; Category 2, Mid-level Administration; Category 3, Instructional Salaries; and Category 4, Textbooks and Instructional Supplies; now therefore be it

Resolved, That the superintendent of schools be authorized, subject to the approval of the County Council, to effect the following categorical transfers:

Category	Description	To	From
1	Administration		$ 2,000,000
2	Mid-level Administration		3,000,000
3	Instructional Salaries		4,000,000
4	Textbooks and Instructional Supplies		3,000,000
6	Special Education	$4,100,000	
7	Student Personnel Services	200,000	
9	Student Transportation	4,600,000	
12	Fixed Charges	3,100,000	
	Total	$12,000,000	$12,000,000

and be it further

Resolved, That the county executive and County Council be given a copy of this resolution; and be it further

Resolved, That the county executive be requested to recommend approval of the categorical transfer to the County Council.

JDW:LAB:MCS:jp

ACTION
3.3.1

Office of the Superintendent of Schools
MONTGOMERY COUNTY PUBLIC SCHOOLS
Rockville, Maryland

July 27, 2009

MEMORANDUM

To: Members of the Board of Education

From: Jerry D. Weast, Superintendent of Schools

Subject: FY 2009 Operating Budget Categorical Transfer

At the end of each fiscal year, Montgomery County Public Schools (MCPS) requests transfers among state categories to align budgeted appropriation with actual expenditures. These transfers are subject to approval by the County Council. For FY 2009, these transfers total $7,700,000, approximately 0.4 percent of the total operating budget.

Overall, the FY 2009 MCPS Operating Budget ended with an expenditure surplus of $19,500,000. Additionally, revenue was $1,200,000 greater than budgeted so that the total savings in local contribution was $20,700,000. The County Council assumed $20.0 million of savings from FY 2009 to fund the FY 2010 Operating Budget.

The FY 2009 expenditure surplus was due in part to comprehensive expenditure restrictions and a hiring freeze imposed on September 16, 2009. Offsetting the savings from expenditure restrictions were deficits in Student Personnel Services (Category 7) and Fixed Charges (Category 12) totaling $7.7 million. In order to achieve the required expenditure savings of $18.7 million, a total of $26.4 million in savings was made in other state categories. Revenue surplus resulted from higher than anticipated revenue for special education non-public placement tuition reimbursement and federal impact aid, partially offset by lower than anticipated summer school fees and other tuition revenue. As a result of legislation adopted by the state legislature at the 2009 session of the General Assembly, MCPS received $24,171,000 in FY 2009 unrestricted Foundation state aid erroneously withheld. This additional revenue adds to the FY 2009 ending fund balance and was assumed by the County Council as resources available for the FY 2010 Operating Budget.

During the past fiscal year, staff has closely monitored revenue and expenditures. Coordinated by the Office of the Chief Operating Officer, monitoring is led by the Department of Management, Budget, and Planning (DMBP) and the Department of Financial Services. With the assistance of the Office of Human Resources, DMBP closely monitors expenditures. This financial monitoring process is extremely careful, comprehensive, and detailed. Primary and secondary account managers review each of their accounts on a monthly basis and report expenditure projections for the rest of the fiscal year. DMBP staff review and analyze these projections using quantitative models, as well as knowledge of previous expenditure patterns and changing circumstances. Implementation of the Financial Management System (FMS), a comprehensive financial system integrated with the Human Resources Information System, improved the ability to monitor and control expenditures and to successfully implement expenditure restrictions. Additional tools being developed to integrate the FMS system with other information systems will further improve financial controls during the coming fiscal year.

The Board of Education received detailed financial status reports throughout the past year. Each month, beginning in November, the Board has discussed the financial status report at its public meetings. These reports have been transmitted to the county executive, the county's Office of Management and Budget, and the County Council. Final FY 2009 expenditures are in line with the trends indicated in the monthly reports. The following summary presents the results in each of the categories in which actual expenditures through June 30, 2009, differed from the appropriation.

Category 1, Administration, reflected a surplus of $1,931,000. The surplus is a result of greater than budgeted salary lapse and turnover savings ($500,000) and other savings as a result of the comprehensive expenditure restrictions ($1,400,000). Savings in Category 1 are 4.4 percent of budgeted expenditures.

Category 2, Mid-level Administration, reflected a surplus of $3,381,000. The surplus is a result of greater than budgeted lapse and turnover savings ($1,300,000), reductions in the acquisition of instructional materials ($250,000), and other savings as a result of the comprehensive expenditure restrictions ($900,000). A portion of the savings resulted from using temporary part-time employees to fill some vacancies. In addition, $900,000 in surplus resulted from taking a reduction for eight elementary intern positions from Category 3, Instructional Salaries, rather than Category 2, creating a surplus in this category. Savings in Category 2 are 2.5 percent of budgeted expenditures.

Category 3, Instructional Salaries, reflected a surplus of $4,915,000. The projected surplus is a result of lower than projected expenditures for non-position salaries, primarily because of the comprehensive expenditure restrictions, including substitutes ($1,100,000), sick and annual leave payout for terminated employees ($300,000), clerical support ($200,000), extracurricular activities stipends ($300,000), and professional part-time salaries ($1,500,000). Additional savings were realized because of staff development activities limited by the comprehensive expenditure restrictions ($1,700,000) and reduced usage of staff development substitutes ($650,000). These savings are partially offset by a deficit of $900,000 resulting from taking a reduction for eight elementary intern positions from Category 3 rather than Category 2, Mid-level Administration.

Category 4, Textbooks and Instructional Supplies, reflected a surplus of $4,651,000. The surplus is a result of reduced central acquisition of textbooks and instructional materials based on the comprehensive expenditure restrictions ($3,600,000), savings in instructional materials in the Office of Curriculum and Instructional Programs ($700,000), and lower than projected expenditures for training materials by the Office of Organizational Development ($300,000).

Category 5, Other Instructional Costs, reflected a surplus of $2,105,000. The surplus is a result of savings as a result of the comprehensive expenditure restrictions. Savings included lower than anticipated contractual services expenditures ($700,000), staff development expenditures ($500,000), printing services ($100,000), school furniture and equipment ($300,000), travel ($200,000), and miscellaneous accounts ($300,000).

Savings in regular instruction program costs in Categories 3, 4, and 5 are 1.4 percent of budgeted expenditures.

Category 6, Special Education, reflected a surplus of $4,180,000. The surplus is due primarily to lower than budgeted actual average salaries for staff ($1,000,000), greater than anticipated salary lapse and turnover savings ($3,000,000), and a net surplus in non-position accounts resulting from the comprehensive expenditure restrictions ($900,000). There also is a surplus of $600,000 due to greater than projected revenue for Medicaid that resulted from a moratorium on proposed new regulations that would have limited federal reimbursement. The surplus in Medicaid revenue decreased local funding for special education expenditures. The surplus is partially offset by higher than anticipated costs of nonpublic placement tuition for special education students ($1,300,000). Savings in Category 6 are 1.7 percent of budgeted expenditures.

Category 7, Student Personnel Services, reflected a deficit of $134,000. The deficit is the result of lower than anticipated salary lapse and turnover.

Category 8, Health Services, reflected a surplus of $26,000 due to lower than anticipated program needs.

Category 9, Student Transportation, reflected a surplus of $3,958,000. The projected surplus is mainly the result of lower than budgeted diesel fuel costs ($2,100,000). These lower fuel costs reflect the nationwide decrease in the cost of gasoline and other petroleum products. Fuel costs have averaged approximately $2.15 per gallon compared to the budgeted amount of $2.75 per gallon. The surplus also resulted from lower than budgeted personnel and materials costs resulting in part from the comprehensive expenditure restrictions, including higher than anticipated salary lapse and non-position savings ($1,300,000) and savings in bus parts and supplies due to reduced prices ($600,000). Savings in Category 9 are 4.3 percent of budgeted expenditures.

Category 10, Operation of Plant and Equipment, reflected a surplus of $945,000. The surplus resulted from lower than anticipated expenditures for electricity ($650,000) as a result of new bidding procedures, and lower than budgeted prices for heating oil ($300,000). Savings in Category 10 are 0.8 percent of budgeted expenditures.

Category 11, Maintenance of Plant, reflected a surplus of $461,000. The surplus resulted from higher than budgeted lapse and turnover savings ($800,000), partially offset by higher than budgeted expenditures for maintenance supplies and materials ($300,000). Savings in Category 11 are 1.4 percent of budgeted expenditures.

Category 12, Fixed Charges, reflected a deficit of $6,922,000. Actual costs for the Employee Benefit Plan (EBP) were 2.5 percent higher than budgeted levels ($5,500,000). In addition, increased cost projections make it prudent to increase the contribution to the EBP reserve by $3,000,000, as recommended by the County Council benefits consultant. These resources will be available in future years to offset unexpected cost increases. The projected deficit also is due to the increased cost of reimbursements for employee tuition expenses ($350,000). The deficit was partially offset by a surplus resulting from lower than anticipated social security payments resulting from the comprehensive expenditure restrictions ($1,200,000) and lower than budgeted costs for tuition in university partnership programs ($750,000).

In addition to the deficit in tax-supported funds in Category 12, there was a Category 12 deficit of $1,205,000 in grant funds because of higher than anticipated employee benefits costs in the *Individuals with Disabilities Education Act* (IDEA) Grant, requiring a transfer of grant funds from Category 6, Special Education.

I recommend the Board of Education approve the following resolution regarding categorical transfers:

WHEREAS, Category 7, Student Personnel Services, reflected a deficit as of June 30, 2009, as a result of lower than expected lapse and turnover savings; and

WHEREAS, Category 12, Fixed Charges, reflected a deficit as of June 30, 2009, as a result of higher than anticipated costs for health insurance for active and retired employees, increased costs of tuition reimbursement for employees, and an increased contribution to the Employee Benefit Plan; and

WHEREAS, The required funds are available for transfer from Category 1, Administration; Category 2, Mid-level Administration; and Category 9, Student Transportation; and

WHEREAS, Category 12, Fixed Charges, reflected a deficit in grant funds as of June 30, 2009, as a result of higher than anticipated costs for employee benefits in the *Individuals with Disabilities Education Act* Grant; and

WHEREAS, The required funds are available for transfer from grant funds in Category 6, Special Education; now therefore be it

Resolved, That the superintendent of schools be authorized, subject to the approval of the County Council, to effect the following categorical transfers:

Category	Description	To	From
1	Administration		$1,500,000
2	Mid-level Administration		3,000,000
7	Student Personnel Services	$200,000	
9	Student Transportation		3,200,000
12	Fixed Charges	7,500,000	
	Total	$7,700,000	$7,700,000

and be it further

Resolved, That the superintendent of schools be authorized, subject to the approval of the County Council, to effect the following categorical transfer in grant funds:

Category	Description	To	From
6	Special Education		$1,205,000
12	Fixed Charges	$1,205,000	
	Total	$1,205,000	$1,205,000

and be it further

Resolved, That the county executive and County Council be given a copy of this resolution; and be it further

Resolved, That the county executive be requested to recommend approval of the categorical transfers to the County Council.

JDW:LAB:MCS:jp

ACTION
3.3.1

Office of the Superintendent of Schools
MONTGOMERY COUNTY PUBLIC SCHOOLS
Rockville, Maryland

July 26, 2010

MEMORANDUM

To: Members of the Board of Education

From: Jerry D. Weast, Superintendent of Schools

Subject: Fiscal Year 2010 Operating Budget Categorical Transfer

At the end of each fiscal year, Montgomery County Public Schools (MCPS) requests transfers among state categories to align budgeted appropriation with actual expenditures. Categorical transfers are subject to approval by the County Council. For Fiscal Year (FY) 2010, categorical transfers total $900,000, less than 0.1 percent of the total operating budget.

Overall, the FY 2010 MCPS Operating Budget ended with an expenditure surplus of $32,800,000. Expenditure savings are partially offset by a revenue shortfall of $1.6 million, including $850,000 resulting from reduced state reimbursement for special education non-public tuition and $750,000 in reduced investment income due to reduced interest rates, for a net savings of $31,200,000. The County Council assumed $30.0 million of savings from FY 2010, including $10,300,000 to fund the FY 2011 Operating Budget. The remaining $19.7 million of savings was not requested as local contribution in 2010, which allowed Montgomery County to realize an increased FY 2010 ending fund balance. In addition, the county contribution was $2.0 million less than budgeted because of a shift in revenue source resulting from additional federal grants under the *American Recovery and Reinvestment Act of 2009*, resulting in $2.0 million of additional savings for the county.

The FY 2010 expenditure surplus was due in part to comprehensive expenditure restrictions and a hiring freeze implemented on August 20, 2009. Offsetting the savings from expenditure restrictions were deficits in Student Personnel Services (Category 7) and Maintenance of Plant (Category 11) totaling $0.7 million. In order to achieve the required expenditure savings, a total of $33.5 million in expenditure savings was made in other state categories.

