

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

February 14, 2012

MEMORANDUM

To: Members of the Board of Education

From: Joshua P. Starr, Superintendent of Schools

Subject: Adoption of the Fiscal Year 2013 Operating Budget

Executive Summary

I am submitting to the Board of Education my Recommended Fiscal Year (FY) 2013 Operating Budget totaling \$2,132,839,512. The Operating Budget as revised is at the minimum Maintenance of Effort (MOE) amount of local contribution. The reasons for the revision to the recommendation submitted to the Board of Education on December 7, 2011, include additional state aid, the realignment of resources to support schools in restructuring, the need to increase capacity in Montgomery County Public Schools (MCPS) prekindergarten programs, the use of an external survey to measure staff engagement, and the need to provide additional consulting teacher support for new and underperforming teachers. Below is a summary chart of the impact of the revisions on the FY 2013 Operating Budget.

FY 2013 OPERATING BUDGET

	<u>FY 2012 BUDGET</u>	<u>FY 2013 DEC REC</u>	<u>FY 2013 REVISED</u>	<u>FY 2013 CHANGE</u>
Total Expenditures	\$2,086,786,613	\$2,128,206,958	\$2,132,839,512	\$46,052,899
<u>Revenue</u>				
Local Revenue	1,370,101,480	1,392,286,148	1,392,286,148	22,184,668
State Revenue	559,837,103	583,699,432	588,331,986	28,494,883
Other Revenue	156,848,030	152,221,378	152,221,378	(4,626,652)
Total Revenue	\$2,086,786,613	\$2,128,206,958	\$2,132,839,512	\$46,052,899
Enrollment (Budget)	146,709	148,958	149,018	2,309
Per Pupil Expenditures	\$13,590	\$13,653	\$13,683	\$93

If the Montgomery County Council does not approve an appropriation for MCPS at least at this level, Montgomery County will face a loss of up to \$12.7 million of increased state aid as a penalty for noncompliance with the MOE requirement, in addition to the \$26.2 million penalty that MCPS faces because of county noncompliance with MOE in FY 2012.

On January 11 and January 18, 2012, the Board of Education held public hearings and on January 25 and January 26, 2012, the Board of Education held work sessions on the FY 2013 Operating Budget. My Recommended Operating Budget as revised is \$4,632,554 more than the budget of \$2,128,206,958 I submitted to the Board of Education on December 7, 2011. The increase is a result of additional state aid based on the Governor's budget submitted to the Maryland General Assembly on January 19, 2012. The increase in revenue from state aid is available to offset costs resulting from the forthcoming completion of negotiations between the Board of Education and its employee associations. The Board's adoption of the Operating Budget is recommended as revised.

State Revenue

On January 18, 2012, Governor Martin O'Malley released his FY 2013 Recommended Budget. The budget calls for full funding of mandated state aid for K-12 education. If approved by the Maryland General Assembly, this proposal would result in an estimated increase in revenue for MCPS of \$28.5 million compared with FY 2012, for a total of \$588.3 million in state aid. This is \$4.6 million more than the total of \$583.7 million included in the Superintendent's Recommended FY 2013 Operating Budget on December 7, 2011. The FY 2013 state aid estimate for Montgomery County includes \$32.8 million for full funding of the Geographic Cost of Education Index (GCEI).

The projected state aid increase results from several factors. There is a net increase in the basic Foundation Program of \$11.8 million because of an increase of 2,436 eligible full-time equivalent students and because of the one percent inflation adjustment applied to the per pupil amount for FY 2013 (\$6,761 per pupil). This increase is partially offset by a decrease in higher relative wealth in Montgomery County compared with other counties. In addition, there is a \$0.8 million increase in the adjustment for GCEI to a total of \$32.8 million in FY 2013.

Additionally, there is an increase of \$8.6 million in Compensatory aid because of an increase of 2,885 students (for a total of 43,915) eligible to participate in the Free and Reduced-price Meals System Program. There also is an increase of \$5.3 million in Limited English Proficient aid because of an increase of 1,802 students eligible for English for Speakers of Other Languages services (for a total of 20,581), an increase of \$0.9 million in Transportation aid, and an increase of \$0.6 million in the Special Education formula aid. Finally, reimbursement for special education nonpublic tuition is expected to increase by \$0.7 million and miscellaneous non-mandated state aid is expected to decrease by \$0.3 million.

