

Montgomery County Taxpayers League, FY'23 Budget Testimony

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We're asking for less, not more. Lower taxes, less staffing, lower pay raises tied to performance, and less manipulation of the balance sheet to pay for election year gimmicks. We look at agency budgets through a strategic lens that includes both the budget increase and base spending, seeking the biggest bang for the taxpayer's buck. In short, the record budget increase of 5% is driven by tax increases and balance sheet manipulations, to fund underperforming program and overhead activities, and all in an effort to make up for failed economic development.

A **record property tax revenue** increase of 3.5% is fueling this spending spree. Last year, the Council increased this burden on homeowners by short circuiting annual review controls over revenue and rate increases (the voter approved 2008 cap based on inflation, and the 2020 voter approved limit on rates to the prior year rate). **(Note 1) Lower the weighted average property tax rate from .9785.**

Bloated staffing (plus 240 FTEs) is out of control, including an overhead rate we estimate is above 30% (world leading organizations achieve 10%, while others target 20%). Recommended **above market pay increases** of 6.5-13% are an insult to the average taxpayer. This is on top of excessive pay increases in past years, The last comprehensive County salary review was done in 2011 (OLO 2011-2). **(Note 2) No increases in staffing should be approved, and pay raises should be limited by productivity improvements, pending a competitive analysis against Howard and Fairfax counties.**

Failed economic development results in poor job creation compared to neighboring counties, and contributes to higher taxes on home owners. Our stagnant commercial tax base is a result of high taxes and regulations, unbalanced transportation solutions, and out of control water and sewer rates. Not only does this place an excessive burden on residents, it constrains growth of our affordable housing inventory (stuck at 2009 levels, especially for those below 30% AMI). Incomes of our residents are lagging compared to Fairfax and Howard Counties, and throwing money at programs won't solve this. A good strategic plan for the Economic Development Corporation (MCEDC) is needed to make us competitive again. **(Note 3) The Council should approve an economic development plan with annual improvement targets.**

Balance sheet manipulations are used to finance excessive budget increases. Reallocation of retiree health benefits trust prepayments (aka other post-employment benefits, or **OPEB**) jeopardizes future claims by county and MCPS retirees. This year the budget underfunds total OPEB prepayments by \$20M (pg. 72-18; see also discussion below about diversion of \$30M budgeted MCPS prepayments), while the trust's funded ratio remains below 50% (pgs. 8-1,3,4, and 72-15,27). Additionally, low **debt service** inflation assumptions will result in cancelled projects down the road. The debt schedule exceeds Council guidance-\$1,750B vs. \$1,680B (pg. 7-2), with debt service at 11.14% of adjusted general fund revenue and uses artificially low inflation assumptions-3.26% for FY'23 (pg. 7-14) to boost the number and amount of recommended projects. **(Note 4) Trust fund prepayments should be fully funded based on actuary recommendations, and more realistic inflation assumptions should be used in the debt schedule to lower new debt that's approved.**

Program and overhead spending excesses occur because the Council’s spending control limits and the budget **are not linked to performance**. Current budget reviews focus on incremental requests only, ignoring ineffective and inefficient programs and overhead activities in the base. Programs with the biggest increase not supported by productivity improvements include:

