

MONTGOMERY COUNTY BOARD OF EDUCATION

850 Hungerford Drive ♦ Rockville, Maryland 20850

June 8, 2011

The Honorable Valerie Ervin, President
Montgomery County Council
Stella B. Werner Council Office Building
100 Maryland Avenue
Rockville, Maryland 20850

Dear Ms. Ervin:

Yesterday, I learned, through an Internet press release, about a memorandum addressed to me regarding the Fiscal Year (FY) 2012 Operating Budget for Montgomery County Public Schools (MCPS), although I have not received a copy of this memorandum through regular channels. Your press release mentions press reports regarding the potential recommendation of the superintendent of schools to the Board of Education regarding how to reduce the Board of Education's Requested Budget as a result of the massive cuts made by the County Council, a reduction of \$118.9 million below the Board's request. The Council directed the Board of Education to cut \$66 million (52 percent) of this total from employee benefits and the Board of Education will comply with that direction. Let me remind you that the budget reductions blatantly violate state law regarding the minimum local contribution to schools and open MCPS to an undeserved penalty of \$26.2 million from the loss of increased state aid that we deserve because of increased enrollment and the educational needs of our students. This is \$26 million that can restore more than 400 teacher and other staff positions that we may have to cut in FY 2013.

According to these press reports, the superintendent of schools believes that the reductions imposed by the County Council in Category 12, Fixed Charges, can be met through efficiencies and cost reductions in the provision of health and life insurance to employees, rather than by increasing the share of these costs paid by employees. Let me note that the County Council appropriates funds to the Board of Education by category total and does not have the authority to determine how to make specific reductions. This is the responsibility of the members of the Board of Education, who must make those reductions with the interests of the school system and meaningful student outcomes in mind, not the wishes of the Council. The Council staff material on employee benefits issues repeatedly emphasizes the authority of the Board of Education to make these detailed determinations, and you and other Council members reinforced that view while I and other Board members were present at your meeting. At those meetings that I attended, you never called on the members of the Board to express their opinions or describe how the Council's proposed changes might impact MCPS.

At the Council's meetings, the staff of the Office of Legislative Oversight reported on the possible impact of benefit cost share changes on school employees. They repeatedly noted that

lower paid MCPS employees, as well as similarly paid county employees, would suffer disproportionately from significant increases in their cost share. For employees who typically earn \$30,000 or less annually, the proposed changes in health insurance costs might be 15 percent or higher of their gross pay and a greater share of their take home pay. At the meeting of the Council, you commented on this harsh possibility and on the difficulties that it might create for employees and for the county, and you said that further study was needed to evaluate all the possibilities for cost reduction instead of just cost shifting. The Council's staff director, Mr. Steve Farber, agreed with you and pointed several times to the improvements instituted by MCPS that have significantly reduced the growth of health care costs. He noted that MCPS has encouraged two-thirds of its employees to enroll in lower cost managed care programs, instead of the more expensive fee-for-service options that are selected by two-thirds of county government employees. This point was so convincing that you initiated the creation of a task force to study how to reduce health insurance costs. This is a very wise idea and MCPS completely supports your proposal. Why would you want to disrupt that process now that all agencies and their employee unions have agreed to participate in good faith?

MCPS employees already have agreed to significant reductions in compensation. Two years ago, they voluntarily gave back \$89 million of already negotiated wage increases. For the past two years they have had no general wage increases, nor have they received annual increments based on seniority for eligible employees, saving \$80 million. Already, this has saved an annual total of \$143 million, equal to seven percent of the MCPS budget. In addition to the lack of pay increases, employees must pay an extra two percent of their salary as a pension contribution, both for the state and local retirement plans. The Board of Education has already enacted far-reaching changes in the pension plans that will impact both existing and new employees and will save millions of dollars immediately and into the future. In FY 2012, employees also will resume paying an additional two percent of salary as a social security tax (FICA) contribution, related to the end of the federal economic stimulus. Yet, you ask employees to pay a higher share of health insurance, which is essentially just another pay cut, on top of the four percent reduction already mandated for next year.

In fact, MCPS is working with its employee unions to review all employee benefit plans. During the next year, we will reopen benefits issues and discuss a variety of options for reducing employer costs. The county decided to take immediate steps to cut employee benefits without any negotiations with its unions. The members of the Board of Education do not believe that this go-it-alone approach is effective. It is not part of the tradition of labor-management cooperation that has produced outstanding results in the classroom for our students. Would you needlessly put that at risk at a time when our employees are working with us to solve our long-term fiscal problems?