During the past fiscal year, staff closely monitored revenue and expenditures. Coordinated by the Office of the Chief Operating Officer, monitoring is led by the Department of Management, Budget, and Planning (DMBP) and the Department of Financial Services. With the assistance of the Office of Human Resources and Development, DMBP closely monitors expenditures. This financial monitoring process is extremely careful, comprehensive, and detailed. Primary and secondary account managers review each of their accounts on a monthly basis and report expenditure projections for the rest of the fiscal year. DMBP staff reviews and analyzes these projections using quantitative models, as well as knowledge of previous expenditure patterns and changing circumstances. Implementation of the Financial Management System (FMS), a comprehensive financial system integrated with the Human Resources Information System, has improved the ability to monitor and control expenditures and to successfully implement expenditure restrictions.

The Board of Education received detailed financial status reports throughout the past year. Each month, beginning in November, the Board has discussed the financial status report at its public meetings. These reports have been transmitted to the county executive, the county's Office of Management and Budget, and the County Council. Final FY 2010 expenditures are in line with the trends indicated in the monthly reports. The following summary presents the results in each of the categories in which actual expenditures through June 30, 2010, differed from the appropriation.

Category 1, Administration, reflected a surplus of $1,862,479. The surplus is a result of greater than budgeted salary lapse and turnover savings ($900,000) and other savings as a result of the comprehensive expenditure restrictions ($950,000). Savings in Category 1 are 4.4 percent of budgeted expenditures.

Category 2, Mid-level Administration, reflected a surplus of $2,076,598. The surplus is a result of greater than budgeted lapse and turnover savings ($1,600,000), reductions in the acquisition of instructional materials ($200,000), and other savings as a result of the comprehensive expenditure restrictions ($300,000). Savings in Category 2 are 1.6 percent of budgeted expenditures.

Category 3, Instructional Salaries, reflected a surplus of $4,700,615. The projected surplus is primarily a result of lower than budgeted expenditures for non-position salaries because of the comprehensive expenditure restrictions, including substitutes ($1,200,000), sick and annual leave payout for terminated employees ($500,000), and part-time salaries ($600,000). Savings in non-position salaries are partially offset by lower than budgeted salary lapse and turnover savings ($500,000). Additional savings were realized because of staff development activities limited by the comprehensive expenditure restrictions ($1,700,000) and reduced usage of staff development substitutes ($1,200,000).

Category 4, Textbooks and Instructional Supplies, reflected a surplus of $5,189,453. The surplus is a result of reduced central acquisition of textbooks and instructional materials based on the comprehensive expenditure restrictions ($3,700,000), savings in instructional materials in the Office of Curriculum and Instructional Programs ($900,000), savings in expenditures for staff development training materials ($300,000), and savings in printing and computer supplies ($300,000).

Category 5, Other Instructional Costs, reflected a surplus of $2,467,136. The surplus is a result of savings from the comprehensive expenditure restrictions. Savings included lower than anticipated contractual services expenditures ($600,000), staff development expenditures ($400,000), printing services ($100,000), copier maintenance ($500,000), travel reimbursement ($300,000), and miscellaneous accounts ($500,000).

Savings in regular instruction program costs in Categories 3, 4, and 5 are 1.4 percent of budgeted expenditures.

Category 6, Special Education, reflected a surplus of $9,500,474. The surplus is due primarily to lower than budgeted costs of nonpublic placement tuition for special education students ($6,300,000) because fewer students than expected required non-public placement and because the state of Maryland did not approve rate increases for non-public providers. There also is a surplus as a result of greater than anticipated salary lapse and turnover savings ($2,000,000), a net surplus in non-position accounts resulting from the comprehensive expenditure restrictions ($550,000), greater than projected revenue for Medicaid ($350,000), and savings in other accounts resulting from the comprehensive expenditure restrictions ($600,000). The surplus is partially offset by higher than budgeted costs of legal services ($300,000). Savings in Category 6 are 3.8 percent of budgeted expenditures.

Category 7, Student Personnel Services, reflected a deficit of $182,110. The deficit is the result of lower than anticipated salary lapse and turnover savings.

Category 8, Health Services, reflected a surplus of $1,671 due to lower than anticipated program needs.

Category 9, Student Transportation, reflected a surplus of $2,881,179. The projected surplus is primarily a result of lower than anticipated personnel costs because of reductions in the need for regular rate overtime salaries for bus operators ($1,100,000). There also is a surplus due to lower than budgeted diesel fuel and bus parts costs ($900,000) and bus repair costs ($300,000). Fuel costs averaged approximately $2.40 per gallon compared to the budgeted amount of $2.50 per gallon. The surplus also resulted from a reduction in the use of activity buses ($300,000) and savings in other accounts resulting from the comprehensive expenditure restrictions ($300,000). Savings in Category 9 are 3.1 percent of budgeted expenditures.

Category 10, Operation of Plant and Equipment, reflected a surplus of $1,181,182. The surplus results primarily from lower than anticipated expenditures for electricity ($3,300,000) as a result of competitive bidding procedures that lock in prices for electricity purchases and lower usage, and lower than budgeted prices for natural gas ($200,000). Savings also resulted from higher than anticipated salary lapse and turnover savings resulting from the comprehensive expenditure restrictions ($600,000), and a decrease in the use of postage because of reductions in printing ($200,000). These savings are offset by overtime expenses related to the February 2010 snow storms ($1,100,000), some of which may ultimately be reimbursed by federal aid, and prepayment of energy costs resulting from County Council action to increase the Fuel Energy Tax ($2,000,000). The County Council assumed that MCPS would pay the increased tax during FY 2010 from other projected savings. Savings in Category 10 are 1.3 percent of budgeted expenditures.

Category 11, Maintenance of Plant, reflected a deficit of $514,370. The deficit resulted from costs associated with snow removal during the month of February. This includes higher costs for overtime for snow removal, including costs for contractual services paid to contractors for snow removal, and additional costs incurred for fuel and equipment repairs.

Category 12, Fixed Charges, reflected a surplus of $3,663,961. The surplus is a result of $12,000,000 that was budgeted for pre-funding retiree health insurance benefits but was held for the year-end fund balance. The surplus is partially offset by the need to transfer approximately $1.8 million in expenses for health benefits from the Food and Nutrition Services Enterprise Fund to the General Fund. It is projected that the Food and Nutrition Services Enterprise Fund will have a deficit of about $1.8 million for FY 2010 without this transfer. This transfer is necessary to maintain the solvency of the Fund. In addition, there is an increase in expenditures projected for benefits over the amount supported by grant funds ($300,000). Actual net costs for the Employee Benefit Plan (EBP) were 0.3 percent higher than budgeted levels ($900,000). In addition, increased cost projections make it prudent to increase the contribution to the EBP reserve by $5,500,000, as recommended by the County Council benefits consultant. These resources will be available in future years to offset unexpected cost increases. The projected surplus also is due to lower than anticipated social security payments resulting from the comprehensive expenditure restrictions ($400,000). There also is a deficit resulting from the increased cost of reimbursements for employee tuition expenses ($300,000). Savings in Category 12 are 0.9 percent of budgeted expenditures.

I recommend the Board of Education approve the following resolution regarding categorical transfers:

WHEREAS, Category 7, Student Personnel Services, reflected a deficit as of June 30, 2010, as a result of lower than expected lapse and turnover savings; and

WHEREAS, Category 11, Maintenance of Plant, reflected a deficit as of June 30, 2010, as a result of costs associated with snow removal during the month of February; and

WHEREAS, The required funds are available for transfer from Category 1, Administration; now therefore be it

Resolved, That the superintendent of schools be authorized, subject to the approval of the County Council, to effect the following categorical transfers:

Category	Description	To	From
1	Administration		$900,000
7	Student Personnel Services	$250,000	
11	Maintenance of Plant	650,000	
Total		$900,000	$900,000

and be it further

Resolved, That the county executive and County Council be given a copy of this resolution; and be it further

Resolved, That the county executive be requested to recommend approval of the categorical transfers to the County Council.

JDW:LAB:MCS:jp

MFP COMMITTEE #1
April 21, 2003

ADDENDUM

Review of Group Insurance Programs for the Management and Fiscal Policy Committee

April 16, 2003

Prepared by:
Thomas Lowman, FSA
Mark Lynne
Bolton Partners, Inc.

Table of Contents

1. Introduction

This report summarizes our review of the group insurance benefits offered by the County and bi-county agencies. The report is divided up into the following sections:

Executive Summary
Scope of Services
Summary of Findings
Recommendations
Separate Discussion of Each of the Five Agencies

We would like to thank the agencies for providing the information we needed and for openly discussing the issues. We look forward to presenting this information to the Management and Fiscal Policy Committee on April 21, 2003.

Respectfully submitted,

BOLTON PARTNERS, INC.

Thomas Lowman, FSA

Mark Lynne

2. Executive Summary

We have reviewed the group insurance benefits offered by the County Government and the four other agencies. There are numerous differences among the agencies in the plans offered, cost sharing arrangements and funding. Some of these differences involve areas where there was no intention to create similarities due to the independence of each organization, differences in priorities and historical differences. However, differences can easily be compared to determine which group has the most expensive practices and which are the least expensive.

In a time of fiscal difficulties these differences have been the focus of our recommendations for budget savings. These recommendations are listed in section five. The key issues involve the use of several million dollars previously set aside to pre-fund retiree benefits and the use of excess reserve funds. Plan design changes are more difficult to deal with since the agencies have already been considering such changes and changes which involve bargaining take time to implement. The most obvious of the bargaining changes is to recommend a shift of more of the cost to employees of MCPS to bring them in line with the other agencies.

Some recommendations do not involve budget savings. We are concerned that some of the trend assumptions used might underestimate future cost. In addition, new accounting rules will add pressure to increase funding. Partly for these reasons, we recommend that all agencies consider preparation of detailed multiyear forecasts such as those prepared by County Government.

Our review focused on narrow issues often without dealing with the desire by each agency to establish separate priorities, including non-benefit uses of financial resources. Therefore, the Council should expect to hear about such trade-offs (e.g., higher benefits for lower salaries) from the agencies.

It should be noted that there are several initiatives under way to save health plan costs without affecting benefits. These consist primarily of RFP processes, the effects of which will be seen January 1, 2004. It is anticipated that competitive market pressures will result in savings on carrier rates/fees and provider discounts.

3. Scope of Services/Terms Defined

The Montgomery County Council hired Bolton Partners, Inc. to review the group insurance programs and budgets of the County and bi-county agencies. The initial phase of this review covers the FY04 budget process. The agencies involved are County Government, Montgomery County Public Schools (MCPS), Montgomery College, Maryland-National Capital Park and Planning Commission (M-NCPPC), and Washington Suburban Sanitary Commission (WSSC).

The two goals of the review are to (1) achieve a consistent approach by the agencies to IBNR[1] reserves, shock absorber reserves, and six-year fund projections and (2) clearly delineate the agencies' approaches to plan design and cost control and to help them strengthen their performance in these areas.

To attain these goals we have talked with each agency separately and met with the Interagency Working Group on Health Insurance and their consultants. Throughout the process we have shared several drafts of our work with the agencies.

Our initial work has been aimed toward a presentation to the Management and Fiscal Policy Committee during its April 21, 2003 meeting. For this meeting we have been asked to assess where the agencies now stand on these issues and what changes would help achieve the Council's goals. We have also been asked to (1) assess whether the agencies can achieve any FY04 cost savings compared to their budget requests and (2) address other relevant issues, such as the new GASB[2] accounting rules and how to deal with fund surpluses when they occur. This report addresses these points.

Future work will include preparing for the FY05 budget process during the summer and fall of 2003 by assisting working group members in developing a consistent approach to these issues and implementing any Council requests in this regard.

In this report we use the abbreviations IBNR and GASB.

> IBNR refers to "incurred but not reported" claims. These arise from claims arising in one year but not reported or paid until the following year. IBNR only arises for self-insured plans and varies in amount by the type of benefits (i.e., Medical IBNR is more than Drug IBNR because of differences in claims reporting and payment processing).
>
> GASB in this context refers to newly proposed "Governmental Accounting Standard Board" rules for accounting for post-retirement group insurance cost. Generally most employers have determined the accounting "expense" as equal to the cash "pay-as-you-go" cost. Starting in FY07 the proposed rules would require a higher expense, including an expense for active employees' projected future post-retirement cost. This "expense" could be three times the cash cost. One question that arises is whether employers will either begin to pre-fund this benefit or cut the benefit to reduce the accounting expense.

[1] Defined below.

[2] Defined below.