- **MCPS, \$2.9B, up 5.3%-** MCPS budget and County add-ons need to be refocused on the core objective of improving academic performance. The CE’s budget recommendation is less than MCPS’s request (6.5% increase) but is \$136M above the Council’s spending affordability guidance (pg. 10-2). MCPS is asking for another County funded budget increase above Maintenance of Effort (MoE), \$166M vs. \$117M recommended, to pay for presumed enrollment increases, state funding shortfalls, fuzzy academic strategy budgets, huge pay increases, out of control overhead costs, and expensive Pre-K education cost increases. Incredibly, **enrollment dropped** another 2,332 last fall (Table 4, Adopted Budget 3/1/22). This is nearly half of the total state enrollment drop (pg. 2 of Superintendents 2/24/22 letter, Adopted Budget 3/31/22), but an unsupported 3,000 increase has also been plugged into this budget request for next year to justify funding above MoE (pg. 4, Superintendent’s letter, 12/16/21, Initial Budget Request). Instead of cutting costs for enrollment decreases, MCPS proposes the County pick up the difference. The lower than expected 5% **state funding** increase is also dumped on County taxpayers. There is **no strategic budget** for improving dismal reading and math proficiency, or targets for the number of students that will be helped to justify this increase. State Blueprint driven above market **pay raises** for teachers of 9-18% (subject to pending negotiations) on top of pay increases made in past years, and in the middle of this year are not justified by a formal competitive salary survey. Also, MCPS hasn’t done enough to control **overhead** costs (non-instruction) which we estimate are 45% of the budget and take money away from our kids. Worse, the recommended MCPS budget further increases overhead staffing. Lastly, MCPS has projected increased facility and staff services for the **Pre-K** program that are more expensive and less convenient than neighborhood providers, and due to limited increases in state funding will have to be subsidized by the County. **(Note 5) Limit MCPS to an MoE budget until a better strategic plan is developed that cross-walks to the budget. A new plan should demonstrate that “accelerators” cost effectively improve academic proficiency. Excessive base and overhead spending need to be justified with a competitive salary survey against Howard and Fairfax Counties. Pre-K MCPS in-house services are not cost effective and should be cut to available state and Federal funding levels.**
- **WSSC- \$1,486M, down 4%-** cuts to contract work will not solve structural spending problems in this bloated organization that has high rates double Fairfax’s (at an average family’s consumption level not the bogus low level WSSC touts in its counter claims), with more rate increases as far as the eye can see, and won’t avoid a looming taxpayer bailout due to structural liquidity problems. Approval of the proposed 6.5% rate increase ignores reckless spending (state survey benchmarks, 9/21). Nor will another above market rate increase solve rate discrimination against large families and organizations. **Hold WSSC to a 4% rate increase subject to an independent review of spending and**

liquidity, and consider breaking this monopoly in two to improve control and governance.

- **HHS- \$422M, up 16%-** with the pandemic largely behind us, staffing for emergency response services in the Public Health Service (pg 58-6) should be cut. Also, funding should be scaled back for “wrap around services” like linkages to learning for students and their families (pg. 57-5) and other programs not effective at improving reading and math proficiency. **County funding for education and related services should be limited to programs that improve academic proficiency, and increases should be fully offset by what state “Blueprint” money and Federal Head Start (pg 60-4) will cover.**
- **Non-Departmental Accounts- \$330M, down 19% overall, masking increase of 10% to 89% in certain accounts-** apparent savings for employee and retiree health care, plus a reduction in OPEB prefunding of \$20M offset increases, and need to be verified before increases in other accounts are approved. Those increases include: 10% for payments to the Housing Opportunities Commission (HOC); 24% more for the MCEDC; a new \$19M green bank program; 89% increase in payments to municipalities; and a 57% increase for Work Source Montgomery (pg. 72-33). **(Note 6) Cut back increased spending not justified by increased performance, and consider equity for residents not living in municipalities with weaker local services**
- **Police- \$296M, up 5%-** adding patrol officers is good, but pay for this by cutting back the bloated Investigation Division (pg. 49-10, 312.5 FTEs) vs.224 in Fairfax, and only an average closure rate of 55% (pg. 49-4). Also, spin off outdated 911 service (\$79M, up 5%- pg. 49-6) due to poor incentives, unlike Fairfax’s independent 911 service.
- **Transportation, Transit Services – \$173M up 12%-** empty buses and no concrete strategy to justify increased passenger riders estimated at 18M for FY’23, a 16% increase over FY’22 estimate (pg. 53-5). Ridership was dropping before the pandemic. **Cut back service and spending to improve capacity use.**
- **Housing and Community Affairs- \$68.4M up 11%-** - budget needs to be tied to increased unit production targets, especially for those below 30% AMI where supply is weakest and the MPDU program has failed (pg. 66-4). HOC preservation has not paced demand (pg.66-6). **Cut funding for unit increases in other income levels not tied to strategic unit targets, and expand competition for unit preservation beyond the HOC.**
- **Council- \$16M up 18.3%-** Expanding council seats to 11 drives a staff increase of 33 FTEs (pg. 16-3). This happened because the Council sponsored an override challenge to a grass roots referendum for more up-county representation that would have done away with open seats which have perpetuated a down county bias, while arguing that open seats do not focus on parochial district issues. **Offset increased costs for two new Council members by reducing staff assigned to open seat constituent services.**

