

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

January 25, 2012

MEMORANDUM

To: Members of the Board of Education

From: Joshua P. Starr, Superintendent of Schools



Subject: Fiscal Year 2013 Operating Budget

On February 14, 2012, I intend to submit, for the Board of Education's consideration, an amended recommendation for the Montgomery County Public Schools (MCPS) Fiscal Year (FY) 2013 Operating Budget. 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 MCPS prekindergarten programs, and the use of an external survey to measure staff engagement. Below is a summary chart of the impact of the amendments on the FY 2013 Operating Budget.

FY 2013 OPERATING BUDGET

	<u>FY 2012</u> <u>BUDGET</u>	<u>FY 2013</u> <u>DEC REC</u>	<u>FY 2013</u> <u>AMENDED</u>	<u>FY 2013</u> <u>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

**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 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 anticipated state aid increase does not affect the county's obligation to provide Maintenance of Effort (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.

Under current law, if the county appropriates funds to make these pension payments to a local school board, the local contribution may qualify to meet the county's MOE requirement. Legislation has been discussed to consider local retirement payments as an addition to the local contribution required for MOE. The retirement payment also may be part of the basis for future MOE waiver requests.

### **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 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 provided for the previous year for the succeeding fiscal year. In FY 2012, Montgomery County reduced or “rebased” the per pupil amount from \$10,244 in FY 2011, the amount approved by the Maryland State Board of Education as part of a waiver request, to \$9,759 per pupil. 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 void the expected 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 \$19.2 million, equals \$31.1 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 intend to recommend a budget amendment 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 details of this plan will be shared with the Board of Education next week and staff will be available to discuss those plans during final budget action at the meeting of the Board of Education on February 14, 2012. The full governance plans for each school will be presented to the Board of Education in March for approval prior to submission to the Maryland State Department of Education 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 will recommend 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.

### **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, and the Gallup survey. 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 \$425,000 for part-time salaries for summer employment, part-time instructional salaries, and stipends and substitutes in the K-12 budget, and \$200,000 for part-time salaries, stipends, and substitutes from several departments in the Office of Curriculum and Instructional Programs. In addition, I will recommend that MCPS no longer administer the TerraNova 2

(TN/2) assessment to Grade 2 students, resulting in cost savings of \$230,000. I have had preliminary conversations with principals, central services curriculum staff, and association leadership about the elimination of the administration of the TN/2, and they are supportive of this plan.

### **Professional Development Activities**

The FY 2013 Operating Budget includes \$825,000 for professional development to support implementation of Curriculum 2.0 at the elementary level and the Common Core State Standards at the secondary level. Funds will be used to allocate substitutes for elementary school leadership teams, including staff development teachers, classroom teacher team leaders, reading specialists, and math content coaches/math representatives to attend face-to-face Core Team Training sessions throughout the year. At the secondary level, one day of summer Core Team Training will occur to support school leadership teams as they prepare for the transition to the Common Core State Standards. This model equips school leaders with the skills and knowledge to support implementation of Curriculum 2.0 and the Common Core State Standards through coaching and just-in-time professional development. Additionally, teacher substitutes will be allocated to elementary teachers to facilitate collaborative planning and curriculum study to support the implementation of Curriculum 2.0. With the use of substitutes, teachers and other school-based leaders will work together to improve their practice and learn from each other in professional learning communities.

On February 14, 2012, the Board of Education will have an opportunity to consider my recommendations and to make any necessary changes in adopting its FY 2013 Operating Budget Request. If you have questions, please contact Mr. Larry A. Bowers, chief operating officer, at 301-279-3626. If you have questions with respect to the restructuring planning for the two middle schools described above, please contact Dr. Darryl L. Williams, community superintendent, Office of School Performance, at 301-315-7370.

JPS:mcs

Copy to:

Executive Staff

Ms. Cuttitta

Dr. Mugge

Mr. Prouty

Ms. Tribble