

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

February 14, 2011

MEMORANDUM

To: Members of the Board of Education

From: Jerry D. Weast, Superintendent of Schools

Subject: Fiscal Year 2012 Operating Budget Adoption

**Executive Summary**

I am submitting to the Board of Education my Recommended Fiscal Year (FY) 2012 Operating Budget totaling \$2,205,722,618. The Operating Budget as revised is at the minimum Maintenance of Effort (MOE) amount for FY 2012 as required by state law. If the Montgomery County Council does not approve an appropriation for Montgomery County Public Schools (MCPS) at least at this level, Montgomery County will face a loss of increased state aid as a penalty for noncompliance with the MOE requirement. Therefore, it is essential that we pursue an MOE budget. We cannot absorb potentially unprecedented budget reductions and a penalty next year for not meeting MOE. Thus, the estimated revenue for this recommended budget assumes that the county will comply with MOE.

On January 12 and January 19, 2011, the Board of Education held public hearings, and on February 8, 2011, the Board of Education held a work session on the FY 2012 Operating Budget. My Recommended Operating Budget as revised is \$41,944,555 more than the budget of \$2,163,778,063 I submitted to the Board of Education on December 15, 2010. The increase is a result of additional state aid based on the Governor's budget submitted to the Maryland General Assembly on January 21, 2011, and added FY 2011 savings that can be reappropriated for FY 2012. The added amount should be budgeted to support prefunding of retiree health benefits as Other Post-Employment Benefits (OPEB) and to address increased enrollment in prekindergarten programs. This budget does not make any of the potential reductions issued on January 28, 2011, but if funding is not received at the MOE level, then significant reductions will be required before the Board of Education can approve the final Operating Budget in June. The Board's adoption of the Operating Budget is recommended as proposed.

## State Revenue

Additional information received after publication of the FY 2012 Recommended Operating Budget on December 15, 2010, has changed the estimate of state revenue for FY 2012. On January 21, 2011, Governor Martin O'Malley announced his Recommended FY 2012 Operating Budget for the state of Maryland. Based on his recommendation for education aid, it is estimated that MCPS will receive \$533,258,510 in state aid for FY 2012, an increase of \$64.6 million above the FY 2011 approved Operating Budget. This amount is \$37.2 million greater than was assumed in the Superintendent's FY 2012 Recommended Operating Budget on December 15, 2010. The Governor's budget proposes to reduce current state aid for the *Bridge to Excellence in Public Schools Act of 2002* (Thornton Act) to the statewide level of FY 2011. If approved by the Maryland General Assembly, this proposal would reduce the Foundation amount per student from \$6,749 as required by current law to \$6,599. That reduces the allocation to MCPS by \$10.7 million.

Despite the Governor's proposal, MCPS expects to receive significant increases in state aid even under reduced formula amounts. There is a net increase compared to FY 2011 in the basic Foundation Program of \$12.6 million because of an increase of 2,264.25 in the number of eligible full-time equivalent students. Secondly, there is a net increase of \$9.0 million because the lower relative wealth in Montgomery County—compared to the rest of the state—increases the state share of the Foundation Program for MCPS. In addition, the Foundation Program increase results in a \$0.8 million increase in the adjustment for the Geographic Cost of Education Index (GCEI) to a total of \$32.2 million in FY 2012. Because of this Foundation aid increase, MCPS also will receive an increase in the 3.4 percent GCEI adjustment for the cost of education. Additionally, there is a net increase of \$10.5 million in compensatory aid because of an increase of 2,268 students (to a total of 41,030) eligible to participate in the Free and Reduced-price Meals System program. There is an increase of \$4.2 million in Transportation aid, an increase of \$5.3 million in Limited English Proficient aid because of an increase of 2,248 students eligible for English for Speakers of Other Languages services, and an increase of \$0.4 million in Special Education formula aid.

## Federal Revenue

Federal aid of \$53,656,056 in budgeted federal grants under the *American Recovery and Reinvestment Act of 2009* (ARRA) terminates after FY 2011. Governor O'Malley's proposed budget includes full funding of the \$32.3 million under the State Fiscal Stabilization Fund (SFSF) used to support mandated state aid payments in FY 2010 and FY 2011. The Recommended Operating Budget issued on December 15, 2010, did not assume that the state would restore ARRA funding. Thus, state aid is \$32.3 million more than was previously assumed.

