


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

September 25, 2008

MEMORANDUM

To: Members of the Board of Education

From: Jerry D. Weast, Superintendent of Schools 

Subject: Montgomery County Fiscal Plan

On September 23, 2008, the County Council met to consider the revised fiscal plan issued by the Office of Management and Budget (OMB). The officers of the Board of Education, President Nancy Navarro and Vice President Shirley Brandman, were invited to join the Council at the dais and participate in questioning during the staff presentation. Mrs. Patricia O'Neill also represented the Board of Education at the meeting. Copies of the Council packets from the meeting are attached.

The meeting began with a presentation on the state fiscal situation by Mr. Warren Deschenaux, director of the Office of Policy Analysis in the Maryland Department of Legislative Services. Mr. Deschenaux painted a grim picture of the state fiscal outlook (Attachment A, beginning on Circle page 6). He noted the serious deterioration in the state economic picture since the adoption of the budget changes at the 2007 special session of the General Assembly. He cited the "dire outlook" for FY 2009 and FY 2010. Mr. Deschenaux noted that the state faces the prospect of \$1.2 billion of increased expenditures for FY 2010, including increased state aid for schools, growth in Medicaid obligations, and commitments to state agencies, including a 2 percent wage adjustment for state employees. He also expressed concern about the shortfall in state pension contributions. The most recent state fiscal estimate shows a projected gap of \$246 million for FY 2009 and \$968 million for FY 2010 (Circle page 12). Mr. Deschenaux attributed this change to a slowdown in economic activity that has affected income tax and sales tax receipts. He expects that Governor Martin O'Malley will announce budget reductions to restore the fiscal balance. Councilmembers expressed concern that these reductions would affect state aid to localities and/or pension payments made on behalf of teachers and community college professional staff. Mr. Deschenaux said that the state could draw from its "Rainy Day" fund, but this might have serious repercussions for the rating of state debt.

Mr. Joseph Beach, director of OMB, presented the revised fiscal plan for Montgomery County (Attachment B). The projected gap for FY 2010 remains at \$251 million, the same level as the plan presented on March 15, 2008. He noted that the revised plan does not take into account the effects of recent turmoil in the financial markets. The plan assumes that property tax revenue will be at the Charter limit, and that there will be \$40 million in supplemental appropriations in FY 2009, including \$5.7 million for Montgomery County Public Schools (MCPS) for bus fuel. In addition, the plan assumes expenditure growth of 5.7 percent, based on the 3.7 percent growth in the FY 2009 budget and the cost of certain known obligations, such as fuel costs, utilities, and the

operating budget impact of new capital projects (Circle page 2). Mr. Beach described potential fiscal pressures in FY 2009 and FY 2010, including higher than anticipated increases in MCPS enrollment, higher costs for energy, and potential shortfalls in state and federal aid (Circle page 3). Ms. Jennifer Barrett, director of the Department of Finance, presented a preliminary revenue forecast, noting that there is no actual collection information available for FY 2009, and that final revenue totals for FY 2008 are not yet available. This preliminary analysis shows approximately \$10 million more revenue than projected for FY 2008, but indicates projected shortfalls compared with previous estimates of \$29 million in FY 2009 and \$38 million in FY 2010 (Circle page 6). She stressed that these projections are very preliminary and do not include any impact from the recent economic concerns. The county revenue projections show weaker trends than included in the state report (Attachment A). Ms. Barrett attributed some of the difference to the dependence of Montgomery County on income tax collections resulting from payment of capital gains taxes.

Mr. Roger Berliner, councilmember, asked whether Mr. Isiah Leggett, county executive, intends to request savings plans for FY 2009 from county agencies. Mr. Beach responded that the county executive had extended the county government hiring freeze and noted that MCPS also has imposed a hiring freeze. He said that the county executive would request a savings plan, but he was not ready to go forward at this time. Mr. Leggett wants to see more specific information on the revenue picture that should be available by November 2008.

There was considerable discussion about the accuracy of the revenue estimates as presented by the Finance Department, whether the Finance Department intends to share future revenue data with stakeholders, and whether it is appropriate for MCPS and others to question the revenue estimates. Ms. Barrett criticized efforts to interpret revenue data although she noted that staff has met several times with MCPS staff to brief them on revenue issues. Mr. Beach said that the county executive plans to meet again with staff from other agencies and with other stakeholders, including the leaders of county unions. Ms. Navarro stated that it is appropriate for MCPS staff to review revenue data and that they have done so responsibly. Mr. Michael Knapp, president of the County Council, asked how much the county government had saved in FY 2008. Mr. Beach stated that a total of \$4.4 million had been saved in tax-supported expenditures, and that total savings, including revenue transfers, totaled \$17.4 million. He promised to provide a detailed accounting of the savings to the Council.

I will keep you informed of further developments on the 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 Spatz, director, Department of Management, Budget, and Planning, at 301-279-3547.

JDW:vnb

Attachment A—Update of the County Fiscal Plan and Fourth Quarterly Analysis

Attachment B—Update of the County Fiscal Plan (MFP Committee #2 Addendum)

Copy to:

Executive Staff

Ms. Cullison

Ms. Cuttitta

Dr. Newman

Ms. Romero