Notes

- (1) **Property Tax Revenue:** The increase in property tax revenues is due to a 10% increase in the median existing home sales price and triennial reassessments estimated at 11.3%. These hurt fixed income residents and house poor low-income residents the most. Owners of unimproved properties are already saddled with inequitable subsidies of

McMansions in wealthier neighborhoods (OLO 2018-1, due to Finance's exclusions from the "new construction" definition.

- (2) **Staffing and Compensation:** The recommended salary increase is composed of a general wage adjustment (GWA) of 3-6%, plus step or longevity increases of 3.5%, plus a 3.5% deferred service increment from 2011, and a lump sum payment of \$600 (pgs. 8-2, 6). A review in 2016 for management only showed we pay 18-24% above neighboring counties and 7.5% more than the Federal government.
- (3) **Economic Program:** Last month the Council perpetuated the non-competitive energy tax that was supposed to sunset in 2012, creating a new subsidy for developers of green buildings with limited performance metrics tied to local pollution problems. Another example would be the Thrive 2050 proposal that summarily tried to eliminate 180 mostly up county road projects without sufficient up county representation, or consideration of the economic impacts on those residents, or the increased property tax burden on all fixed income residents.
- (4) **Balance Sheet:** In addition, the \$30M requested for MCPS OPEB prepayments was hijacked to fund MCPS operating budget increases above MoE (CE 3/15/22 letter, pg.3).
- (5) **MCPS:** Recommended Budget has just two major reductions in MCPSs request: MoE increase was reduced by \$33M due to this year's enrollment decreases, (pg. 10-3); and the \$41M increase in health insurance costs for deferred health services/claims (pg. 5, Superintendent's letter 12/16/2021, Initial Budget Request) was reduced using revised fund balance estimates. The unsupported 3,000 student **enrollment increase projection** includes a curious increase for elementary school students which have been trending down, and had the biggest misses against forecast in the last 3 years. Enrollment will increase somewhat as some students return from the lockdown, but most probably won't. Other than diverting OPEB prepayments, the CE has not recommended decreases to the \$348 million of county additions outside the MCPS budget (pg. 10-2- mostly debt service, Police and HHS programs, but does include \$30M in OPEB prepayments the CE recommends cutting). MCPSs insurance plan co-pays and cost sharing differ from the County plan, so this is not a budget issue for County employee benefits. Staff development and reading "**accelerators**" are mentioned in the budget request, but the traditional Table 1A explanation of budget increases was dropped and replaced by ambiguous and conceptual "accelerator" references with no cross-walk to the strategic plan approved last November. Specifically, this budget is not linked to a concrete strategic plan to close the gap since there are no annual targets for how many kids will be helped by tutoring and interventions after a lockdown recovery year that put students in a bigger proficiency hole. Only 5,146 students received tutoring and interventions through February 11 (MCPS Board memo, Mitigation of Learning Disruptions, 3/8/22, pg.4), a small fraction of the 75,000 kids (our estimate) that are not proficient in math or reading. MCPS has clarified that the 5,146 does not include any students who may receive tutoring or interventions during the day since this is not tracked centrally. Bulging **overhead** of 45% (our estimate) in both central and school non-instruction activities takes money away from our kids, and no attempt was made to justify this high overhead level in this budget. Staffing changes shift more spending to non- instruction (Table 5, Adopted Budget 3/1/22- teachers are minus 18 FTEs, but FTEs are plus 131). Overhead positions were basically swapped in for the 167 school FTEs dropped due to lower