The Recommended Operating Budget did include anticipated federal grant revenue of \$4.4 million as part of the Education Jobs Fund, approved by the U.S. Congress in August 2010 as support for local education programs. According to the law, this grant was distributed by

states to local school districts in FY 2011 but may be used for school-based salaries and/or employee benefits through FY 2012. The Operating Budget assumes that these funds will be carried over to FY 2012.

### **Local Contribution**

Maryland State law, Section 5-103 of the Education Article, requires the Board of Education to request a local contribution no less than the minimum MOE specified by law. This budget includes a local contribution of \$1,497,190,404, the minimum allowed by law. This is an increase of \$82,105,060 above the FY 2011 local appropriation. In FY 2012, the MOE requirement is \$10,664 per student, the same amount as in FY 2010. State law provides that if a county receives a full or partial waiver of the MOE requirement, the county must provide the higher of the per-pupil amounts in the previous two years for the succeeding fiscal year.

Because Montgomery County provides approximately 67 percent of all MCPS revenue, the maintenance of local contribution is crucial to the MCPS Operating Budget. In FY 2010, Montgomery County did not comply with the MOE requirement. Instead, it appropriated \$79.5 million for MCPS to reimburse Montgomery County for debt services on school construction. The Maryland State Board of Education, basing its decision on an opinion of the state attorney general, concluded that it was impermissible for the county to use debt service reimbursement as a way to meet MOE in FY 2010. It directed the state comptroller to withhold \$23.4 million in FY 2010 increased state aid as a penalty for the county's failure to meet MOE. The Maryland General Assembly subsequently adopted legislation to void the penalty. In FY 2011, the county requested and received a waiver of \$138,848,943 (8.9 percent of total MOE). During the last two years, Montgomery County has appropriated a total of \$218 million less than required by MOE. As result, the expenditure per student is approximately \$1,000 less than in FY 2009. County legislators and the Board of Education have supported legislation to clarify the criteria for approving a waiver of the MOE requirement. However, the proposed legislation retains the Maryland State Board of Education as the adjudicator of a waiver request and maintains the penalty to be paid by the school system if a county fails to meet the requirement or obtain a waiver. The Board of Education should continue to support legislation that clarifies the MOE waiver process without discontinuing essential requirements for continued local support, and make the county responsible for paying the penalty.

### **Fund Balance**

The revenue estimated for this budget includes \$15.3 million in fund balance as a result of savings realized in FY 2011 from the hiring freeze and comprehensive expenditure restrictions implemented on October 12, 2010. This is part of a countywide plan to make sufficient savings to help close the budget gap expected for FY 2012. By Maryland State law, any savings realized by a school system must not be repurposed to any other agency but must be used for future school system expenditures. In addition, \$4,377,655 in grant funding received through the federal Education Jobs Fund will be used to support the Operating Budget in FY 2012 as

required by federal law. Therefore, a total of \$19.7 million will be available to fund the FY 2012 budget.

### **Retiree Health Trust Fund**

The FY 2012 Recommended Operating Budget includes a total of \$47,660,833 for the Retiree Health Trust Fund, OPEB. Pre-funding retiree health benefits will help to protect benefits for future retirees. This includes \$6,000,112 in the December 15, 2010, Recommended Operating Budget and \$41,660,721, the balance of available resources. Although the Government Accounting Standards Board does not require government bodies to pre-fund OPEB obligations, bond rating agencies expect large governmental entities with favorable bond ratings to phase-in OPEB funding over a period of years with a plan to achieve full funding of the liabilities. As a result, all county-funded agencies have decided to phase-in required pre-funding over eight years. FY 2012 is the fifth year of the phase-in period. MCPS has established a trust fund to hold and invest employer contributions. Investment earnings of the trust fund will reduce the ultimate cost to the Operating Budget. Fiscal conditions may prevent strict adherence to the eight-year phase-in schedule. In FY 2011, the County Council decided not to fund the scheduled OPEB payment for MCPS and declined to make any contributions for other county agencies. If further reductions in the FY 2012 Operating Budget must be made, the Board of Education should consider reducing this proposed OPEB contribution.