I also am surprised to hear from you about the health insurance issue at this time. As you know, when Board Vice President Shirley Brandman and I met with you on April 15, 2011, we indicated to you that we would likely be able to reduce healthcare expenditures this year by about \$15 million. In addition, the Council's Education Committee had plenty of opportunity to

review the Board of Education's Budget request during April and May 2011. It spent a total of less than one hour in its total public review. At our first meeting in April, you cut off your own staff's presentation of the MCPS budget. At your second meeting in May, that lasted only a few minutes, you never asked any specific budget questions. The Government Operations Committee reviewed benefits issues but never asked the Board of Education to participate in its review. As president of the County Council, you disposed of the MCPS budget in only a few minutes at your work session, with no opportunity for members of the Board to participate. Is it realistic to raise the important issue of health insurance now, when work on the operating budget is complete?

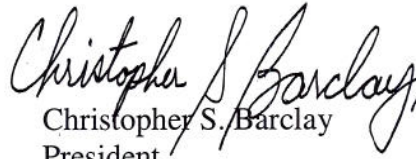
As a result of the Council's hasty action, the Board of Education must make \$119 million of reductions. Based on the tentative action taken by the Board of Education on May 23, 2011, approximately \$95 million (80 percent) of the \$119 million total will relate to employee compensation, including salary and benefits changes. The reductions in the cost of benefits will be \$22 million, even greater than the \$18.7 million recommended by the County Council. Fortunately, the costs of health insurance through the Employee Benefit Plan (EBP) have been lower than originally projected. The estimated expenditures for the EBP trust funds for FY 2011 were projected to be \$338.7 million. Because nearly all of the benefits plans are self-insured rather than paid through a fixed capitation fee, costs are notoriously difficult to predict. Not only do actual hospital and medical bills vary unpredictably based on usage and price, but employees have the opportunity to change plans in the middle of the fiscal year. Therefore, until after the completion of "open season" and the transition to new plans in January of each year, it is very difficult to predict total costs for the year. There also is a significant delay in receiving and analyzing invoices. It is only after we have analyzed the payments for February and March in late April that any trends from open season become apparent. Because the actual billings fluctuate significantly, it is not possible to make budget decisions from a single month's results; it is necessary to see a trend before making changes. Most consultants advise looking at trends lasting six months or longer and to use rolling averages of costs rather than individual billings to make any trend estimates. For example, the official federal health inflation rate for hospital services is 5.4 percent over the past 12 months, but the inflation rate for April (6 percent) was three times the rate for March (2 percent).

Your memorandum also states that had health insurance savings been identified sooner, it would have been possible to reduce reductions in school-based programs. That statement does not accord with actual Council action on the MCPS budget. The Council could have avoided reductions in school-based programs by accepting the county executive's budget recommendation of an \$82 million reduction, with which the Board of Education agreed. Instead, the Council made a further reduction of \$25 million, explicitly using \$8 million in increased state aid and MCPS savings to reduce the local contribution. The Council then took that \$25 million and used it all to fund county government projects. You ask me to believe that had you been able to reduce Fixed Charges by a greater amount you would have used the savings to restore cuts in school programs. When you had the chance to save school programs, you did not think that was such a high priority, but now that the budget is complete, you say it is.

The bottom line is that you want to reduce the salaries of MCPS employees and you believe that it will have no effect on educational quality. I remind you that that judgment is made by the Board of Education, not the County Council. The lack of effort that the Council made in studying these issues during its public review of the budget compromises your authority to give your opinion now. I urge you again to work with the members of the Board of Education in a respectful way to resolve the county's fiscal issues. Your continued disrespect of me and my colleagues on the Board of Education in statements to the media is unacceptable and unbecoming of someone in your position. We want to be your partner, but so far, we have not had sufficient communication to achieve our mutual goals.

I look forward to working closely with you and the County Council to resolve the fiscal issues impacting the quality of education in Montgomery County. Our staff will be available to answer any questions.

Sincerely,


Christopher S. Barclay
President

CSB:ms

Copy to:

Members of the County Council
Members of the Board of Education
Executive Staff