enrollments (pg. 4, Superintendent's letter 12/16/21 Initial Budget Request). **Salary increases** will range from 18% down to 9%. Blueprint mandated above market pay raises for approximately 300 National Board-Certified teachers of 18%: \$10,000 for National Board-Certified teachers, plus \$7,000 for those in 2 underperforming schools, on top of an average instruction salary of \$92,582- (Superintendent's letter 2/24/22, pg. 6 and Table 7, Adopted Budget, 3/1/22), divided by Instruction salary total of \$1,148,017/12,401- yields an increase of 18%. We estimate others will receive 9% increases: 1.5% GWA, plus 3.5% step/longevity, plus retention of \$1,100- 1%- plus we estimate another 3% pending union negotiations (ibid, pgs. 12-13). These high salaries reduce the number of teachers that can be hired within spending affordability guidelines. There are no salary survey comparisons to Howard and Fairfax in the budget to support this huge increase. The \$42M increase from the state including Blueprint money (ibid, Table 2) doesn't adequately cover funding for proposed MCPS **pre-K services** (facilities and staffing for 41.5 additional FTEs, \$3.3M, ibid, pg. 6). But, sites in centralized MCPS facilities are less cost-effective than neighborhood facilities operated by other providers, and less convenient for low-income residents. More students could be served if more cost-effective services were used. There is no data in budget documents to suggest that private providers deliver any less effective academic services.

(6) Non-Departmental Accounts: Projected spending reductions have expanded the fund balance: MCPS health benefits of \$57M vs. \$73M in FY'22; group insurance for retirees of \$29M down from \$51M in FY'22; leases of \$15.6 vs 18.9M in FY'22; retiree group insurance of \$29M vs.\$51M in FY'22. This seems to make room for growth in other spending, but increased performance target justifications are not provided: employee benefits of \$9M are up from \$4M in FY'22; HOC \$8M vs. \$7M; MCEDC \$6M vs. \$5M; Green Bank's new account of \$19M; payments to municipalities \$17M vs. \$9M; OPEB minus \$20M for pre-funding fund balance not supported by actuary calculations; Risk Management \$26M vs. \$23M; Work Source Montgomery \$2.2M vs. \$1.4M.

County FY 2023 Budget Recommendation, March 15, 2022

https://www.montgomerycountymd.gov/OMB/Resources/Files/omb/pdfs/FY23/psprec/FY23_CE_Recommended_OperatingBudget.pdf

MCPS FY 2023 Adopted Budget, March 1, 2022

https://www.montgomeryschoolsmd.org/uploadedFiles/departments/budget/FY2023_OperatingBudgetTentativelyAdoptedBOE.pdf

MCPS FY 2023 Initial Budget Request, December 16, 2021

https://www.montgomeryschoolsmd.org/uploadedFiles/departments/budget/FY2023_RecommendedBudget_WholeBook.pdf

MCPS Board Memo, Mitigation of Learning Disruptions, 3/8/22

[https://go.boarddocs.com/mabe/mcpsmd/Board.nsf/files/CC5KN55223C7/\\$file/Mitigation%20Learn%20Disruption%20220308.pdf](https://go.boarddocs.com/mabe/mcpsmd/Board.nsf/files/CC5KN55223C7/$file/Mitigation%20Learn%20Disruption%20220308.pdf)

MC Jobs Analysis, 6/17/21

<https://harpswellstrategies.com/wp-content/uploads/2021/06/Post-Pandemic-Economic-Leadership-for-Montgomery-County.pdf>