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

May 7, 2012

MEMORANDUM

To: Members of the Board of Education

From: Joshua P. Starr, Superintendent of Schools

Subject: Fiscal Year 2013 Operating Budget: Sequestration of Federal Grant Revenue

On August 2, 2011, the United States Congress adopted the *Budget Control Act of 2011* (Public Law 112-25) to regulate and limit federal spending. This law may have serious effects on the Montgomery County Public Schools (MCPS) Fiscal Year (FY) 2013 Operating Budget through what is known as the sequestration provision. Sequestration refers to the cancellation or postponement of previously authorized appropriations.

The provisions of the *Budget Control Act of 2011* raised the United States authorized debt ceiling and established a process to reduce future federal spending. The Joint Select (Super) Committee on Deficit Reduction, which was established to develop a spending plan, concluded without taking action, and as a result, automatic across-the-board spending reductions will be implemented on January 2, 2013, unless Congress takes prior actions to avoid the reductions. The anticipated sequestration will affect all discretionary defense and non-defense programs, with proportionate cuts estimated at between 8.5 percent and 10 percent of authorized expenditures. Discretionary expenditures are those provided by annual appropriation rather than as entitlements by separate laws. Most mandatory programs, including federal aid for school meals programs, are exempt from cuts. Medicare is subject to a two percent reduction.

If sequestration is implemented, all other federal grants received by MCPS, including Title I and the *Individuals with Disabilities Education Act* (IDEA), would be subject to automatic across-the-board cuts. Based on the current amount of grant revenue, MCPS could expect to lose as much as $6 million annually. The Maryland State Department of Education (MSDE) has warned local school districts to anticipate grant reductions.

A copy of a memorandum discussing the potential effect of sequestration from Acting State Superintendent Bernard J. Sadusky to local superintendents, dated February 3, 2012, is attached. It is not clear from federal rules whether the reductions would affect FY 2013 grant revenue appropriated by Congress for Federal Fiscal Year (FFY) 2012 or whether the cuts will begin with FFY 2013 grants that MCPS expects to begin to receive during FY 2014. The federal Office of Management and Budget has not issued implementation rules for sequestration and has declined to inform federal agencies of its contingency plans if sequestration takes effect.

I will keep you informed of further developments on the MCPS FY 2013 Operating Budget as they occur. If you have questions, please contact 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
Ms. Cuttitta
Dr. Mugge
Mr. Prouty
Ms. Trible

MARYLAND STATE DEPARTMENT OF EDUCATION
Preparing World-Class Students

Bernard J. Sadusky, Ed.D.
Interim State Superintendent of Schools

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DATE: February 3, 2012

TO: Local Superintendents

FROM: Bernard J. Sadusky, Ed.D.

RE: Federal Funds and the Potential Effect of Sequestration

Background

In August 2011, President Obama signed the Budget Control Act of 2011 which increased the federal debt ceiling. It also included several provisions aimed at reducing long-term budget deficits. One of these provisions created the bi-partisan Super Committee (Joint Select Committee on Deficit Reduction). The Super Committee was charged with developing recommendations to reduce the federal budget deficit by at least $1.2 trillion over 10 years.

The law further provided for a "sequestration" process that would be triggered if the Super Committee could not come to agreement by the deadline of November 23, 2011. The term sequestration means across-the-board spending cuts to non-exempt discretionary and mandatory spending.

The Super Committee did not come to consensus. Therefore, unless Congress acts otherwise, the sequestration process will begin next year. By January 2, 2013, the Office of Management and Budget will calculate and the President is to order reductions for federal 2013 spending.

Estimates of the spending reductions vary. The Congressional Budget Office projects that every non-exempt non-defense discretionary program will be cut by 7.8%. Others have projected larger cuts to domestic discretionary spending. The Center on Budget and Policy Priorities projects a cut 9.3%, while the National Governors Association projects an 8.8% cut.

How will this affect Maryland?

With the exception of PELL grants, all programs funded through the US Department of Education budget are considered non-exempt discretionary programs and would be subject to the cut. It should also be noted the Secretary of Education does not have discretion in implementing the across-the-board cuts to programs. Every non-exempt discretionary federal program will be reduced by the same percentage. At this time, it appears food service programs are being considered exempt programs and they would not be subject to the reductions.

It is difficult at this time to fully anticipate the specific effect of a federal fund reduction to the various programs that rely on federal revenues. Federal funds represent approximately 11 percent of the FY 2013 MSDE budget. The impact of the reductions as called for in the Budget Control Act of 2011, would affect both MSDE Headquarters and pass-through grant operations. While projected reduction percentages range from 7.8% to 9.3%, it is unknown whether Congress will take additional actions between now and January 2013 that will affect the sequestration process.