### **Expenditures**

The Revised Operating Budget for FY 2012 includes an increase of \$283,834 above the Operating Budget submitted on December 15, 2010. This increase provides for three additional prekindergarten classes, one each at Brookhaven, New Hampshire Estates, and Takoma Park elementary schools, to accommodate an additional 60 projected income-eligible four-year-old children for a total of 2,085 students in county-funded prekindergarten programs.

The budget does not incorporate any of the potential reductions issued on January 28, 2011. If final funding falls short of the MOE requirement, then it will be necessary to consider some budget reductions.

### **Conclusion**

Because of the serious economic situation in the county, the state, and the nation, it is possible that MCPS may not receive all of the additional local contribution now projected. Therefore, I am recommending that the Board of Education not take any action that would increase expenditures above the level that I have recommended. Instead, additional anticipated state revenue should be placed in Category 12, Fixed Charges, for pre-funding retiree health benefits. I believe this is the most prudent action that members of the Board of Education can take.

**Recommended Resolution**

WHEREAS, The superintendent of schools presented the Recommended Fiscal Year 2012 Operating Budget of \$2,163,778,063 to the Board of Education on December 15, 2010; and

WHEREAS, The Recommended Fiscal Year 2012 Operating Budget includes the Fiscal Year 2012 Special Education Staffing Plan; and

WHEREAS, The recommended county contribution of \$1,497,190,404 is at the Maintenance of Effort amount; and

WHEREAS, If Montgomery County fails to appropriate the minimum Maintenance of Effort amount or obtain a waiver from the Maryland State Board of Education, Montgomery County Public Schools could receive a penalty of the loss of increased state aid; and

WHEREAS, A loss of increased local contribution of \$82.1 million as required by the Maryland State Maintenance of Effort law and the resulting penalty of the loss of additional state aid would require devastating budget reductions that would damage the quality of Montgomery County Public Schools; and

WHEREAS, Increases of state aid for Montgomery County Public Schools as recommended in the Governor's budget on January 21, 2011, total \$64,635,676; and

WHEREAS, Federal aid from the *American Recovery and Reinvestment Act of 2009* of \$53.7 million will terminate after FY 2011, \$32.3 million of which is included in the increased anticipated state aid; and

WHEREAS, An additional \$283,834 is required for three additional prekindergarten classes to accommodate an additional 60 projected income-eligible children; and

WHEREAS, Projected revenue in addition to the amount recommended for the Fiscal Year 2012 Operating Budget on December 15, 2010, should be placed in the Retiree Health Trust Fund for Other Post-Employment Benefits, to be available to offset reductions in the budget or in case there is a penalty of withheld state aid because of the county's noncompliance with the Maintenance of Effort requirement; now therefore be it

Resolved, That the Montgomery County Board of Education approves the Fiscal Year 2012 Special Education Staffing Plan as outlined in the Superintendent's Recommended Fiscal Year 2012 Operating Budget; and be it further

Resolved, That upon final approval of the Fiscal Year 2012 Operating Budget in June 2011, the Special Education Staffing Plan will be submitted to the Maryland State Department of Education; and be it further

Resolved, That the Montgomery County Board of Education adopts the Superintendent's Recommended Fiscal Year 2012 Operating Budget totaling \$2,205,722,618 as follows:

<u>Category</u>		<u>Superintendent's Recommended Operating Budget</u>
1	Administration	\$39,496,294
2	Mid-level Administration	139,404,916
3	Instructional Salaries	847,046,612
4	Textbooks and Instructional Supplies	25,284,894
5	Other Instructional Costs	14,120,980
6	Special Education	280,336,383
7	Student Personnel Services	11,351,034
8	Health Services	54,670
9	Student Transportation	93,644,620
10	Operation of Plant and Equipment	116,587,792
11	Maintenance of Plant	33,666,617
12	Fixed Charges	547,859,895
14	Community Services	208,495
37	Instructional Television Fund	1,550,674
51	Real Estate Management Fund	3,266,430
61	Food Services Fund	47,025,335
71	Field Trip Fund	2,122,819
81	Entrepreneurial Activities Fund	2,694,158
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Total		<u>\$2,205,722,618</u>

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