The anticipated state aid increase does not affect the county's obligation to provide MOE in FY 2013. The MOE requirement is based on the previous local contribution; therefore, it is not

affected in any way by the amount of state aid for FY 2013. If the county fails to meet the MOE requirement, MCPS would incur a penalty of the loss of increased state aid of up to \$12.7 million. This penalty would be in addition to the \$26,235,817 penalty that MCPS currently faces in FY 2013 because the county failed to meet the MOE required local contribution for FY 2012.

State Pension Shift

The Governor's recommended budget also includes a proposal to shift 50 percent of the total costs of retirement from the state to counties. Currently, each school board in the state of Maryland pays social security taxes on behalf of its employees. The state directly pays pension contributions for school system employees eligible to participate in the state retirement system, which is approximately 77 percent of MCPS employees. According to the Governor's plan, a share of these costs will be shifted to local governments so that on a statewide basis, local governments and school boards will assume 50 percent of the total costs of retirement, including social security payments. For Montgomery County, this is estimated to add a net of \$41.2 million in FY 2013. It is estimated that these payments will increase between 2013 and 2020 as the state retirement system increases contributions to improve the funded status of the pension plan. The state has not yet issued estimates of future year local payments. The governor has proposed tax increases that would provide local governments with additional revenue to fully or partially offset added FY 2013 retirement costs.

Federal Revenue

Federal aid totals \$64,222,375, a decrease of \$5,617,851. The decrease results primarily from the termination of federal grant revenue of \$4,377,655 from the Education Jobs Fund. The United States Congress has approved grant appropriations that will affect the MCPS FY 2013 budget. However, the Maryland State Department of Education (MSDE) has not yet issued preliminary FY 2013 estimates of federal aid. When these allocations are received, it will be necessary to amend the MCPS budget before final action by the Board of Education to approve the FY 2013 Operating Budget.

Local Contribution

The budget includes a local contribution of \$1,392,286,148, the minimum allowed by law. This is an increase of \$22,184,668 above the FY 2012 local appropriation. In FY 2013, the MOE requirement is \$9,759 per student, the same amount as the per pupil local contribution in FY 2012. State law provides that if a county does not request or receive a waiver of the MOE requirement, the county may maintain the per pupil amount at the reduced level for the succeeding fiscal year. In FY 2012, Montgomery County reduced or "rebased" the per pupil amount to \$9,759 from \$10,244 in FY 2011, the amount approved by the Maryland State Board of Education as part of the county's waiver request. This reduction decreased the required county contribution in FY 2013 by \$69.2 million. This difference represents a permanent reduction of required local support. As a result of the FY 2012 cut in local effort, Montgomery

County dropped from second to fourth among Maryland counties in local education effort as a proportion of county wealth.

Because Montgomery County provides approximately 65 percent of all MCPS revenue, the maintenance of local contribution is crucial to the MCPS operating budget. County legislators and the Board of Education are supporting legislation to eliminate the penalty and clarify the criteria for approving a waiver of the MOE requirement. The Board of Education supports legislation that clarifies the MOE waiver process without changing the essential requirements for continued local support.

Fund Balance

The revenue estimated for the FY 2013 budget includes \$17.0 million in fund balance as a result of savings realized in FY 2011 and FY 2012. The FY 2012 Operating Budget included fund balance of \$17.0 million as a source of appropriation, leaving fund balance from FY 2011 of \$11.9 million available for appropriation in FY 2013 or future years. This unappropriated FY 2011 ending fund balance, together with the FY 2012 projected surplus of \$18.3 million, equals \$30.2 million that will be available to fund future year operating budgets. By 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. My expectation is that the available fund balance will be used for appropriation over several years to avoid any sudden increase in the need for local contribution to replace fund balance as a revenue source. The FY 2013 Recommended Operating Budget assumes that \$17.0 million of fund balance will be appropriated next year.