4. Summary of Findings

We have made comparisons among the five agencies and provided comments in the following areas:

1. Trend Rates
2. Budget Increases
3. Cost Sharing
4. IBNR
5. GASB post-retirement rules

Later in this report are individual discussions of each of the five agencies, covering items that we think the Council should be aware of prior to our meeting.

1. Trend Rates:

One of our concerns was trend rate assumptions. This has some apples-to-oranges issues partly because rates change on a calendar year basis and funding is on a July 1st fiscal year basis.

County Government:

The County Government has the most detailed projections and trend rates. They include:

1. Rate of change in active and retiree headcounts in six-month intervals
2. Rate of change in self-insured claims cost in six-month intervals
3. Rate of change in fully-insured rates in calendar year intervals
4. Separate rates for change in carrier fixed cost
5. Rate adjustments for use of surplus
6. Separate assumptions for each of the eight different plans
7. Separate assumptions for employees, non-Medicare retirees and Medicare retirees.

It is difficult to decide which rates to summarize. However, the following is the "Required Rate Increase Before Contribution From Surplus". This is on a calendar year basis and combines plans and groups:

Year	Medical	Dental	Drug
January 2003	16.4%	24.4%	31.0%
January 2004	6.8%	5.0%	15.5%
January 2005	4.9%	4.0%	11.3%
January 2006	3.9%	3.0%	8.6%
January 2007	3.8%	3.0%	6.1%
January 2008	3.8%	2.5%	6.1%
January 2009	3.8%	2.5%	4.5%

After 2004, there are no material differences in the trend rates between employees and retirees. The 2004 rates might be optimistic. Also, at this point the 2003 "trend" is now just an historic number.

MCPS:

MCPS does not do anything as elaborate as County Government. For the FY04 budget request MCPS applies a trend assumption of 6.97% for actives and 6.46% for retirees to the expected FY03 claims information. These trend assumptions are arrived at by weighting combined expected increases for different benefits. MCPS also adjusted for changes in expected numbers of retirees and employees.

A fiscal year trend factor is different than a calendar year factor. For example, the FY04 trend factor for fully insured plans is a function of the CY03 and CY04 increases in rates. The MCPS trend factor appears to be lower than either the County Government or M-NCPPC.

College:

We were told that the trend rate was 12% for FY04. (Note: retiree funding did not increase 12% since fewer retired in FY02 than had been expected and FY03 funding will probably be somewhat higher than claims experience.)

M-NCPPC:

M-NCPPC used a trend factor of 16% for FY04. This was the composite of the following components:

BCBS POS:	27.0%
Most HMO's:	16.0%
Dental:	15.0%
Vision:	0.5%
Drug:	40.0%

The above breakdown results in more than a 16% average trend rate. The difference is made up for by using set aside surpluses to gradually increase rates.

For years beyond FY04, insurance costs are trended forward at a 15% rate as part of the projection of operating funds. There is no explicit group insurance fund projection.

WSSC:

WSSC used a 15% trend rate for FY04.

2. Budget Increase:

The increase in the group insurance budget request between FY03 and FY04 can be thought of as partly a function of the CY03 rate increase and the CY04 rate increase. For example, the County's average projected rate increase for CY03 and CY04 is about 12%. Therefore, one component of the budget increase for FY04 would be to cover the 12%

rate increase. In addition, there may be (1) experience changes that are recognized between the time CY03 rates were set last fall and when the FY04 budget requests are made, (2) fund surpluses used in FY03 that are not available in FY04, (3) use of other funds for FY04, or (4) changes in head counts. An example of the third category is that we understand M-NCPPC will use $1.5 million from their 115 Trust for FY04 retiree health insurance costs, as it did in FY03.

The Council gave us the following comparison of the requested retiree group insurance budget increase for FY04.

Retirees:

	FY03	FY04	Increase
County Government	$14.0	$17.8	27.2%
MCPS	$19.7	$29.9	51.4%
College (includes $0.4 pre-funding)	$1.4	$1.5	5.2%
M-NCPPC (half of total expense)	$1.4*	$1.6*	16.0%
WSSC (not tax supported)	$6.3	$7.1	13.4%

The large MCPS increase is due to the FY03 request not being enough to cover FY03 expenses and the balance (possibly $8.1 million) expected to be made up from fund surplus that may not exist after FY03. We are also concerned that the MCPS retiree trend rate of 6.46% from FY03 to FY04 might not be high enough.

The agencies provided the following similar information for employee group insurance cost.

Employees:

	FY03	FY04	Increase
County Government	$43.8	$56.8	29.7%
MCPS	$104.3	$125.0	19.8%
College	$6.6	$7.6	15.2%
M-NCPPC	$6.1	$7.0	14.8%
WSSC (not tax supported)	$8.7	$10.1	16.1%

* Part of budget request but paid from separate trust.

3. Cost Sharing (Employer %/Employee %)

Here is a rough summary of what we understand the cost sharing arrangements to be.

	Employees	Retirees
County Government	80/20 or 76/24 less for some part time employees	Ranges from 50/50 to 80/20 Long Service = 70/30 (several special rules)
MCPS	Ranges from 80/20 to 95/5	64/36
College	75/25 less for part time employees	Most are 60/40
M-NCPPC	85/15	85/15
WSSC	80/20	80/20 (Except Dental = 0/100)

If the Council focuses on the plans that provide the highest employer share of cost, it would focus on (1) MCPS employee cost sharing, (2) M-NCPPC retiree cost sharing, and (3) retiree cost sharing arrangements that do not vary by service.

4. IBNR:

County Government:

The County recently completed an IBNR study and the following are as of the end of CY2002. The IBNR varies by plan and is less for the Indemnity plan than the POS because the POS includes a Drug benefit.

Care First Indemnity:	19.8% of annual paid claims
Care POS:	13.6% of annual paid claims
NPA Drug:	3.1% of annual paid claims
NVA Vision:	13.1% of annual paid claims
Dental:	9.7% of annual paid claims

The aggregate IBNR is 14% of annual paid claims; both the level of the reserve and the calculation methodology look reasonable.

MCPS:

Dental	16.5% of annual paid claims
BCBS	25.0% of annual paid claims
Optimum Choice	25.4% of annual paid claims
Drug	0.4% of annual paid claims
Vision	24.3% of annual paid claims

College:

The IBNR was 20% of the premium equivalent.

M-NCPPC:

BCBS POS:	25% of annual paid claims
Caremark Drug:	1% of annual paid claims

WSSC:

IBNR equals about two months of claims.

5. GASB Post-retirement Rules:

MCPS had pre-funded post retirement medical benefits but no longer has a reserve. M-NCPPC has built up a reserve of $8.8 million but is using $1.5 million for each county in FY03 and again in FY04 to help cover current retiree cost. Montgomery College has built up a reserve of $17.4 million (at 6/30/02) and is continuing to add to it a reduced rate. Neither the County Government nor WSSC has built up a fund to pre-fund retiree benefits.

New GASB rules will require the agencies to expense an amount higher than the current "pay-as-you-go" cost. The County has given a response (to the question about how it plans to address the proposed GASB rules) that goes all the way up to the point of deciding whether or not to start pre-funding retirees benefits. The County Government comment to the MFP Committee might not go any further at this time, but at least the Committee should ask for a formal statement.

5. Recommendations

GASB: The most immediate cost saving issue deals with continuing to pre-fund or draw down funds set aside for retiree health care benefits. Our recommendations at this time are:

- Place a hold on $400,000 pre-funding contribution for Montgomery College in FY04.
- Continue to draw down "115 trust" funds to help fund retiree benefits for M-NCPPC for FY03 and FY04.
- Have all five budget/finance directors make a recommendation by October 1, 2003 regarding GASB compliance and pre-funding.
- Unless all agree to start pre-funding by FY07 with Council approval, discontinue funding for retiree benefits at the College starting in FY05 until pre-funding is eliminated.

M-NCPPC Reserve: M-NCPPC had $3,239,837 in unreserved money in its group insurance fund at the end of FY02. Our recommendation is that this be used to reduce the FY04 funding level (half of the benefit going to each county). This will obviously result in an increase in FY05 funding needs compared to FY04.

MCPS Employee Cost Sharing: One seemingly obvious change is to lower the 95/5 cost sharing arrangements to 80/20. While this is our recommendation, we understand that this is not an easy thing to do. This would need to be negotiated with unions and would be tied into issues beyond those we have considered. We realize that the change could result in a decline in take home pay if negotiated during a time of low or no pay raises and rising health care costs. Therefore, we encourage the Council to discuss this directly with MCPS. The change may need to be spread out over several years. (Also see the comment in the MCPS section about becoming the provider of choice.)

Combining Active and Pre-Medicare Retiree Expense: As the groups get large enough to have credible experience for pre-Medicare retirees, we suggest that separate rates be established for employees vs. pre-Medicare retirees. For the County Government, this would likely raise retiree cost and lower employee and County Government cost.

IBNR: We recommend that medical IBNR rates be no more than 20% unless supported by actual claims experience. Rates of 25% that are simply recommendations by providers should not be used. However, if fund balances are not sufficient, simply lowering budget requests because of high IBNR reserves would not be appropriate.

Trend Assumptions: Our general feeling is that most of the trend assumptions used are too optimistic. We recommend that the agencies use trend rates similar to what the County Government proposed with the following two modifications: (1) ultimate medical rate be closer to 5% and Drug at 6% and (2) the decline from the high first year rate to an ultimate sixth year rate be somewhat more gradual. Even the 5% and 6% rates assume improvement and rates of 6% and 9% may be just as likely.

Fund Balance (shock absorber): We recommend that the target be 5% of prior year expenses.

Forecasting: We recommend that MCPS prepare detailed six-year forecasts of their group insurance funds similar to what is done by County Government. Given their size, we think an explicit group insurance fund projection would reassure everyone involved and help with planning. The other three agencies might also benefit, but given their smaller size they are not part of our recommendation.

Health/Prescription RFP Process: We understand that a joint RFP will be conducted by MCPS, the County Government and M-NCPPC for their health plans. We also understand that the County Government will include prescription drug coverage in the RFP process (the Schools and M-NCPPC did a prescription RFP for a January 2002 effective date). These should help, in a modest way, to temper health inflation for CY04. As part of this process, we encourage all entities to look at self-insuring their HMO plans.

Life Insurance RFP: The life insurance market continues to be very competitive. We recommend that any group which has not bid this coverage in the last two years do so for a January 2004 effective date. We believe such an RFP should be done by all groups combined for pricing leverage. Rate and benefit structure autonomy can still be maintained even with a joint bid.

Consumer-Driven Health Plans: These plans represent a unique new approach to address the problem of healthcare inflation. By giving consumers more control over the way dollars are spent, they aim to create a better-informed, more efficient consumer of healthcare. Though actual results with these plans are limited, early indications are that they can have a significant moderating affect on healthcare inflation. Contrary to the perception held by some employee groups, this can be accomplished without reductions to benefits. We recommend the introduction of such a plan (as an option) be considered, that it be discussed as part of the bargaining process, and that a potential vendor be chosen as part of the healthcare RFP process.

6. Separate Discussion of Each of the Five Agencies

Comments on Montgomery County Government Plans:

The plan covers about 7,746 employees and 3,366 retirees.

The County Government's plans seem to be well managed. Because of the history of tracking events and budgeting there seem to be relatively few areas for budget surprises other than large increases in rates.

However like almost every government, the existing design is a collection of past practices with its ability to adapt to best practices and current events limited by both collective bargaining constraints and a desire not to harm members. Eric Wallmark seems well aware of these issues and many of the options available for discussion. However, part of what we are trying to do is to make the Council aware of options, even those that the County Government has either rejected or has put on its own agenda for discussion internally or with the unions. The Council should also appreciate the reluctance of the County Government to disclose how it might present options in future labor negotiations.

Budget Comparison:

($ in millions)

	FY03	FY04	Increase
Employees	$43.8	$56.8	29.7%
Retirees	$14.0	$17.8	27.2%

Retiree Cost:

We did note that the projection included an additional contribution of $2,125,100 for retirees during the period 7/1/2003 through 12/31/2003. We were told that this was the result of an increase in projected retiree cost after the initial budget forecast was prepared.

The projection assumes that the number of retired participants does not change from year to year. However, the reality is that the number is likely to grow every year for many years due to overall growth in County Government employment over the last 25 years. The number of retirees increased 4.9% from 3,209 to 3,366 from February 2002 to February 2003. This is one reason why additional requests such as the one above are likely to continue to be needed.

Mixing of Active and Retiree experience when setting rates:

Actives and Pre-Medicare retirees who elect the same health care coverage are charged based on the same total cost of the plan. For example, the Care First point of service plan cost is $337.15 per month for individual coverage. It is likely the retiree experience is higher due to their age. Therefore, the true cost could be $320 for actives and $380 for retirees. What would happen if the rates for retirees reflected just retiree experience? It is likely that the County cost would decline since the retirees tend to pay a larger share of the premium than do active members. Said differently, retiree cost is currently being subsidized by the actives.

