


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

November 26, 2008

MEMORANDUM

To: Members of the Board of Education

From: Jerry D. Weast, Superintendent of Schools 

Subject: FY 2010 Operating Budget Revenue

On November 24, 2008, Ms. Jennifer E. Barrett, director of the Montgomery County Department of Finance, informed the County Council of the worsening revenue estimates resulting from the deteriorating condition of the national and local economies. Based on the latest information contained in the state distribution of income tax revenue for November, which was \$31 million lower than projected, the Department of Finance now projects at least \$200 million less in total revenue for FY 2009 and FY 2010 combined. Based on this new estimate, the potential shortfall for FY 2010 could approach \$500 million. A copy of Ms. Barrett's memorandum is attached (Attachment A).

This lower revenue estimate is consistent with the report on economic indicators presented to the Management and Fiscal Policy (MFP) Committee on November 24, 2008. Weakening employment and income trends, a significant decline in the stock market, a decline in home sales and housing prices, lower investment income because of reduced interests rates, and a decline in the volume of energy consumption threaten to reduce future county revenues. The Office of Management and Budget expects to present an updated fiscal plan to the County Council on December 2, 2008.

This negative information on county revenue parallels available information on projected FY 2010 revenue for Montgomery County Public Schools (MCPS). Because of higher projected enrollment, the minimum amount of county funding required by the state Maintenance of Effort (MOE) law would increase in FY 2010 by \$16.2 million. MOE requires local governments to provide school districts at least the same funding per student as was provided in the previous fiscal year. If enrollment goes up, the local contribution must increase proportionately. A copy of the MOE analysis is attached (Attachment B). In times of fiscal difficulty, however, a local government may apply for a waiver of this requirement. Such waivers were granted by the state for several years during the 1990s.

Preliminary projections of state revenue anticipate an increase in total state aid of \$15.5 million. This increase results partially from increased enrollment, but primarily because of the anticipated full phase-in of the Geographic Cost of Education Index (GCEI) that was funded at a 60 percent level in FY 2009. This is expected to add \$12.2 million in FY 2010. There is a strong

possibility, however, that the GCEI, which is not mandated, will not be funded in FY 2010. In addition, FY 2009 GCEI funding may still be withdrawn by the Board of Public Works. If the GCEI is not funded in FY 2010, it is conceivable that Montgomery County still would not qualify for the \$10 million supplemental (hold harmless) grant that it received this year, because of increased pension contributions expected to be made on Montgomery County's behalf in FY 2010. Normally, more precise estimates of state aid would be available by this time from the Maryland State Department of Education, but the state has informed local school districts that this information is not yet available. Consequently, when state revenue estimates are released, including the impact of 2008 wealth changes, this preliminary estimate might need to be significantly revised. FY 2009 state aid projections are attached for your information (Attachment C).

I will continue to keep you informed of further developments on FY 2010 operating budget revenue. If you have any questions, please call Mr. Larry 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

Attachments

Copy to:

Executive Staff
Mr. Ikheloa

MEMORANDUM

November 24, 2008

TO: Michael J. Knapp, President
Montgomery County Council

FROM: Jennifer E. Barrett, Director
Department of Finance

SUBJECT: Early Alert Regarding Fiscal Pressures

The purpose of this memorandum is to provide to the County Council early information regarding the upcoming update of the County's Fiscal Plan and Finance's developing revenue estimates. While Finance has some still unanswered questions about the November income tax distribution, we believe that the trends and impacts noted above will result in a major write-down of revenue estimates that could exceed \$200 million for FY09 and FY10. This is in addition to the earlier projected gap of \$250 million.

This afternoon, Finance will brief the MFP Committee on the latest economic indicators, and will discuss very current information regarding the November income tax distribution from the State, which came in \$31 million lower than the estimate provided to the Council in September. As you may recall, the September estimates for the income, property, and transfer and recordation taxes were based on economic information and indicators through August. We noted at that time the update was very limited, including information for only two months of FY09, and was not based on any actual distribution information.

Since that time, we have experienced an unprecedented downturn in multiple sectors of the economy which will have severe, additional impacts on County revenues. Multiple economic trends are expected to have a significant impact on revenues. These include:

- Further weakening in income and employment, affecting income tax withholdings and the base going forward
- A 40% decline in the stock market which will affect capital gains reflected in estimated payments and late filings through at least FY2011

Michael J. Knapp
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- A decline in home sales and housing prices affecting capital gains and transfer and recordation taxes over a multi-year period
- A decline in investment income related to short term interest rates
- Declines in fuel energy taxes related to a decrease in consumption

Please note that the reduction in revenues of \$200 million for FY09 and FY10 noted above does not include further anticipated State Aid reductions. Compounding the local revenue trends is the parallel impact on State of Maryland revenues, which also include the State sales tax, and resulting State budget actions which will also negatively impact the County. Over the coming week, Finance and OMB will process this still developing picture and prepare an update to the Fiscal Plan, which will be presented to the County Council next Tuesday.

