


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

December 15, 2011

MEMORANDUM

To: Members of the Board of Education

From: Joshua P. Starr, Superintendent of Schools 

Subject: Update on County Fiscal Plan and Economic Indicators

On December 13, 2011, the Montgomery County Department of Finance and the Office of Management and Budget (OMB) made a presentation to the County Council on the county's fiscal situation. Attached is a copy of the material presented at the meeting. Because of improvement in the county economy, revenue collections in Calendar Year 2011 and the fiscal outlook for Fiscal Year (FY) 2012 have improved significantly compared to the last three years. The fiscal plan projects a gap for FY 2013 of approximately \$135 million. This is a major improvement compared with the more than \$300 million gap last year. The fiscal plan envisions that county-funded agencies will need to make FY 2013 budget reductions of 1.0 percent compared to the FY 2012 approved operating budget—approximately \$20 million for Montgomery County Public Schools (MCPS). This is less than the 2.7 percent reduction in previous projections.

Economic Indicators

The report on economic indicators by the Department of Finance (Attachment, circle page 9) notes signs of an economic recovery in Montgomery County with improvement in some revenue projections. The unemployment rate has decreased to 5.2 percent in October. Home prices have shown signs of modest improvement, although the level of home sales remains very low. However, the Finance Department warns that the economic recovery has remained very slow and weak. Typically, a recovery in tax revenue may take one or two years after the economy recovers. This time, recovery is taking much longer than usual. The report expresses concerns about possible reductions in federal employment and the effects of continued instability of world financial markets. Montgomery County also faces possible revenue problems because of the continued state budget shortfall for FY 2013, now estimated at about \$1.0 billion, and the possibility of the transfer of state pension obligations to local school boards.

Economic growth remains very weak. Positive signs in the economy include an increase of 5,000 residents employed and an increase of about 5 percent in home prices over the last year. However, the unemployment rate of 5.2 percent, although down from more than 5.6 percent last year, remains far above normal levels and shows little sign of significant improvement.

Inflation is 3.3 percent for 2011, up from 1.7 percent last year. The number of home sales has declined further from 10,400 last year to 9,000 estimated for 2011.

Revenue

The Department of Finance projects an increase of \$36.4 million for FY 2013 compared with previous projections included in the FY 2012 Approved Operating Budget. The increase is attributed entirely to \$63.6 million in higher income tax collections, partially offset by decreases of \$6.4 million in property tax revenue, \$10.6 million in lower transfer and recordation tax revenue, and \$10.2 million for other revenues (Attachment, circle page 24). The November income tax distribution resulted in an increase of \$115 million above previous projections, mainly due to updating of the distribution formula and an increase in withholdings and estimated payments (Attachment, circle page 29). Income tax collections in FY 2012 are projected to be \$121.0 million higher than budgeted. Personal income in the county is expected to increase by 5.4 percent in 2011 and 5.0 percent in 2012. The Department of Finance attributed much of the 2011 revenue increase to higher stock market prices during 2010.

The decrease in property tax revenue is a result of lower assessments. The decreased projections for transfer and recordation tax revenue result from a lower number of real estate transactions. There also are lower projections of energy, admissions, telephone, and hotel/motel taxes.

Fiscal Plan

OMB also presented the updated fiscal plan, which modifies projected expenditures to reach a balanced budget that reflects the increased revenue projections (Attachment, circle pages 4–5). The resulting gap of approximately \$135 million (3 percent of total expenditures) is about \$66 million less than previous projections. In order to balance the budget, this gap requires reductions in county-funded agency budgets of 1.0 percent (\$20 million for MCPS). The fiscal plan therefore conflicts with the Maintenance of Effort (MOE) requirement that obligates the county to increase its local contribution to MCPS by \$22.1 million. The county plan also does not include any assumption about the potential MOE penalty that may result in a loss of \$26.3 million of increased state aid in FY 2013.

Council staff noted that the updated fiscal plan assumes that property tax revenue will be at the Charter limit and that the energy tax increases approved in 2010 will sunset at the end of FY 2012 (a loss of \$113.3 million). The fiscal plan also includes an assumption that Other Post-Employment Benefits (OPEB) for retiree health pre-funding will be \$146.6 million for all agencies, including \$78.3 million set aside for MCPS.

The fiscal plan does not include any assumptions for salary increases for any government agency in FY 2013. The “Major Known Commitments” (Attachment, circle page 6) indicate possible expenditure increases for FY 2013, with no salary increases included. The increased amount assumed for MCPS, \$47.4 million, is based on preliminary information furnished earlier this year. While it does not assume any salary increases, the total increase is more than the \$46.1

million increase of tax-supported expenditures included in the superintendent's Recommended Operating Budget submitted on December 7, 2011.

County Councilmember Nancy Floreen expressed concern about the potential decrease in federal expenditures that may result from federal budget reductions or the possible sequestration that is scheduled for January 2013. Council Vice President Nancy Navarro commended the superintendent's budget recommendation because of its priority to "redeploy resources" rather than immediately restore reduced services as the economic situation improves. She requested that all county agencies similarly review how they are using existing resources. County Council President Roger Berliner called the new information "favorable," but encouraged MCPS to "continue to be cautious."

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

JPS:mcs

Attachment

Copy to:

Executive Staff

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