Bargaining constraints:

We understand that County Government will soon start the bargaining process with FOP and MCGEO, for contracts that will start 7/1/2004 (any change in cost sharing or benefits might be delayed until 1/1/2005).

Possible Cost-Saving alternatives:

A potential option to consider is self-insuring the Optimum Choice HMO. MCPS has done this, and County Government could probably "piggy-back" on the MCPS arrangement, while keeping the same benefits. This would give County Government lower fixed costs, while being transparent to members. In addition, the County Government will be providing retirees with a drug discount card. This will mean both the retiree and the Plan will be paying wholesale instead of retail. This should achieve savings without a benefit change.

76/24 Cost Sharing in Select Plan:

The original intent of the Select plan was to create a credit based system where the employer could better control its share of the cost. Going into this design, it was understood that there would be strong union resistance to anything that would make it easier for the employer to shift cost to employees. We understand that at this time (about 8 years after its inception, which was about the same time that the Defined Contribution plan was adopted) none of the unions have agreed to this plan. In addition, due to complications in administration, the plan has largely reverted to a 76/24 cost sharing arrangement. (Note: the employer pays less than 76% for part time employees.)

Other thoughts/observations:

GASB – The County gave a good current response to the GASB question. However, the big questions are whether they will begin to pre-fund and increase taxes (or find revenue from other sources). MCPS, Montgomery College and M-NCPPC have attempted pre-funding. However, MCPS and M-NCPPC ended up drawing down those funds and moving away from the pre-funding concept.

County Government has used a first year trend assumption for medical benefits of about 16.4% dropping to about 6.8% in the second year (both affecting FY04 budget projections).

Life and Accidental Death Disability (AD&D) rates are high because they include retirees (fully insured).

IBNR levels/setting of reserve: County rates are based on actual experience and seem appropriate. See the chart on page 7.

Comments on Montgomery County Public Schools:

The plan covers about 17,565 employees and 5,774 retirees.

Fund balance:

MCPS had an undesignated fund balance (in excess of IBNR) of $34.9 million at 7/1/2001. The amount was roughly cut in half during FY02 and is expected to be close to zero by the end of FY03. A portion of this decline was due to the draw down of the funds set aside for post retirement benefits (mostly during FY02). Expenses are expected to materially exceed revenue for both the employee and retiree portions of the fund during FY03.

As a result, by the end of FY03 there is expected to be no material fund balance (shock reserve), and the FY04 budget request must include not only regular increases but make up for the lack of an available fund balance that was used to keep budget requests down during FY02 and FY03. The increase in the budget request is as follows:

($ in millions and excludes some funds such as grant money)

	FY03	FY04	Increase
Employees	$104.3	$125.0	19.81%
Retirees	$19.7	$29.9	51.36%

The trend rate used to determine the increase in the requested funds was determined on a composite basis. From FY03 to FY04 the trend assumption was 6.97% for actives and 6.46% for retirees. This is somewhat lower than the trend rate prepared by the MCPS consultant of about 8.8% and significantly lower than market trends (which are currently in the 12% to 18% range depending on product).

The difference between the trend rate and the large increases in requested money (i.e., 6.97% versus 19.81%) has to do with shortfalls in expenses over revenue during FY03 (i.e., the draw up of prior surplus).

What is MCPS planning to do about any deficit in the fund? Will MCPS try to build back a fund surplus after FY04? These are questions that MCPS needs to answer.

Forecast/Trend rates for CY2004/enrollment projections:

Like County Government, MCPS has a large self-insured component to its plan. While this is expected to save money, it does create a risk. MCPS should do a forecast, perhaps similar to the County's. For example, the large increase in the FY04 budget request can be predicted in advance since the FY03 request depended on using up fund surplus. In addition, we would like to be more confident that the FY04 trend rate fully factors in the impact of the large rate increases at 1/1/2003.

Cost sharing and becoming the provider of choice:

Most MCPS employees are covered by health plans where MCPS pays for 95% of the cost. This is higher than the other agencies. In addition, enrollment and the percentage of members electing family coverage have risen. This may in part be due to the weak economy. The result is extra cost due to MCPS being the provider of choice. While this is a bargaining issue, we expect that the large increase in the FY04 budget request will result in the Council asking what plans MCPS has to change the cost sharing arrangement.

Mixing of Active an Retiree experience when setting rates:

MCPS sets rates separately for employees versus (pre-Medicare) retirees. Therefore, the higher claims cost for retirees results in higher rates for retirees. This keeps down the employer cost since the employer pays less of the retiree total rate than that of the active employee rate. This is not true of County Government's method.

Bargaining constraints:

MCPS starts bargaining in the fall (2003). New union contracts would likely be for benefits effective 1/1/2005 unless the council does not fund the budget request. What can MCPS tell the Council about the current bargaining process due to the large cost increases and potential fund deficits?

Drug Cards:

All medical coverages except Kaiser have a prescription plan administered by CareMark. The current co-pays are $3 for generic and $10 for brand. These co-pays are being increased for retirees to either a $5/$15/$25 3-tier, or a $10/$25/$35 3-tier. In addition, charging two co-pays for a three-month supply encourages mail order usage. Those employees who choose the Kaiser medical plan have their drug coverage through Kaiser, and the co-pays are the same as the CareMark plan.

IBNR:

MCPS has the health care providers set the IBNR levels. MCPS also has them checked by a consultant, for both reasonableness and to make sure every plan that needs and IBNR has one set. The IBNR levels look high as of 6/30/2002.

<u>Comments on Montgomery College:</u>

The Plan covers about 1,141 employees and 345 retirees.

Cost Sharing:

Actives have a 75/25 cost sharing arrangement for all plans and benefits. This is the lowest employer share of any of the five agencies. Part-time employees actually pay more; the College pays a pro-rata share based on the employee's % of time worked. For example, an employee who works 50% of the time receives a contribution of 50% of 75%, or 37.5%.

For retirees the employer share is 20%, 40% or 60%. For most retirees[3], the College pays 60% of the cost.

Self Insured vs. Fully Insured Plans:

The College offers four different plans. Two of the plans are self-insured and are with CIGNA, covering about 54% of employees. Stop loss coverage on the CIGNA plans is $125K specific and 125% aggregate. The CIGNA plans were just bid last year. The other two plans are HMOs (Kaiser and Optimum Choice) and are fully insured. Prescription plans are offered with all of the medical options and are administered by the various medical vendors. Plan design changes, like co-pay changes, etc., can be made without bargaining. Rate renewals are reviewed by Aon.

Retirees:

A retiree is a former employee who was eligible for retirement pursuant to the Maryland State Retirement Agency rules, terminates service with the College and immediately begins receipt of their College retirement annuity.

Mixing of Active and Retiree experience when setting rates:

Like MCPS, the actives and pre-Medicare retirees have different total rates for the same health care coverage, based on the separate experience of the two groups.

Bargaining constraints:

The bargaining on health benefits is very limited. The general agreement is to provide the same benefits as are provided to non-represented employees. Changes in plan design and co-pays are not bargained. The College added: "Through the budget and plan renewal process the projections are based on current plan design and realistic anticipated budget growth. If it appears that our cost increases cannot come within our projections, the plan design is reviewed and adjusted as appropriate and necessary."

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[3] The college pays 40% of the cost for future retirees who have less than ten years of service and 60% for those with at least ten years of service.

Drug Cards:

There is no stand-alone drug benefit.

Finance observations for Montgomery College:

The following is a comparison of the budget request amounts:

($ in millions)

	FY03	FY04	Increase
Employees	$6.6	$7.6	15.2%
Retirees	$1.0	$1.1	7.3%
Retiree pre-funding	$0.4	$0.4	0%

The trend rate used was 12% and a "few points were added for vacant positions."

The College uses an IBNR reserve of 25% of annual claims and holds about an additional 10% reserve fund. The 25% IBNR level seems too high.

The College is pre-funding retiree health benefits and has prepared Financial Accounting Standards 106–type valuations. We have seen the valuations. As of 6/30/2002, the College had accumulated $17.4 million for this purpose. The annual expense amounts from the valuations (e.g., $2.9 million for FY02) do not match up with the actual contributions (e.g., $2.0 million for FY02). In addition, the contributions for FY03 and FY04 are expected to be even further below the FAS 106 expense values than in prior years. The amount used for pre-funding has dropped from $1.2 million in FY02 to $0.4 million in FY03 even though the "expense" has risen.

Partial College response to pre-funding questions: "We have an annual actuarial calculation done each year to determine our liability and such liability is stated as a footnote in our financial statement. We budget for some portion of this liability that includes the current retiree expenditures. It has never been the intent to discontinue budgeting current retiree benefit expenditures and drawing down on the funds to pay current costs, especially now in light of the draft exposure for such pre-funding under GASB on the horizon. Until the liability is fully funded and we are in an economic capacity to meet each year's current liability pursuant to FASB/GASB, we would be moving in the wrong direction.

Comments on Maryland National Capital Park and Planning Commission Plans:

The plan covers about 1,806 employees and 448 retirees.

M-NCPPC has started the process of bidding with the other agencies, but some of the plans it offers are different. It offers an AETNA HMO which neither the County nor MCPS offers. Some of the more material differences are in cost sharing, drug benefits and retiree life insurance.

Budget Comparison:

($ in millions)

	FY03	FY04	Increase
Employees	$6.1	$7.0	14.8%
Retirees	$1.4	$1.6	16.0%

Self Insured vs. Fully Insured Plans:

All of M-NCPPC's HMOs are fully insured. Only the Blue Cross/Blue Shield Point of Service plan (which is the largest plan and covers 42% of employees) and the Caremark drug plan (covering almost all employees) are self-insured. The number of employees electing the Blue Cross/Blue Shield Point of Service plan has grown materially in the last three years as other options were discontinued. The Point of Service plan has $125K specific and 125% aggregate stop-loss coverage. As mentioned previously, M-NCPPC will look at self-insuring their HMO plans as part of the upcoming RFP process.

85/15 Cost Sharing:

Both actives and retirees have an 85/15 cost sharing arrangement for most plans and benefits. For active employees, this is generally a higher employer share than County Government and lower than MCPS. M-NCPPC says this is intended to help make up for direct compensation lagging that provided to County Government employees. For retirees the employer share is larger than both County Government and MCPS.

Retirees:

To be eligible for retiree medical, an active employee upon retiring must provide proof of insurance for 36 continuous months before retirement.

All retirees get a $10,000 death benefit.

Mixing of Active and Retiree experience when setting rates:

Like County Government, the actives and pre-Medicare retirees that elect the same health care coverage are charged based on the combined experience of the two groups. Given the relatively small size of the retiree group, setting rates based on separate experience would be more difficult than for County Government or MCPS.

Bargaining constraints:

M-NCPPC bargains with MCGEO and FOP. All that is bargained is the 85/15 cost sharing. M-NCPPC retains the right to change the benefits (e.g., co-pays). Contracts last three years. M-NCPPC is now bargaining with MCGEO on a contract that would start July 1, 2003. The FOP contract (covers about 200 employees) began February 1, 2002.

Drug Cards:

The drug benefit is a stand-alone benefit. Employees and retirees can just elect drug coverage. There is a four-tiered drug benefit. While some co-pays are low, the four-tier structure is advanced.

Finance issues:

M-NCPPC had a fund balance of $6,112,280 at June 30, 2002. Some of this was allocated as follows:

- $1,175,901 to keep a 7% fund balance (shock reserve).
- $1,600,000 to reduce the FY04 budget request or spend on certain activities in FY04 (including $900,000 for employer share of retiree cost).
- $96,542 for Flexible Spending Accounts.
- $3,239,837 unreserved.

We assume that the $3,239,837 could be used for FY04 (half allocated to each County). In addition, M-NCPPC had $8,844,356 (as of June 30, 2002) in a trust to pre-fund retiree benefits. This fund is declining by about $3 million per year, since it being used to help cover current retiree cost for both Counties combined. If used for this purpose, the $8,844,356 plus the $900,000 reserve in the group insurance fund will likely run out late in FY05.

GASB question:

Now that GASB has issued an exposure draft and M-NCPPC has made a request for FY04, what is to happen to the pre-funding concept? Why should the Council contribute to additional pre-funding if this fund is really being treated as a rainy day fund for health benefits?

Comments on WSSC:

The plan covers about 1,346 employees and 1,171 retirees. The number of active employees has fallen from more than 2,000 six years ago because of WSSC's Competitive Action Program.

