


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

December 30, 2008

MEMORANDUM

To: Members of the Board of Education

From: Jerry D. Weast, Superintendent of Schools 

Subject: FY 2010 Operating Budget: State Aid

On December 11, 2008, I transmitted my Recommended FY 2010 Operating Budget to the Board of Education. In prior years, when I sent my budget to the Board, I had the preliminary state aid estimates from the Maryland State Department of Education (MSDE). However, I did not receive the preliminary estimates for FY 2010 state aid for public schools until December 22, 2008.

On December 26, 2008, I informed you about these preliminary FY 2010 estimates of state aid. The revenue estimates include an increase in state aid for Montgomery County Public Schools (MCPS) of \$71.1 million (17.8 percent) to \$470.4 million. This is \$50.3 million higher than the estimates included in my FY 2010 Recommended Operating Budget. These preliminary FY 2010 state aid estimates are subject to change in the Governor's FY 2010 recommended budget due in January 2009. In addition, any changes in state funding formulas made by the General Assembly during the 2009 legislative session will be reflected in the final FY 2010 state aid allocations next April. I expect changes in the revenue from the state by the time the General Assembly approves the budget.

The main reason for this significant increase in state aid is an increase of \$57.4 million in basic Foundation aid primarily as a result of an apparent decrease in the relative wealth of Montgomery County compared with other counties in Maryland. Because state aid is wealth equalized, the share of state aid received by Montgomery County is higher than last year. According to the preliminary calculations, Montgomery County would receive \$69 million of the \$91 million of increased mandated state aid. These figures are a complete reversal from last year's change in real property wealth, which resulted in MCPS losing state aid for FY 2009. However, the State Department of Assessments and Taxation now recognizes that the real property wealth calculations for Montgomery County were mistaken for FY 2009 by approximately \$15.8 billion, possibly because of a double count of new homes. Last year, I informed the Board of Education I felt there had to be an error in the wealth calculation. We also informed the county executive, County Council, and our delegation of a possible error. However, no corrections were made last year. I have learned that the error was discovered as early as August 2008. Preliminary estimates are that we have lost between \$20 million and \$25

million of mandated state aid this year. The increase in state aid estimated for FY 2010 does not correct the error made last year but appears greater than it should because of the FY 2009 error.

The FY 2010 state aid for Montgomery County includes \$31 million for full funding of the Geographic Cost of Education Index (GCEI) as required by current law. However, GCEI funding is not mandated in the Governor's budget. As you know, there is discussion that the Governor plans to reduce the current year's allocation of GCEI funding by half, or \$9 million. If the GCEI is not funded for FY 2010, MCPS would still receive an increase of \$40.1 million over the FY 2009 approved budget instead of \$71.1 million. This is only \$19.4 million more than the \$420 million estimated for state aid in my FY 2010 Recommended Operating Budget. The total of \$420 million is an increase of \$20.7 million over the FY 2009 state aid total.

Assuming this increase in state aid of \$40.1 million, the operating budget request will have to be increased above the amount of my recommended budget by \$19.4 million. The County Council cannot use this additional state aid to reduce the county's contribution to MCPS because it would be in default of the state Maintenance of Effort requirement. Increased enrollment in FY 2009 requires the county to increase the local contribution to MCPS by \$16.2 million. My recommended operating budget assumes that this increase in county contribution will come entirely from savings generated by MCPS this year rather than from new county tax revenues.

Therefore, as a result of these preliminary state aid estimates, I am amending my recommended budget submitted to you on December 11, 2008. Because of the uncertainty of these additional state funds and the fact that we cannot count on this funding being available in April 2009, we cannot change the budget we have in place. The changes I am making will not affect the \$35 million of reductions in the FY 2010 operating budget, the elimination of cost of living adjustments for our employees, or the \$20 million in savings that will be generated from the freeze in the current year. My priority is to protect our employees as much as possible from reductions in future years to benefit programs. This can be done by using the additional state funds for expenditures in benefit programs that will require significant budget increases in FY 2011. As you know, my budget did not permit inclusion of \$12.3 million scheduled for FY 2010 for the Retiree Health Trust Fund (OPEB). The contribution to OPEB could increase by as much as \$24 million in FY 2011. If these additional state funds are available in FY 2010, we should try to adhere to the current eight-year phase-in of OPEB funding and add the \$12.3 million to the budget.

Additionally, it is important to add resources to the Employee Benefit Plan (EBP) internal services fund to have sufficient reserves to absorb unanticipated increased costs for health care coverage for active and retired employees. As a result of decisions made last spring to fund the FY 2009 Operating Budget, the trust fund balance of almost \$21 million at the end of FY 2008 will be reduced by as much as \$10 million this year to fund EBP costs. In addition, my recommended budget for FY 2010 assumes we will need to reduce this fund balance even further. In order to avoid the possibility of a shortfall in the EBP fund that would need to be

replenished in FY 2011 and to maintain an appropriate balance in the trust fund, I will recommend that an additional \$7.1 million be approved for the fund.

Finally, if additional state aid beyond the \$19.4 million is available next spring, I would recommend placing these funds in the MCPS Employees' Retirement and Pension Systems plan. We anticipate significantly higher retirement payments in FY 2011 because market returns in FY 2009 will be far below actuarial expectations. This would require significant increases in employer contributions in FY 2011 to maintain the funded status of the program. Therefore, it would be prudent to make additional allocations into the plan if there is additional state aid next spring.

Because of the seriousness of the economic situation in the county, the state, and the nation, it is doubtful that MCPS will receive the additional \$71 million of state aid. If the only change that is made is the elimination of the GCEI and we receive an additional \$40.1 million in state aid, we should attempt to take pressure off of the FY 2011 budget that will result from significant increases for the health and retirement plans. I believe this is the most prudent action the Board can take. If we do not receive the additional \$19.4 million above my preliminary projections for state aid, then we would need to eliminate these increases for OPEB and the contributions to the EBP trust fund in the spring.

I still am concerned about the error that was made last year which resulted in an underpayment to MCPS and an overpayment in a similar amount to the other school systems in the state. We should work with the county executive and our delegation to pursue this with the Governor.

I will continue to keep you informed of further developments on this issue. If you have any questions, please call Mr. Larry A. Bowers, chief operating officer, at 301-279-3626 or Dr. Marshall Spatz, director, Department of Management, Budget, and Planning, at 301-279-3547.

JDW:sz

Copy to:

Executive Staff
Ms. Cullison
Ms. Cuttitta
Dr. Newman