Based on the combination of State and other budget reductions with the revenue expectations expressed above, and the multi-year nature of the revenue declines, I believe the Council should be prepared for an at least doubling of the budget gap for FY10 over what has previously been discussed.

My staff and I look forward to briefing you on these matters next week.

cc: Isiah Leggett, County Executive
Duchy Trachtenberg, Chair, MFP Committee
Timothy Firestine, Chief Administrative Officer
Joseph Beach, Director, OMB
Stephen Farber, Council Staff Director
Kathleen Boucher, ACAO

ESTIMATED MAINTENANCE OF EFFORT FOR FY 2010
 11/16/2008 (Based on OSA enrollment as of 10-31-08)

FY 09 Local Tax Supplementals: None as of 11-3-08

FY 2009 Rev Res

FY 2009 HIGHEST LOCAL APPROPRIATION CURRENT EXPENSE NONRECURRING COSTS	1,531,482,602	1,531,482,602
LESS FY 2009 NONRECURRING APPROPRIATION PER STUDENT BASED ON FY 2009 LOCAL APPROPRIATION AND 9/30/08 STUDENT ENROLLMENT USED FOR BASIC CURRENT EXPENSE CALCULATION	0	1,531,482,602
FY 2009 (9/30/08) FTE ENROLLMENT for FY 2010	135,972.00	
FY 2008 (9/30/07) FTE ENROLLMENT for FY 2009	134,546.75	
EST. FY 2010 LOCAL APPROPRIATION FOR CURRENT EXPENSE	1,547,705,555	
ADDITIONAL LOCAL FUNDS ESTIMATED FOR FY 2010	16,222,953	
Difference from last:	(364,241)	

	1,531,482,602
255,401 Web filtering	
202,982 Email Spam Filter	
458,383	
(458,383) Denied by MSDE	
	-
	1,531,482,602

1,547,705,555 Agree with OMB a/o
 16,222,953 Increase Charles Goldsmith
 16,222,953 ADDL. FOR MOE

**MONTGOMERY COUNTY PUBLIC SCHOOLS
STATE AID PROJECTIONS**

FY 2009 OPERATING BUDGET

	5/21/2007 FY 2008 <u>Approved Budget</u>	5/30/2008 FY 2009 <u>Approved Budget</u>	11/1/2008 FY 2010 <u>Projection</u>	11/01 - 5/30 FY 2010 <u>Change</u>	11/01 - 11/01 FY 2010 <u>Difference</u>
<u>Tax-supported Aid</u>					
Foundation Grant	\$193,505,366	\$166,062,536	\$168,353,286	\$2,290,750	\$0
Supplemental Grant		10,039,105	0	(10,039,105)	0
Limited English Proficient	38,023,510	42,610,086	45,070,400	2,460,314	0
Compensatory Education	82,533,545	85,772,752	88,962,263	3,189,511	0
Students with Disabilities-Formula	34,079,557	33,154,150	35,342,953	2,188,803	0
Students with Disabilities- Reimbursement	10,261,657	11,056,945	12,919,705	1,862,760	0
Transportation	30,678,135	31,481,949	32,796,596	1,314,647	0
Miscellaneous	<u>250,000</u>	<u>750,000</u>	<u>750,000</u>	<u>0</u>	<u>0</u>
<i>Total - Tax-supported Aid (w/o GCEI)</i>	389,331,770	380,927,523	384,195,203	3,267,679	0
Geographic Cost of Education Index (GCEI)					
<i>Total - Tax-supported Aid (with GCEI)</i>	<u>0</u>	<u>18,373,381</u>	<u>30,622,302</u>	<u>12,248,921</u>	<u>0</u>
	389,331,770	399,300,904	414,817,504	15,516,600	0
<u>Restricted Grants</u>					
Aging Schools	1,023,000	1,023,000	1,023,000	0	0
<u>Total- Grants</u>	<u>1,023,000</u>	<u>1,023,000</u>	<u>1,023,000</u>	<u>0</u>	<u>0</u>
<i>Grand Total (w/ GCEI)</i>	\$390,354,770	\$400,323,904	\$415,840,504	\$15,516,600	\$0

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