Cost Sharing:

The cost sharing is 80/20 for both employees and retirees. The only plan that is not 80/20 is the dental plan for retirees where the retirees pay the full cost. While there may be an implicit subsidy for retirees if average claims tend to be higher for retirees, this tends to be less of an issue in dental coverage than in medical. For benefits other than dental, separating the rates between retirees and actives will do nothing for the employer's share of the cost since WSSC pays 80% for both active and retiree benefits.

The definition of a retiree is anyone who is eligible to retire under their retirement plan.

Self Insured vs. Fully Insured plans:

WSSC offers four different medical plans. Two are self-insured (AETNA POS and Optimum Choice) and two are fully insured. The self-insured plans have stop loss coverage.

Bargaining constraints:

The bargaining agreements simply provide for an 80/20 cost sharing. There is no requirement as to the level of benefits or plans offered. Bargaining agreements expire June 30, 2003.

Drug Cards:

There is no separate drug benefit. It is bundled with the medical coverage.

Bidding:

WSSC recently rebid the health plans in the summer of 2002. They did this on their own (i.e., without participation from the other agencies).

Budget Comparison:

($ in millions)

	FY03	FY04	Increase
Employees	$8.7	$10.1	16.0%
Retirees	$6.3	$7.1	13.4%

The FY04 budget projection was based on a 15% trend assumption.

Finance topics for WSSC:

WSSC's audited financial statements do not contain any separately identified health care information.

WSSC does have an IBNR reserve of about two months of claims.

WSSC does not explicitly forecast rates beyond FY04. There is a total WSSC multi-year budget forecast. Medical costs are covered in the assumed rates of growth for "All Other Expenses."

WSSC is not currently pre-funding any retiree benefits. WSSC is currently evaluating the proposed GASSB rules and has not made any decision on pre-funding at this time.

WSSC absorbs any gains and losses in its health insurance cost from other parts of its budget.

DISCUSSION/ACTION
6.0

Office of the Superintendent of Schools
MONTGOMERY COUNTY PUBLIC SCHOOLS
Rockville, Maryland

May 23, 2011

MEMORANDUM

To: Members of the Board of Education

From: Jerry D. Weast, Superintendent of Schools

Subject: Tentative Action on the Fiscal Year 2012 Operating Budget

Executive Summary

On May 19, 2011, the County Council tentatively approved the Montgomery County Public Schools (MCPS) Operating Budget appropriation for Fiscal Year (FY) 2012. The Council approved a total of $2,086,786,613. This is a decrease of $17,401,427 (0.8 percent) from the current FY 2011 Operating Budget of $2,104,188,040. The total tax-supported budget (excluding grants and enterprise funds) for FY 2012 is $1,950,909,291, an increase of $31,066,545 (1.6 percent) from the current FY 2011 Operating Budget of $1,919,842,746 and the increase is solely the result of increased state aid. The amount to be approved by Council is $127.1 million less than required by the state Maintenance of Effort (MOE) law. On May 26, 2011, the County Council plans to approve the appropriation by state categories.

Background

On February 14, 2011, the Board of Education adopted its FY 2012 Operating Budget totaling $2,205,722,618. The Board's request assumed a local contribution of $1,497,190,404, the minimum permitted by MOE state law. The County Council decreased the Board of Education's requested budget by $118,936,005 (5.4 percent) to $2,086,786,613. Attachment A shows the potential budget reductions issued by the superintendent of schools on March 2, 2011, to indicate the possible consequences of Council budget reductions.

On March 15, 2011, the county executive recommended to the County Council a total budget of $2,123,491,884 for MCPS, including grants and enterprise funds, which was $82.2 million (3.7 percent) less than the Board of Education's request. The county executive recommended a tax-supported budget for MCPS of $1,987,614,562, excluding grants and enterprise funds, which was $82.1 million (4.0 percent) less than the Board of Education's request. This included the same amount of local contribution ($1,415,085,344) as MCPS received in FY 2011. As approved by the County Council, the FY 2011 Operating Budget includes a local contribution of $1,370,101,480, a decrease of $44,983,864 (3.2 percent) below the FY 2011 local contribution.

In addition, the approved appropriation includes an estimated FY 2011 ending fund balance of $17 million as a result of the hiring freeze and comprehensive expenditure restrictions implemented on October 12, 2010. The FY 2011 savings also include $4.4 million in federal grants through the Education Jobs Fund that can be expended in FY 2012.

Budget Development Process

On December 15, 2010, I recommended an operating budget for Montgomery County Public Schools at the minimum amount permitted by the state MOE law. That recommendation resulted from an extensive participatory process of budget development. This process continued a long tradition of extensive involvement of parents, staff, residents, and other stakeholders. From the beginning of the process, representatives of each of the employee associations (the Montgomery County Education Association, the Montgomery County Association of Administrators and Principals, and the Service Employees International Union [SEIU] Local 500) and leaders of the Montgomery County Council of Parent Teacher Associations (MCCPTA) participated in all of the budget development meetings. They spent hundreds of hours reviewing every proposal and alternative. I am profoundly grateful for their dedication and the unflagging cooperation they showed throughout such a difficult process. Executive leadership and many other staff members also played an essential role in providing information and developing new ideas to advance the budget process. The Board of Education received valuable input from parents and other county residents at two innovative community roundtables in October 2010. There, they heard first-hand about budget priorities and concerns. This and other input was fully reflected in the recommendations I made in December.

Following the presentation of my recommended operating budget, the Board of Education received extensive testimony from Parent Teacher Association representatives and many other stakeholders at two public hearings in January 2011. Based on this input, Board members asked many questions of staff during the hearings and at a budget work session. The questions and written answers were made available to the public and elicited more valuable input.

On February 14, 2011, the Board of Education adopted a budget at the minimum MOE level as required by state law. On March 2, 2011, because it was recognized that the fiscal situation might not permit county funding at the required level, I issued a list of potential budget reductions included here as Attachment A. These potential reductions totaled $45,139,860 and included a reduction of 608.3 full-time equivalent positions. This was not a list of specific recommendations, but rather an indication of what alternatives might be needed if significant cuts became necessary. These potential reductions were reflected in preliminary staffing allocations distributed to schools in March 2011 in order for planning for the 2011–2012 school year to begin in a timely way. It is not possible to delay until after final Council funding is known and final decisions are made by the Board of Education in June to operationalize potential staffing changes. Individual staff members who might be affected were notified and have been able to explore alternative positions if necessary.

On May 19, 2011, the Council indicated its intent to decrease county contribution by a total of $127,088,924 from the Board's request for a total reduction of $118,936,005. The specific changes identified by the Council were as follows:

	Reduction Amount
Salary steps and longevities	$28,000,000
Program reductions	27,900,000
Contribution to Retiree Health Benefit Trust Fund	47,000,000
Employee benefit costs	18,700,000
Retirement administration fee	(2,789,669)
Additional state aid	6,578,593
Additional Fund Balance	1,700,000
Total	$127,088,924

Based on the reductions adopted by the County Council, I am recommending the following changes in the Board of Education's request:

	Positions	Reduction Amount
Salary steps and longevities		$28,000,000
Central services reductions	32.1	4,893,719
Other program reductions	287.8	20,106,281
Contribution to Retiree Health Benefit Trust Fund		47,660,833
Employee benefit costs		20,939,167
Retirement administration fee		(2,789,669)
Instructional television special revenue fund		125,674
Total	319.9	$118,936,005

The total number of positions in the FY 2012 Operating Budget will be reduced by 155.1 positions from the number of positions in the current FY 2011 budget. The number of positions added to reflect enrollment growth of 3,400 students and other changes (164.8) is offset by a decrease of 319.9 positions through reductions made by the County Council.

Attachment B is a summary of recommended reductions in central services and other program reductions, and Attachment C indicates the impact of each of these reductions. I also am recommending an increase in the reduction of contributions to the Retiree Health Benefit Trust Fund of $660,833 to reflect the actual amount requested by the Board and an increase of $2.3 million in the reduction of employee benefit costs. I also am recommending that funds for salary step and longevity increases be eliminated.

The elimination of the salary step and longevity increases and the reductions to employee benefit costs will require the Board of Education to complete negotiations with the three employee associations. It is my hope that at least tentative agreements can be reached by the time the Board takes final action on the budget on June 16, 2011. The employee associations will need to take any changes to their contracts out for ratification by their members.

The County Council is authorized by the State Education Article (Section 5-101) to approve the MCPS Operating Budget by category of expenditure as defined in the law. The Board of Education may reallocate the resources within each of the categories, but the Board cannot transfer any allocation between categories without approval by the County Council.

State Aid

Adoption of the FY 2012 state budget by the Maryland General Assembly included maintenance of current state aid formulas. The state budget replaces federal stimulus funding through the *American Recovery and Reinvestment Act* of *2009* (ARRA) that terminates after FY 2011 with state funds to maintain current state aid formulas. Final legislative action increased the per-pupil amount for the Foundation program from $6,599 to $6,694, the current level. This provides MCPS with $6.6 million more in state aid than expected when the Board's request was submitted to the County Executive and County Council.

State action also included a variety of changes in state health insurance and retirement plans, including the state retirement system for teachers in which Montgomery County participates. The Board of Education will consider similar changes in local retirement plans at tonight's meeting. The legislature also added an administrative fee imposed on plan participants, including MCPS, of $162.77 per retirement system member. For FY 2012, this fee will total $2,789,669. Council action adds this amount to the FY 2012 budget.

Maintenance of Effort

On March 31, 2011, Montgomery County applied for a waiver in the FY 2012 requirement for MOE to allow a local contribution of $1,415,085,344. The Board of Education adopted a resolution on March 28, 2011, to support the county's application for a waiver. On April 15, 2011, the county withdrew its application. By making a local contribution of $1,370,101,480, Montgomery County will be in violation of the state MOE requirement. The Maryland State Department of Education has notified counties of potential penalties for not meeting the MOE requirement, including $26,235,817 for MCPS. As a result of Maryland General Assembly legislation passed during the 2011 session, the penalty will not take effect until FY 2013.

Summary of Recommendations

This has been one of the most difficult budget years in the history of MCPS. The fiscal effects of the "Great Recession" have increased each year to a point that may threaten the future quality of the school system. I am confident that the Board of Education will maintain its focus on the core academic priorities that have guided the budget development process. This commitment and the support of the entire community will continue to guide the system. Fiscal challenges will continue, but the focus on strategic goals of student achievement will guide the direction of the operating budget.

Recommended Resolution

WHEREAS, The Board of Education adopted the FY 2012 Operating Budget of $2.205,722,618 at the minimum maintenance of local effort requirement of Section 5-202 of the *Education Article, Annotated Code of Maryland* on February 16, 2011; and

WHEREAS, The county executive recommended $2,123,491,884 for MCPS, $82.2 million less than the Board of Education's Budget Request on March 15, 2011; and

WHEREAS, The County Council intends to approve a total of $2,086,786,613 (including grants and enterprise funds), a decrease of $118,936,005 from the Board of Education's request, on May 26, 2011; and

WHEREAS, The County Council intends to appropriate a total of $1,950,909,291 (excluding grants and enterprise funds), a decrease of $118,810,331 from the Board of Education's request; and

WHEREAS, The County Council plans to make reductions to the Board of Education's Fiscal Year 2012 Operating Budget Request of March 1, 2011, of $118,936,005, from the various budget categories, as shown on the following schedule, consisting of a decrease of $118,810,331, excluding grants and enterprise funds; and a reduction of $125,674 in enterprise and special revenue funds, in appropriating $2,086,786,613 for the Board of Education's FY 2012 Operating Budget:

I. **Current Fund** Category	BOE Request March 2011	Recommended (Reduction) Addition	Tentative Approved Budget
1 Administration	39,496,294	(1,197,519)	38,298,775
2 Mid-level Administration	139,404,916	(2.815,674)	136,589,242
3 Instructional Salaries	847,046,612	(27,287,479)	819,759,133
4 Textbooks and Instructional Supplies	25,284,894	(386,598)	24,898,296
5 Other Instructional Costs	14,120,980	(265,766)	13,855,214
6 Special Education	280,336,383	(8,562,722)	271,773,661
7 Student Personnel Services	11,351,034	(331,418)	11,019,616
8 Health Services	54,670		54,670
9 Student Transportation	93,644,620	(447,493)	93,197,127
10 Operation of Plant and Equipment	116,587,792	(930,702)	115,657,090
11 Maintenance of Plant	33,666,617	(1,270,220)	32,396,397
12 Fixed Charges	547,859,895	(75,314,740)	472,545,155
14 Community Services	208,495		208,495
Subtotal, including specific grants	2,149,063,202	(118,810,331)	2,030,252,871
Less specific grants	79,343,580		79,343,580
Subtotal, spending affordability	2,069,719,622	(118,810,331)	**1,950,909,291**
II. Enterprise Funds			
37 Instructional Television Fund	1,550,674	(125,674)	1,425,000
51 Real Estate Management Fund	3,266,430		3,266,430
61 Food and Nutrition Services Fund	47,025,335	(128,290)	46,897,045
71 Field Trip Fund	2,122,819		2,122,819
81 Entrepreneurial Fund	2,694,158	128,290	2,822,448
Subtotal, Enterprise Funds	56,659,416	(125,674)	56,533,742
Total Budget for MCPS	2,205,722,618	(118,936,005)	**2,086,786,613**

now therefore be it

Resolved, That based on an appropriation of $2,086,786,613, that includes an appropriation of $56,533,742 for enterprise and special revenue funds and $79,343,580 for restricted grants, to be approved by the County Council on May 26, 2011, the Board of Education tentatively adopts its Fiscal Year 2012 Operating Budget.