Support for Schools in Restructuring

I am recommending a budget revision to provide support for the alternative governance plans for Forest Oak and Neelsville middle schools, both of which are in Year 4 of improvement and are required to develop two-year alternative governance plans to address student and teacher needs. Since other MCPS schools are in different phases of school improvement, we will need to consider the budget implications of providing this additional financial support to these two schools. Based on preliminary plans for each school, \$797,644 has been identified to support this corrective action process. The full governance plans for each school will be presented to the Board of Education in March for approval prior to submission to MSDE in April.

Prekindergarten Programs

The FY 2013 Recommended Operating Budget includes funding to support 2,085 income-eligible students in prekindergarten programs. Based on the enrollment of income-eligible students in prekindergarten programs this year, it is projected that the number of students will increase by 60 next year. As a result, I am recommending an addition of \$221,021 for three additional prekindergarten classes; one each at Oakland Terrace, Washington Grove, and Downcounty Consortium #29 elementary schools. The amount includes salaries and benefits for 3.325 positions, instructional materials, field trips, and parent activities.

Gallup Staff Engagement Survey

MCPS is considering a plan to work with Gallup Consulting to facilitate the delivery of our staff surveys. Gallup Consulting currently has a survey that measures staff engagement that is linked to student achievement. The Gallup survey, which is part of its Engaged Schools Program, will allow MCPS to measure staff engagement in ways that we are not able to measure with our current staff survey. Last year, 36 schools piloted the Gallup staff engagement survey with more than a 90 percent response rate, which is 40 percentage points higher than the MCPS survey response rate.

The Gallup survey will allow principals and supervisors to assess strengths and to identify areas for improvement at the school and office levels. The survey questions have been researched and are focused on measuring employee engagement and allow for comparison over time and comparison with results from more than 400 organizations. In addition, Gallup will measure student engagement at the middle school level, which will help inform future efforts to improve instruction in our middle schools. The possibility of working with Gallup will transform how we examine staff engagement and its connection to student achievement. A total of \$300,000 will be realigned to support the use of the Gallup survey.

Consulting Teachers

The Peer Assistance and Review process includes intensive support from consulting teachers for experienced teachers identified as performing below MCPS standards, experienced teachers new to MCPS who need assistance, and teachers new to teaching. From FY 2000, consulting teachers' caseloads have been at a ratio of 16 or 17:1, which parallels the ratio in a review of national peer assistance models. This level of support affords time to assist clients, conduct informal visits and observations, and complete the required formal observations. During FY 2012, the 26 consulting teachers' caseloads have increased to a ratio of 21:1 as they currently support a total of 557 novice and experienced teachers. In addition to the larger overall caseloads, the consulting teachers now are supporting 39 tenured underperforming teachers. I am recommending the addition of 3.0 consulting teacher positions for a total of 29 consulting teachers at a cost of \$221,532. If the program serves the same number of teachers in FY 2013, the caseload ratio will be reduced from 21:1 to 19:1.

Savings and Efficiencies

There are several areas in which additional savings and efficiencies may be made to offset the additional cost of the support for schools in restructuring, additional prekindergarten classes, the Gallup survey, and the additional consulting teachers. The savings includes a reduction of \$366,444 in tuition for students requiring nonpublic placements. This reduction is possible because my FY 2013 Recommended Operating Budget includes \$732,887 for a two percent rate increase next year; Governor O'Malley's recently released budget includes a maximum increase of one percent. Other areas in which savings are available are based on analysis of actual spending this year and prior year spending patterns. Reductions may be made with no impact on

programs or students. These include a reduction of \$216,000 for part-time salaries for summer employment, part-time instructional salaries, and stipends and substitutes in the K–12 budget; \$216,000 for part-time salaries, stipends, and substitutes from several departments in the Office of Curriculum and Instructional Programs; \$363,000 of savings for substitute and part-time salaries in the Office of Human Resources and Development; and \$149,000 in a variety of other central services accounts. In addition, I have recommended that MCPS no longer administer the TerraNova 2 (TN/2) assessment to Grade 2 students, resulting in cost savings of \$230,000.

