



OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

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MEMORANDUM

April 6, 2007

TO: Marilyn J. Praisner, Council President

FROM: Isiah Leggett, County Executive

SUBJECT: MCPS FY08 Operating Budget

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On March 13, 2007, I transmitted my recommended FY08 Operating Budget to the County Council. I carefully crafted this budget with input from many County leaders and other residents who attended and spoke at the numerous town hall meetings and budget forums that we held over the last few months. Our task of balancing the competing demands that are naturally present in a diverse, growing county of nearly one million people is made even more difficult under the financial challenges we currently face.

When I took office on December 4th, the County was facing a \$175 million projected budgetary gap. After the State chose not to fund the Geographic Cost of Education Index (GCEI), the projected gap increased to \$200 million. This projected gap was reduced in February to \$115 million when changes were made in projected income tax revenues. In order to eliminate the remaining \$115 million gap, I made significant budget reductions in all other County agencies (Montgomery College, Maryland-National Capital Park and Planning Commission, and County Government) before I concluded that the Board of Education's budget request would also need to be reduced by \$19.7, the approximate amount of the missing State contribution for the amount of the GCEI. The Board's request of nearly \$2 billion was reduced by less than 1%. The \$19.7 million Board of Education contribution to the \$115 million gap reductions represents 17% of the total reductions I made, even though the MCPS budget is approximately 48% of the County's total operating budget. My recommendation provides the Board an additional \$117 million above their FY07 budget - a 6.3% increase above the FY07 budget as student enrollment dropped by 3,000.

My attempt to minimize reductions to the MCPS budget reflects the priority that all of us attach to education. I am recommending that 99% of the Board's request be funded, a percentage that is consistent with the average recommendation made by County Executive's for the last thirteen years. We simply cannot afford to continue to step into the State's shoes by providing county resources to cover state obligations such as the GCEI funding of \$22 million dollars in FY08.

Next year's fiscal picture will be even more challenging than the one we face this year. Excluding funds for any new initiatives, we are projecting a budget gap of nearly \$270 million. This gap will worsen if State Aid declines, as it may very well do in the area of school construction funding. Given this fiscal outlook, we must be mindful of adopting a budget this year that will exacerbate our dilemma for next year and beyond.

As the policy making authority for MCPS, the Board is in the best position to determine where specific reductions can be made while minimizing the impact on the classroom and the Board's priorities. I trust they will be providing you with their input, as they are legally required to do, after the Council sets its Spending Affordability Guidelines on April 17th. Until then, I have broadly examined the MCPS budget and below offer you some possible options for achieving the reduction to the Board's FY08 Operating Budget request.

The options I present below exceed the total \$19.7 million reduction to the Board's request and are not recommended in totality. They simply represent some of the choices I have identified that the Council and Board could consider. Obviously it is important to further solicit the Board of Education's cooperation, and I hope they will be a partner in meeting our difficult fiscal challenges this year and in the years to come. I recognize the challenges every agency faces when changes are made to their budget request, but I believe we all must work together to develop a fiscally responsible and sustainable budget, especially during these challenging times.

Reduce Risk Management Contribution **\$911,800**

The County Government has reduced the originally required agency contribution to the Self Insurance Fund in light of projected fund balances that exceeded required policy levels. The reduction was made for all participating agencies and municipalities.

Adjust Per Gallon Fuel Cost Assumption **\$466,670**

The MCPS per gallon diesel fuel cost assumption was \$2.50 per gallon. The County government's budget assumption was \$2.36 per gallon. The estimate used by other jurisdictions varied widely given the volatility in fuel markets. If the MCPS assumption were as the County Government's, then savings of \$467,670 would be realized.

Adjust Personnel Lapse Assumption **\$2,000,000**

In all agencies, cost savings are realized each year through staff turnover and replacement of senior, more highly compensated staff with new employees beginning at the lower end of the salary schedule. To a certain extent these savings are already incorporated in the MCPS FY08 budget. However, by delaying the filling of vacancies for non classroom teacher positions (10,480 non classroom positions in MCPS in FY07) additional savings can be realized. Even with classroom teacher positions, the MCPS budget may be understated in terms of lapse savings assumptions. There is a significant pay differential between substitute teaching positions and permanent, career positions. For example, in the MCPS Monthly Financial Report as of January 31, 2007, the report indicates that a surplus of \$1,000,000 was projected in Category 6, Special Education, in part because "... long-term substitute teachers have been hired to fill some full-time teacher vacancies."

Defer School Support Enhancements **\$1,297,715**

MCPS requested this amount for five new positions, equipment, and IT consulting services. Deferral or elimination of this initiative would produce savings of nearly \$1.3 million.

Phase in High School Initiatives **\$900,000**

MCPS requested over \$1.8 million for 19 new positions for additional counselors, expansion of the on-line learning program, resource teachers, and other improvements. These initiatives can be phased in over two years.

Phase in Elementary School Improvements **\$1,400,000**

MCPS requested nearly \$2.8 million for 36 new positions including additional assistant principals, instructional data assistants, IT staffing, and art, music, and physical education staffing. These initiatives can be phased in over two years.

Reduce Workforce Development **\$9,200,000**

The total FY08 requested budget for Workforce Development, including Organizational Development and Staff Development Teachers, is \$46.3 million. This amount represents nearly a tripling of the dollars over the last several years. This program provides training and professional development for MCPS employees. Related programs providing workforce development include curriculum training, professional growth system, staff development teachers, support for professional development and diversity training and development. Savings can be realized by reducing the level of effort by \$9.2 million (20%) and includes the options of reassigning existing staff development teachers to vacant classroom positions or reducing travel and contractual services.

Reduce Consulting and Other Contractual Services **\$2,500,000**

Reduce funds budgeted for consulting and other contractual services, throughout MCPS by \$2.5 million.

Reduce Communications/Public Information **\$1,000,000**

Reduce existing services by \$1,000,000. The Communications Department budget has increased by approximately 40 percent in the last two years (from \$5.5 million in FY06 to nearly \$7.7 million requested for FY08).

Reduce Outside Legal Services **\$750,000**

Reduce reliance on outside legal services, especially for defense in special education claims and administrative hearings, and address legal services through more cost effective in-house attorneys.

Travel

\$100,000

Reduce travel by \$100,000. This expense is a discretionary item that can be limited as fiscal conditions require.

Capital Transfers to Operating Budget

\$6-10 million

My recommended FY08 capital budget assumed State Aid of \$40 million. We understand that a more current estimate would be \$52 million. It would be possible for the Council to substitute \$6-10 million of this additional State Aid for current revenue in the MCPS Current Modernization project and redirect this current revenue to the MCPS Operating Budget. Although this option is one that has some initial appeal, the Council must fully appreciate some of the challenges with this approach. The first is that this option for FY 08 reductions will not help in controlling the FY 09 budget and will exacerbate the projected \$270 million shortfall. Second, these funds are intended for capital projects that are needed, and diverting the funds to the operating budget would slow improvements that have been long-awaited by the community. Alternatively, the Council could use this additional State Aid to accelerate portions of the MCPS Capital program, as appropriate, to complete projects on an expedited basis.

**TOTAL LIST OF POSSIBLE REDUCTIONS TO
ACHIEVE \$19.7 MILLION TARGET**

\$26,526,185 - \$30,526,185

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cc: Nancy Navarro, President, Board of Education
Dr. Jerry Weast, Superintendent