JDW:LAB:MCS:jp

Attachments

Attachment A

Office of the Superintendent of Schools
MONTGOMERY COUNTY PUBLIC SCHOOLS
Rockville, Maryland

March 2, 2011

MEMORANDUM

To: Members of the Board of Education

From: Jerry D. Weast, Superintendent of Schools

Subject: Fiscal Year 2012 Staff Allocations to Schools

This memorandum is to inform you about the preliminary steps that are being taken to prepare for the possibility that the county executive and the County Council will substantially reduce the Board of Education's requested Fiscal Year 2012 Operating Budget. Although I am hopeful that the Council will approve our budget and provide us with the resources necessary to meet the educational needs of our students, I believe that we have to plan for the worst-case scenario of severe budget reductions.

Consistent with past practice, the timeline for staffing allocations to schools is made during the first week of March for the upcoming school year. In consideration of the difficult fiscal times we are facing, I believe it is prudent that we plan for significant reductions in allocations. It is extremely difficult, but it is the responsible thing to do. If we do not make this assumption and allocate positions to schools based on the Board's requested budget, and the County Council makes dramatic reductions in May 2011, we would have to eliminate hundreds of school-based positions in early June 2011 and restart the involuntary transfer process at a time when teachers and other 10-month employees would be leaving school for the summer. We know that making these reductions now will have a significant impact on schools, but the disruption will be far less severe than if we had to make these cuts during the summer.

If we wait to reduce school allocations until after the County Council takes final action on the budget, the allocation, transfer, and hiring processes would begin three months later than usual, and it would be impossible to complete the process before school begins in August 2011. The uncertainties and anxieties resulting from waiting to make reductions will have a tremendous impact on our schools next fall. The plan we have initiated is intended to make the process as smooth as possible given the difficult fiscal constraints. In the event that the County Council does not make reductions to the Montgomery County Public Schools (MCPS) FY 2012 Operating Budget, it will be much easier to allocate additional positions to the schools in June than it would be to begin reducing schools' allocations at that time.

Staffing Timeline

Schools are sent staff allocations for the upcoming year during the first week of March. After reviewing this information, between March 17 and March 22, principals identify and notify staff members who will be involuntarily transferred. Position vacançies will be posted by principals at the end of March and the transfer process continues through May 31. After May 31, the offices of Human Resources and Development and School Performance begin to place all involuntarily transferred staff members who have not been offered positions during the transfer window. If vacancies exist at the time, the Office of Human Resources and Development will hire new teachers from outside MCPS. Prior to 2010, hiring began before June using the "open contract" process in which new hires were given a contract but were not assigned to schools until all involuntarily transferred staff members had been placed. This year, because of the uncertainty of the situation, open contracts will be offered in only a few selected areas of need, such as special education.

Reductions

On January 28, 2011, I sent an email message to MCPS staff about the FY 2012 Operating Budget and attached a list of reductions that might have to be considered if the County Council does not approve full funding of the budget request. Since January, based on input we received, we have made some adjustments to the list of reductions. The revised list, with notations where adjustments have been made, is attached. We have used the revised list of possible reductions as the basis for the allocations that will be made to schools this week. Some of the reductions have not been made at this time because they are not part of the March allocations, such as building service worker positions, high school athletics, high school activity buses, middle school extended day/year program, and Outdoor Education. Depending on the final actions of the County Council, my goal is to keep "Reductions in Force" (layoffs) and the number of staff who lose hours of employment to a minimum. Obviously, the final resolution of this issue will depend on the County Council's action.

The positions not allocated are being held in reserve to be used as part of the budget reduction if the final County Council action results in a decrease to our budget. If we ultimately have to eliminate the positions that are being held in reserve, there will be a significant impact on schools. As you know, we have identified several areas in central services for cuts as well. We will notify central services staff whose positions might be eliminated in the next few weeks so that they may have the opportunity to seek positions in schools during the scheduled voluntary transfer process.

If you have any questions, please contact Mr. Larry A. Bowers, chief operating officer, at 301-279-3626.

JDW:LAB:ndm

Attachment

Copy to:

Executive Staff	Dr. Newman
Ms. Cuttitta	Mr. Prouty
Mr. Ikheloa	Ms. Trible

ATTACHMENT

MONTGOMERY COUNTY PUBLIC SCHOOLS

FISCAL YEAR 2012 OPERATING BUDGET

REVISED SUMMARY OF POTENTIAL BUDGET REDUCTIONS

In the event that Montgomery County Public Schools does not receive local funding for the Fiscal Year (FY) 2012 Operating Budget at the minimum Maintenance of Effort (MOE) level, it will be necessary to consider significant service reductions in the base budget. The amount of reductions will depend on how much local funding is actually received compared to the amount required by MOE. The following revised list contains potential major reductions in the budget and shows modifications since the list was originally issued. The list is not in any priority order, but will give stakeholders an overall idea of what reductions may be necessary to consider before the FY 2012 Operating Budget is approved in June 2011.

Item	Description	FTE	Savings
1	Class Size—An increase of an average of 1 student per class at the elementary and middle school levels and by **.4 at the high school level** would eliminate ~~193.4~~ **168.4** teacher positions. This is in addition to the 240.0 positions cut to increase class size by an average of 1 for FY 2011.	~~193.4~~ **168.4**	~~$12,608,419~~ **$10,978,582**
2	Academic Intervention Teachers—Cutting 13.0 of the 46.4 elementary and 10.0 of the 38.5 middle school positions would significantly impact support for struggling students. This is over and above 33.8 positions cut in FY 2010 and FY 2011.	23.0	$1,499,450
3	Staff Development Teachers—Reducing the 181.1 positions budgeted for elementary, secondary schools, special/alternative education by ~~79.4~~ **51.2** (~~44~~ **28** percent) would leave ~~101.7~~ **129.9** positions.	~~79.4~~ **51.2**	~~$5,761,618~~ **$3,715,300**
4	Reading Recovery© Teachers—This would eliminate the support currently provided by Reading Recovery© teachers to elementary students who have reading delays. **However, we will restore 7.0 teachers to support reading in 14 schools.**	~~15.0~~ **8.0**	~~$968,903~~ **$516,748**
5	Instrumental Music Teachers—A reduction of 4.0 of the 37.2 instrumental music teacher positions would require that students receive instruction in larger groups and some students may receive less support.	4.0	$260,774

Item	Description	FTE	Savings
6	School Counselors—A cut of ~~10.0~~ **5.0** elementary and 10.0 middle school counselors would increase the ratio of students to professionals and severely impact services to at-risk students. In FY 2011, 9.0 school counselor positions were cut from the budget.	~~20.0~~ **15.0**	~~$1,628,625~~ **$1,272,544**
7	Elementary Paraeducators, Lunch Hour Aides, Parent Community Coordinators—A cut of 20.0 paraeducators, 6.0 lunch hour aides, and 2.2 parent community coordinators will reduce support at a time of significant student growth. There was a reduction of 27.0 paraeducator positions in FY 2011.	28.2	$1,077,784
8	Instructional Data Assistants—A reduction of 16.4 elementary and 4.75 middle school positions will reduce support to administrators and teachers who use student data to drive educational decisions.	21.1	$1,003,753
9	Media Assistants—A reduction of 23.0 elementary, 8.0 middle, and 7.5 high school positions will require a change in the current enrollment-based guidelines for allocating these positions to schools. Overall, support to students will be decreased. There were 10.5 media assistant positions cut over the last two years.	38.5	$1,597,511
10	Middle School Extended Day/Year Program—The elimination of middle school after-school and summer school programs would cut services to middle school students who require significant support and are at risk of academic failure.		$1,568,046
11	Assistant School Administrators—There would be a reduction of ~~8.0~~ **2.0** of 15.0 middle school positions and ~~10.0~~ **2.0** of 20.0 high school positions. These positions provide valuable support to the school administrative team, teachers, students, and the school community.	~~16.0~~ **4.0**	~~$2,002,052~~ **$500,512**
12	Security Assistants—School security staff will be reduced by cutting ~~10.0~~ **2.0** positions at middle schools (from 69.0 to ~~59.0~~ **67.0** positions), and ~~10.0~~ **2.0** positions at high schools (from 112.0 to ~~102.0~~ **110.0** positions). This reduction in staff would impact the ability of schools to maintain a secure learning environment.	~~20.0~~ **4.0**	~~$858,655~~ **$171,731**

Item	Description	FTE	Savings
13	Outdoor Education—Eliminating this program would deprive students of opportunities to participate in a variety of outdoor environmental field activities, including the overnight program for sixth grade students.	7.0	$596,767
14	ESOL Counselors/Staffing Ratios—A reduction of ~~5.0~~ **4.0** ESOL counselors would reduce the number of positions from 11.0 to ~~6.0~~ **7.0**. A reduction of 9.1 teacher positions would increase the student-to-staff ratio by .8 for elementary schools, .5 for middle schools, and .6 for high schools. There was a reduction of 6.0 ESOL teacher positions in the FY 2011 budget.	~~14.1~~ **13.1**	~~$956,712~~ **$884,022**
15	Vocational Support/Career Preparation Teachers—Vocational support teachers would be reduced by ~~50~~ **25** percent – from 20.0 to ~~10.0~~ **15.0** positions. Career preparation teachers also would be cut by ~~50~~ **25** percent from 20.5 to ~~10.5~~ **15.5** positions. Remaining staff will have to serve more students with less individual attention.	~~20.0~~ **10.0**	~~$1,303,870~~ **$651,934**
16	Reduce High School English Composition Assistants—Reduce 9.75 of 58.3 English composition assistants. Staff would have less time to assist individual students and teachers. This will reduce valuable support guiding students to postsecondary careers.	9.75	$456,421
17	High School Career Information Coordinators—Change schedule of high school career information coordinators from 12- to 10-month positions (same number of days as media assistants). This will reduce valuable support to students during the summer.		$264,141
18	Eliminate High School Activity Buses—Eliminate bus availability for students participating in after-school and extracurricular activities. Students will need to arrange their own transportation home to continue participation. Elementary school activity bus service was eliminated in FY 2011.		$294,000
19	Reduce Funds for High School Athletics—Reduce stipends and other expenses that support high school athletics. This cut could reduce the number of coaches, games, practices, and/or teams in various sports. This will result in fewer athletic opportunities for students and could result in additional extracurricular fees to offset budget reductions.		$1,080,000

Item	Description	FTE	Savings
20	Reduce Building Service Workers—Reduce 60.0 building service worker positions from a total of 1,262 school-based positions (5 percent). Remaining staff would clean more space and there would be less flexibility in assignments. Some preventive maintenance likely will be delayed.	60.0	$2,422,981
21	**Instructional Technology Systems Specialists (ITSS)—Reduce 8.0 out of 38.0 middle school ITSS positions and 1.0 out of 26.0 high school positions. The reduced level of support will result in longer waiting periods to resolve technology hardware and software problems that arise during the school day.**	**9.0**	**$694,276**
22	**Middle School Lunch Hour Aides—Reduce 20.0 lunch-hour aide positions from the 34.6 budgeted for middle schools for FY 2012. Without these positions, school administrators and security staff will have responsibility to supervise students during lunch periods.**	**20.0**	**$622,302**
23	**High School Secretaries 1—Eliminate 13.25 of the 82.9 school secretary I positions (18 percent) at the high school level. Completion of general office responsibilities will be delayed. Students, parents, staff, and visitors will be required to wait longer for assistance. Also, cut a .5 registrar position.**	**13.75**	**$572,063**
24	**High School Teacher Assistants—Reduce 3.575 teacher assistant positions at the high school level.**	**3.575**	**$119,661**
25	Reduce School Furniture and Equipment and Other K-12 Resources—Delay restoration of school furniture and equipment reductions made in FY 2011. Schools will have to continue using older furniture and equipment, except for emergency needs, until budget resources can be restored. Other reductions would reduce temporary part-time salaries for support of school improvement needs and reduce the cost of school contractual services.		$864,000
26	Secondary Learning Centers—Continue phase-out of high school learning centers. Students already in secondary learning centers will remain through Grade 12. In addition, change staffing ratios in remaining center classes to match similar classes in other special education programs.	17.9	$1,034,630