Conclusion

The operating budget that I am recommending to the Board of Education does not include all that the school system needs. The continuing weakness of the economy makes it impossible for funding agencies at all levels to provide the full amount that is desirable without unacceptable reductions to other essential services. In addition, I strongly believe that we must assess how effectively we use existing resources before we can responsibly ask for additional taxpayer contributions. This budget provides the minimum that MCPS needs to continue making the outstanding academic progress that our parents and community expect. Further reductions, in addition to the severe cuts made over the past four years, are unacceptable without endangering continued academic improvement and would be a disservice to the future of our children and the health of our community. Therefore, I urge the Board of Education to adopt its operating budget request at the recommended level and the county executive and County Council to support full funding of the Board's request.

Recommended Resolution

WHEREAS, The superintendent of schools presented the Recommended Fiscal Year 2013 Operating Budget of \$2,128,206,958 to the Board of Education on December 7, 2011; and

WHEREAS, The Recommended Fiscal Year 2013 Operating Budget includes the Fiscal Year 2013 Special Education Staffing Plan; and

WHEREAS, The recommended county contribution of \$1,392,286,148 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 of up to \$12.7 million, in addition to the penalty of \$26.2 million that MCPS may be assessed because the county failed to provide the required local contribution in FY 2012; and

WHEREAS, A loss of increased local contribution of \$22.2 million as required by the Maryland State Maintenance of Effort law, the resulting penalty of the loss of additional state aid, and assessment of the \$26.2 million penalty for FY 2012 county noncompliance with MOE 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 19, 2012, total \$28,494,883; and

WHEREAS, Projected state aid revenue in addition to the amount recommended in the FY 2013 Operating Budget on December 7, 2011, is available to offset costs resulting from the forthcoming completion of negotiations between the Board of Education and its employee associations; and

WHEREAS, Fund balance of \$17,000,000 is available for appropriation in FY 2013, leaving approximately \$13.2 million that will be available to fund future year operating budgets; and

WHEREAS, An additional \$797,644 is required for alternative governance plans for Forest Oak and Neelsville middle schools, both of which are in Year 4 of improvement and are required to develop two-year alternative governance plans to address student and teacher needs, and for the Middle Years International Baccalaureate Program at Montgomery Village Middle School; and

WHEREAS, An additional \$221,021 is required for three additional prekindergarten classes to accommodate an additional 60 projected income-eligible children; and

WHEREAS, An additional \$300,000 is required for work with Gallup Consulting to facilitate the delivery of surveys that measure staff engagement; and

WHEREAS, An additional \$221,532 is required for 3.0 additional consulting teacher positions to provide sufficient support in the Peer Assistance and Review process for novice teachers and experienced underperforming teachers; and

WHEREAS, An additional \$1,540,197 of efficiencies and savings as described above have been identified to fully offset the required additions as detailed above; now therefore be it

Resolved, That the Montgomery County Board of Education approves the Fiscal Year 2013 Special Education Staffing Plan as outlined in the Superintendent's Recommended Fiscal Year 2013 Operating Budget; and be it further

Resolved, That upon final approval of the Fiscal Year 2013 Operating Budget in June 2012, 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 2013 Operating Budget totaling \$2,132,839,512 as follows:

<u>Category</u>	Superintendent's Recommended <u>Operating Budget</u>
1 Administration	\$37,479,897
2 Mid-level Administration	136,669,270
3 Instructional Salaries	844,045,478
4 Textbooks and Instructional Supplies	25,084,043
5 Other Instructional Costs	13,459,980
6 Special Education	276,077,511
7 Student Personnel Services	10,806,410
8 Health Services	37,402
9 Student Transportation	95,480,010
10 Operation of Plant and Equipment	112,934,750
11 Maintenance of Plant	33,355,895
12 Fixed Charges	489,675,430
14 Community Services	208,495
37 MCPS Television Special Revenue Fund	1,495,061
51 Real Estate Fund	3,520,603
61 Food Service Fund	47,476,295
71 Field Trip Fund	2,026,046
81 Entrepreneurial Activities	<u>3,006,936</u>
Total	<u>\$2,132,839,512</u>

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