Item	Description	FTE	Savings
27	Infants and Toddlers and Preschool Programs—Reduce ~~26~~ **17.55** teacher and paraeducator positions in Infants and Toddlers and Preschool programs. Staff will need to serve more students weekly in classroom and home settings. No required services will be reduced.	~~26.0~~ **17.55**	~~$1,594,111~~ **$1,103,055**
28	Special Education Staffing Ratios—Change staffing ratios in special education programs, including Learning and Academic Disabilities (LAD), Gifted and Talented/Learning Disabled (GT/LD), and Deaf and Hard of Hearing (DHOH) programs. LAD ratio would change from 14:1 to 15:1, GT/LD from 13:1 to 16:1, and DHOH from 15:1 to 17:1. Current services would continue based on individual student plans.	23.2	$1,478,018
29	Special Education Nonpublic Tuition—Reduce projected rate increases for tuition for special education students in nonpublic placement based on lower inflation expectations. State sets tuition rates for nonpublic programs.		~~$1,410,630~~ **$2,166,213**
30	Central Office Administrative Expenditures—Reduce ~~13.1~~ **38.1** central office administrative positions. Reduce non-position central office expenditures, including temporary part-time salaries, contractual services, supplies, and other expenditures. The FY 2012 budget already includes $3.8 million in central office reductions. Over last three years, central office cuts have totaled 174.2 positions and a total of $28 million—a 20 percent reduction in these expenditures.	~~13.1~~ **38.1**	~~$2,715,713~~ **$5,015,713**
31	**Increases for Inflation—Eliminate projected 3 percent increase for inflation for textbooks and instructional materials.**		**$656,928**
	Total	~~649.9~~ **608.369**	~~$47,976,216~~ **$45,139,860**

FY 2012 Operating Budget Reductions

		Potential Reductions		Proposed Reductions	
	Description	FTE	Savings	FTE	Savings
1	Class Size by 1 Student	168.400	$ 10,978,582		
2	Building Service Workers	60.000	2,422,981		
3	Middle School Extended Day/Year		1,568,046		
4	Outdoor Education	7.000	596,767		
5	Activity Buses		294,000		
6	Career Information Coordinators		264,141		
7	Assistant School Administrators	4.000	500,512	2.000	$ 250,255
8	Academic Intervention Teachers	23.000	1,499,450	14.000	912,702
9	Special Education Staffing Ratios	23.206	1,478,018	11.025	800,238
10	Reading Recovery Teachers	8.000	516,748	8.000	516,748
11	Security Assistants	4.000	171,731	4.000	171,731
12	English Compositions Assistants	9.750	456,421	9.750	456,421
13	Special Education Preschool Programs	17.588	1,103,055	7.188	284,053
14	Athletics		1,080,000		750,000
15	Instructional Technology Systems Specialists	9.000	694,276	9.000	694,276
16	Secondary Learning Centers	17.875	1,034,630	17.875	1,034,630
17	Staff Development Teachers	51.200	3,715,300	51.200	3,715,300
18	Counselors	15.000	1,272,544	9.000	763,526
19	ESOL Counselors/Teachers	13.100	884,022	9.100	593,261
20	High School Secretaries	13.750	572,063	13.750	572,063
21	Paraeducators/Lunch Hr. Aides/Parent Comm. Coord.	28.200	1,077,784	28.200	1,077,784
22	Media Assistants	38.500	1,597,511	34.375	1,426,349
23	Instrumental Music Teachers	4.000	260,774	4.000	260,774
24	Vocational/Career Prep Teachers	10.000	651,934	10.000	651,934
25	Instructional Data Assistants	21.100	1,003,753	21.100	1,003,753
26	Middle School Lunch Hour Aides	20.000	622,302	18.625	579,519
27	School Furniture/Equipment/Other K-12 Resources		864,000		680,893
28	Inflation		656,928		656,928
29	High School Teacher Assistants	3.575	119,661	3.575	119,661
30	Special Education Nonpublic Tuition		2,166,213		2,133,482
31	Central Office Reductions	38.100	5,015,713	34.100	4,893,719
32	**TOTAL**	**608.344**	**$ 45,139,860**	**319.863**	**$ 25,000,000**

MONTGOMERY COUNTY COUNCIL
ROCKVILLE, MARYLAND

OFFICE OF THE COUNCIL PRESIDENT

MEMORANDUM

June 6, 2011

TO: Christopher Barclay, President
Montgomery County Board of Education

FROM: Valerie Ervin, Council President

SUBJECT: FY12 MCPS Budget

The Council understands that the Board of Education has suddenly discovered millions of dollars in additional resources and intends to meet the Council's approved FY12 budget level for MCPS without making changes to the employee cost-sharing required for health benefits. As you know, the Council's budget action explicitly assumed a multi-million dollar reduction associated with a minor increase in school employee cost-sharing. The current share – 5% for employees in HMOs and 10% for others – is remarkably low. For example, federal employees on average pay 28%.

If the Board now finds itself with these additional dollars, do you still intend to implement the program cuts you tentatively approved on May 23? These include cuts to media assistants, academic intervention teachers, reading recovery teachers, staff development teachers, counselors, para-educators, and lunch hour aides. Will the Board use the newly discovered savings to restore these positions, or will you inflict the cuts on schools to preserve the employee share of health benefits?

In your May 19 statement to the community on the Council's budget action, you said: "The Council has stated that they support the school system and that its cuts will not hurt the classroom. That simply isn't true. Every school will feel the effects of these cuts." On the contrary, the Council urged the Board to adjust employee health benefits explicitly to minimize cuts to the classroom and protect vital school services.

The Council urges the Board to reconsider its apparent budget approach and redirect any additional resources to the employees and programs that directly benefit our children. The Council would expeditiously consider any categorical transfer that might be required to achieve this important outcome for our schools. I look forward to hearing from you as soon as possible on this matter.

STELLA B. WERNER COUNCIL OFFICE BUILDING • 100 MARYLAND AVENUE • ROCKVILLE, MARYLAND 20850
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Board of Education
MONTGOMERY COUNTY BOARD OF EDUCATION
850 Hungerford Drive ◆ Rockville, Maryland 20850

June 8, 2011

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

Dear Ms. Ervin:

Yesterday, I learned, through an Internet press release, about a memorandum addressed to me regarding the Fiscal Year (FY) 2012 Operating Budget for Montgomery County Public Schools (MCPS), although I have not received a copy of this memorandum through regular channels. Your press release mentions press reports regarding the potential recommendation of the superintendent of schools to the Board of Education regarding how to reduce the Board of Education's Requested Budget as a result of the massive cuts made by the County Council, a reduction of $118.9 million below the Board's request. The Council directed the Board of Education to cut $66 million (52 percent) of this total from employee benefits and the Board of Education will comply with that direction. Let me remind you that the budget reductions blatantly violate state law regarding the minimum local contribution to schools and open MCPS to an undeserved penalty of $26.2 million from the loss of increased state aid that we deserve because of increased enrollment and the educational needs of our students. This is $26 million that can restore more than 400 teacher and other staff positions that we may have to cut in FY 2013.

According to these press reports, the superintendent of schools believes that the reductions imposed by the County Council in Category 12, Fixed Charges, can be met through efficiencies and cost reductions in the provision of health and life insurance to employees, rather than by increasing the share of these costs paid by employees. Let me note that the County Council appropriates funds to the Board of Education by category total and does not have the authority to determine how to make specific reductions. This is the responsibility of the members of the Board of Education, who must make those reductions with the interests of the school system and meaningful student outcomes in mind, not the wishes of the Council. The Council staff material on employee benefits issues repeatedly emphasizes the authority of the Board of Education to make these detailed determinations, and you and other Council members reinforced that view while I and other Board members were present at your meeting. At those meetings that I attended, you never called on the members of the Board to express their opinions or describe how the Council's proposed changes might impact MCPS.

At the Council's meetings, the staff of the Office of Legislative Oversight reported on the possible impact of benefit cost share changes on school employees. They repeatedly noted that

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lower paid MCPS employees, as well as similarly paid county employees, would suffer disproportionately from significant increases in their cost share. For employees who typically earn $30,000 or less annually, the proposed changes in health insurance costs might be 15 percent or higher of their gross pay and a greater share of their take home pay. At the meeting of the Council, you commented on this harsh possibility and on the difficulties that it might create for employees and for the county, and you said that further study was needed to evaluate all the possibilities for cost reduction instead of just cost shifting. The Council's staff director, Mr. Steve Farber, agreed with you and pointed several times to the improvements instituted by MCPS that have significantly reduced the growth of health care costs. He noted that MCPS has encouraged two-thirds of its employees to enroll in lower cost managed care programs, instead of the more expensive fee-for-service options that are selected by two-thirds of county government employees. This point was so convincing that you initiated the creation of a task force to study how to reduce health insurance costs. This is a very wise idea and MCPS completely supports your proposal. Why would you want to disrupt that process now that all agencies and their employee unions have agreed to participate in good faith?

MCPS employees already have agreed to significant reductions in compensation. Two years ago, they voluntarily gave back $89 million of already negotiated wage increases. For the past two years they have had no general wage increases, nor have they received annual increments based on seniority for eligible employees, saving $80 million. Already, this has saved an annual total of $143 million, equal to seven percent of the MCPS budget. In addition to the lack of pay increases, employees must pay an extra two percent of their salary as a pension contribution, both for the state and local retirement plans. The Board of Education has already enacted far-reaching changes in the pension plans that will impact both existing and new employees and will save millions of dollars immediately and into the future. In FY 2012, employees also will resume paying an additional two percent of salary as a social security tax (FICA) contribution, related to the end of the federal economic stimulus. Yet, you ask employees to pay a higher share of health insurance, which is essentially just another pay cut, on top of the four percent reduction already mandated for next year.

In fact, MCPS is working with its employee unions to review all employee benefit plans. During the next year, we will reopen benefits issues and discuss a variety of options for reducing employer costs. The county decided to take immediate steps to cut employee benefits without any negotiations with its unions. The members of the Board of Education do not believe that this go-it-alone approach is effective. It is not part of the tradition of labor-management cooperation that has produced outstanding results in the classroom for our students. Would you needlessly put that at risk at a time when our employees are working with us to solve our long-term fiscal problems?

I also am surprised to hear from you about the health insurance issue at this time. As you know, when Board Vice President Shirley Brandman and I met with you on April 15, 2011, we indicated to you that we would likely be able to reduce healthcare expenditures this year by about $15 million. In addition, the Council's Education Committee had plenty of opportunity to review the Board of Education's Budget request during April and May 2011. It spent a total of less than one hour in its total public review. At our first meeting in April, you cut off your own staff's presentation of the MCPS budget. At your second meeting in May, that lasted only a few minutes, you never asked any specific budget questions. The Government Operations Committee reviewed benefits issues but never asked the Board of Education to participate in its review. As president of the County Council, you disposed of the MCPS budget in only a few minutes at your work session, with no opportunity for members of the Board to participate. Is it realistic to raise the important issue of health insurance now, when work on the operating budget is complete?

As a result of the Council's hasty action, the Board of Education must make $119 million of reductions. Based on the tentative action taken by the Board of Education on May 23, 2011, approximately $95 million (80 percent) of the $119 million total will relate to employee compensation, including salary and benefits changes. The reductions in the cost of benefits will be $22 million, even greater than the $18.7 million recommended by the County Council. Fortunately, the costs of health insurance through the Employee Benefit Plan (EBP) have been lower than originally projected. The estimated expenditures for the EBP trust funds for FY 2011 were projected to be $338.7 million. Because nearly all of the benefits plans are self-insured rather than paid through a fixed capitation fee, costs are notoriously difficult to predict. Not only do actual hospital and medical bills vary unpredictably based on usage and price, but employees have the opportunity to change plans in the middle of the fiscal year. Therefore, until after the completion of "open season" and the transition to new plans in January of each year, it is very difficult to predict total costs for the year. There also is a significant delay in receiving and analyzing invoices. It is only after we have analyzed the payments for February and March in late April that any trends from open season become apparent. Because the actual billings fluctuate significantly, it is not possible to make budget decisions from a single month's results; it is necessary to see a trend before making changes. Most consultants advise looking at trends lasting six months or longer and to use rolling averages of costs rather than individual billings to make any trend estimates. For example, the official federal health inflation rate for hospital services is 5.4 percent over the past 12 months, but the inflation rate for April (6 percent) was three times the rate for March (2 percent).

Your memorandum also states that had health insurance savings been identified sooner, it would have been possible to reduce reductions in school-based programs. That statement does not accord with actual Council action on the MCPS budget. The Council could have avoided reductions in school-based programs by accepting the county executive's budget recommendation of an $82 million reduction, with which the Board of Education agreed. Instead, the Council made a further reduction of $25 million, explicitly using $8 million in increased state aid and MCPS savings to reduce the local contribution. The Council then took that $25 million and used it all to fund county government projects. You ask me to believe that had you been able to reduce Fixed Charges by a greater amount you would have used the savings to restore cuts in school programs. When you had the chance to save school programs, you did not think that was such a high priority, but now that the budget is complete, you say it is.

The bottom line is that you want to reduce the salaries of MCPS employees and you believe that it will have no effect on educational quality. I remind you that that judgment is made by the Board of Education, not the County Council. The lack of effort that the Council made in studying these issues during its public review of the budget compromises your authority to give your opinion now. I urge you again to work with the members of the Board of Education in a respectful way to resolve the county's fiscal issues. Your continued disrespect of me and my colleagues on the Board of Education in statements to the media is unacceptable and unbecoming of someone in your position. We want to be your partner, but so far, we have not had sufficient communication to achieve our mutual goals.

I look forward to working closely with you and the County Council to resolve the fiscal issues impacting the quality of education in Montgomery County. Our staff will be available to answer any questions.

Sincerely,

Christopher S. Barclay

Christopher S. Barclay
President

CSB:ms

Copy to:
Members of the County Council
Members of the Board of Education
Executive Staff

AGENDA ITEM #8.1
June 21, 2011
Action

MEMORANDUM

June 17, 2011

TO: County Council

FROM Valerie Ervin, Council President

SUBJECT: **Resolution to add Review of MCPS Category 12 to Office of Legislative Oversight's FY 2011 Work Program**

For the Council and the public, full and transparent budget information from every County agency is essential to the integrity of our fiscal decision-making process. The Board of Education's handling of the FY12 Operating Budget for Montgomery County Public Schools raises serious questions about the adequacy of financial information provided by MCPS.

As one of the Council's initiatives to help ensure that the Council and the public receive full and transparent budget and related financial information from MCPS, I recommend that Council adopt the attached amendment to the Office of Legislative Oversight's FY 2011 Work Program (Council Resolution No. 16-1419). Specifically, the resolution assigns to OLO a project to review and analyze Category 12 of the MCPS budget, Fixed Charges. The resolution sets October 15, 2011 as the target deadline for OLO's initial report back to the Council.

As outlined in the attached Work Program amendment, the scope of the OLO project is to:

- Examine the components of Category 12 and all related funds, including those for employee pension and group insurance benefits;
- Track the budget, appropriation, and expenditure trends of these components; and
- Review the underlying assumptions behind MCPS' budget requests in Category 12 and related funds.

In addition, I recommend that the Council direct OLO to track MCPS' Category 12 expenditures throughout FY12.

I suggest that OLO be assigned this review with the understanding that they will be assisted, as needed, by central Council staff and the Council's actuarial adviser, Bolton Partners; and that OLO will coordinate its work with any related initiatives from the Office of the Inspector General. In addition to building upon OLO's outstanding work on the County's structural budget challenge and employee benefits, this project will provide critical information about a key part of the MCPS budget and lay a strong foundation for the Council's review of that budget in the coming year.

Attachment: Resolution to Amend OLO's FY 2011 Work Program

Resolution: ______________
Introduced: ______________
Adopted: ______________

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

By: County Council

SUBJECT: Amendment to the FY 2011 Work Program of the Office of Legislative Oversight

Background

1. Chapter 29A, Montgomery County Code, establishes the Office of Legislative Oversight to serve as the principal means through which the Council exercises its legislative oversight functions. This includes providing the Council with information and recommendations concerning the operations of public and private agencies, programs, and functions for which funds are appropriated or approved by the Council.

2. The law establishing the Office of Legislative Oversight (Chapter 29A, Montgomery County Code) specifically authorizes the Office to conduct special program or budget analyses at the request of the Council.

3. The Council requires additional data and analysis to provide the basis for an informed dialog about the funds appropriated to Category 12, Fixed Charges of the Montgomery County Public Schools' budget, and other funds related to employee benefits.

4. On July 13, 2010, the Council adopted Resolution 16-1419, to establish the FY 2011 Work Program of the Office of Legislative Oversight (OLO). On February 15, 2011, the Council adopted Resolution 17-63 to amend the FY11 OLO Work Program.

Action

The County Council for Montgomery County, Maryland, amends Council Resolution 16-1419 to add the following project to the Office of Legislative Oversight's FY 2011 Work Program.

This is a correct copy of Council action.

____
Linda M. Lauer, Clerk of the Council

PROJECT #12
REVIEW OF CATEGORY 12 OF THE MCPS BUDGET

Principal agency: Montgomery County Public Schools

Origin of project: County Council

For the Council and the public, full and transparent budget information from every County agency is essential to the integrity of our fiscal decision-making process. The purpose of this OLO project is to provide critical information about a key part of the MCPS budget and lay a strong foundation for the Council's review of that budget in the coming year.

To improve the Council's fiscal oversight of the MCPS budget, the Office of Legislative Oversight must review and analyze Category 12 of the MCPS budget, Fixed Charges. Specifically, OLO must:

- Examine the components of Category 12 and all related funds, including those for employee pension and group insurance benefits;
- Track the budget, appropriation, and expenditure trends of these components; and
- Review the underlying assumptions behind MCPS' budget requests in Category 12 and related funds.

OLO should complete its initial report to the Council by October 15, 2011. In addition, OLO must continue to track MCPS' Category 12 expenditures and provide periodic reports to the Council throughout FY12.

OLO is assigned this review with the understanding that it will be assisted, as needed, by central Council staff and the Council's actuarial adviser, Bolton Partners. In addition, OLO's work will be coordinated with any related initiatives conducted by the Office of the Inspector General.

June 17, 2011

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

Dear Ms. Ervin:

I'm writing to acknowledge receipt of your June 16, 2011 memorandum about the County Council's intention to further review Category 12 of the Montgomery County Public Schools (MCPS) Operating Budget. As always, we stand ready to share financial information for the Council's review as has traditionally been the substance of Council Education Committee meetings. As I indicated in my previous letter, during our meeting with you on April 15, 2011, we notified you that we would likely be able to reduce healthcare expenditures this year by about $15 million. In addition, there were numerous opportunities for the Council's Education Committee and Council staff, including the Office of Legislative Oversight staff that was focusing on the budget this year, to review Category 12, Fixed Charges, and ask questions about claims experience, assumptions used to project FY 2012 expenditures, fund balances, and other critical factors that are considered in developing the Employee Benefit Plan budget. In prior years, Montgomery County Public Schools (MCPS) staff would review the plan, actual experience, and projections with Council staff and the Council's committees. This type of analysis and review was not done this year. We look forward to resuming collaboration on this issue in the coming year so that you and all councilmembers understand MCPS' practices and procedures.

Before I discuss the employee benefit information, I am pleased to share with you that MCPS was recently notified that we have been awarded the Governmental Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting for the seventh consecutive year for our 2010 Comprehensive Annual Financial Report (CAFR). In addition, the MCPS CAFR has been recognized with the Association of School Business Officers Certificate of Excellence in Financial Reporting for more than 20 consecutive years. Our financial reporting is well-respected, thorough, and complete.

Allow me now to provide you with more detailed information about the employee benefit plan fund that is used to manage health and life insurance benefits for MCPS employees. Employee health and life insurance benefits for MCPS employees are financed through an internal service fund, the Employee Benefit Plan (EBP) Trust Fund. The FY 2011 EBP budget totals $338.7 million. The purpose of this fund is to dependably provide necessary resources to defray expenses for health and life insurance through a dedicated fund. This structure parallels the structure used for similar purposes by Montgomery County Government and by other county-funded agencies.

MCPS is largely self-insured for the purpose of meeting health and life insurance obligations. Because most EBP expenditures relate to direct claims payments, MCPS assumes the risk for unpredictable changes in billings. The EBP fund includes provisions to offset the claims risk. The fund maintains a reserve for Incurred But Not Reported (IBNR) claims that are known through experience to have occurred but have not yet been received by MCPS. In addition, the fund includes a "shock reserve" that accounts for unpredictable changes in claims. During 2002–2004, the Council frequently reviewed the status of the funds of each county-funded agency because of the concern that rising costs might require the maintenance of greater reserves or that other plan design changes needed to be made to reduce costs. MCPS took an active part in that Council review. The Council consultant frequently urged county agencies, including MCPS, to maintain larger reserves and to make other administrative and plan design changes. On December 9, 2003, the County Council adopted a set of resolutions governing policy on health insurance plans, a copy of which is enclosed.

When the Superintendent's Recommended FY 2012 Operating Budget was developed in November 2010, health care costs were expected to increase by about $18 million in FY 2012 based on estimates made by Aon, the MCPS health benefits consultant. Their projections were based on the trend of health care expenditure and actual experience for the previous 12 months. Beginning in January 2011, costs began to moderate and have been below the trend and the projections. By early spring, it became more likely that the fund would have a significant surplus for FY 2011. The county's health fund experienced similar positive results leading to a projected surplus of approximately $12 million. Our consultants noticed the trends, warned us that it might be only a temporary blip, and could not provide a satisfactory explanation of the positive claims experience. At this time, we are still working with our consultant to estimate how much the actual savings might be.

Because health care costs factors are complex, because the EBP is self-insured, and because costs fluctuate sharply, it is difficult to project future costs or the status of the EBP fund. Health care costs can vary unpredictably. Changes occur in usage patterns, including both volume and intensity of service. Price changes have run at three times the general inflation rate or higher. Membership in the plan can change because of the changes in employment patterns or the number of spouses choosing to be on the MCPS plan and the number of dependents. Each year, cost patterns change as a result of "open season," as employees switch from plan to plan or join or abandon plan options in the middle of the fiscal year. The effects of open season make predictions for a fiscal year difficult until about three-quarters through the fiscal year as bills from January and February become available. In addition, during FY 2011, other factors have made projections even more difficult. For example, implementation of initial reforms in the federal *Affordable Care Act*, such as inclusion of adult dependents on family plans, has made it difficult to project costs. As additional health care reforms take effect, it will continue to be difficult to project expenses dependably using past models.

A review of the past decade of EBP results shows extensive fluctuation in costs and the resulting status of the fund. Since FY 2003, total health care costs for active and retired employees has increased in a range of $16.8 million a year to $23.5 million and in terms of percentage increase ranged from 6.6 percent to 11.9 percent annually. The year-end trust fund balance has fluctuated from a high of $20.8 million (7.6 percent of expenses) to a low of $93,000 (0.1 percent of expenses). The year-end fund balance has changed in a range from a gain of $9.9 million in FY 2007 to a loss of $8.2 million in FY 2009. The history of widespread fluctuations validates the importance of maintaining a sufficient reserve to weather unpredictable changes.

For the past decade, MCPS has worked diligently with the full involvement of its employee associations through the Labor Management Joint Benefits Committee and with its retiree association to reduce the long-term rate of growth of health care costs. MCPS and its employee associations have undertaken a major wellness program to improve employee fitness and reduce chronic health care problems. We have worked with other county agencies to improve the competitiveness of bidding for health care services. We have made plan design changes to reduce costs, including limits on the use of prescription pharmaceuticals, changes in co-pay and deductible limits, and a limitation on high-cost plan options. Retirees have agreed to pay 36 percent of costs. Management has completed an audit of dependent coverage to make sure that ineligible dependents are not included as beneficiaries for health plans. We also work closely with our health consultant, Aon, the same firm used as a consultant by the county government, to explore other opportunities for cost savings. These measures have saved millions of dollars and slowed the growth of health care costs below regional and national averages. Our consultant has reported that MCPS stacks up well against other clients in the pursuit of cost-saving innovation.

Despite these positive changes, we can expect health care costs to continue to increase in future years. MCPS staff monitors health care costs monthly and reviews trends regularly with our consultant and with other county agencies. We are also continuing to negotiate with our employee associations to explore additional cost savings in health care costs. In addition, we are working closely with the Cross-Agency Resource Sharing Committee (CARS) to explore further improvements and encourage other agencies to adopt some of the cost-savings improvements already implemented by MCPS. It is gratifying that the Council staff director complimented MCPS on its efficiencies and said that we could be a model for other agencies.

As Council continues its work to reduce the county's structural budget deficit, it can ask its staff to explore whether long-term savings can be projected. Until we have clearer data, MCPS staff believes that it is premature to make changes in future trend projections. We stand ready to continue working with you and your staff on this important issue. Our staff will be available to answer any questions.

Sincerely,

Christopher S. Barclay

Christopher S. Barclay
President

CSB:kmy

Enclosure

Copy to:
Members of the County Council
Members of the Board of Education
Dr. Weast
Mr. Bowers
Dr. Lacey
Mr. Ikheloa
Mr. Edwards