

FY 2025 Budget Testimony, April 8, 2024

Gordie Brenne, Treasurer, Montgomery County Taxpayers League

Accountability and transparency are popular words for describing policy and budget challenges. But they won't work without **incentives** and **performance targets**. Budgets are incomplete operating plans without Incentives and performance targets, and they should be added as part of your governance process to achieve accountability and transparency. This is the year for redemption after last year's budget debacle, and taxpayers want accountability and transparency.

Taxes- Roll Them Back: In hindsight, there wasn't a budget emergency last year that required a 4.7% tax rate increase. Much of the increase had nothing to do with our schools, but was spent giving county employees huge pay raises of over 10%, and supplemental appropriation projects not approved in the budget process. The spending affordability guidance you approved in February 2023 failed. (This can't happen again, but the Charter Review Commission is now looking at changing the current vote requirement for tax rate increases from unanimous to just 8 votes- a big mistake based on last years' experience).

Combined with record appraisal increases (except for our stagnant commercial tax base due to poor economic development), the tax rate increase resulted in too many fixed income property owners and renters getting clobbered with over 20% property assessment increases, and 10% tax increases every year thereafter, while county employees got record pay raises- that's inequitable without commensurate performance increases. Projected reserves exceed the performance target by \$106M and should be returned to taxpayers by rolling back the tax rate increase and restoring the CPI limit on property tax receipts.

Spending- Implement More Incentive Controls: Increased staffing and pay increases (7-8% is proposed) should be tied to program performance, and any general wage adjustments should be conditional upon completion of an updated comparative salary survey last done in 2011. (We've reviewed HRs annual salary survey, which the GO committee relies upon, and found it didn't justify last year's excessive pay increases).

Create budget incentives to improve performance and defund program strategies that aren't cost-effective. Share performance data with taxpayers so they can see what they're getting for their money. For example:

- **MCPS-** How many more low-income kids will become proficient in literacy and math next year, would tying spending above the maintenance of effort level to achievement gap reductions improve incentives, and can interventions and tutoring for all struggling kids be paid for by cutting excessive non-instruction overhead costs (45% of spending vs. 37% for Fairfax)?
- **Public Safety-** How much will crime be reduced by this budget, and would separating the 911 call center as Fairfax has done spur innovations to reduce response times?
- **Transportation-** How many new riders could be added by shifting bus capacity to popular routes?

- **Housing-** How many more affordable housing units will be started next year with additional subsidies?
- **HHS-** How many more residents would be served by reallocating HHS spending from programs serving fewer than 50% of eligible residents because they either duplicate other programs or aren't needed after the Covid emergency?
- **WSSC-** Can WSSCs proposed 8.5% rate increase be cut to 5% to incentivize capital improvements that would reduce the terribly inefficient 20% lost water rate and other waste (excessive costs were cited in the Delegations survey, 9/31/22; this would boost revenues and improve our competitiveness with Fairfax which sells water to larger families and organizations for half our rate)?

Additional Review Comments

MCPS Budget-Tie To Improving Student Outcomes: The biggest **transparency** problem is that reading and math proficiency rates are not disclosed in the budget, even though they are below pre-Covid levels for low-income kids and little progress has been made in spite of all the money we're throwing at the problem. The budget request also fails to disclose that interventions and tutoring for struggling low-income students reach fewer than half of them. Unforgivably worse, the proposed budget doesn't include any significant plans to expand teacher interventions or tutoring, and what's currently being done is buried in base spending activities, without disclosure. The biggest **accountability** problem is that MCPS doesn't set any performance targets for low-income kids and can't be held accountable for performance and related costs since the budget isn't traceable to intervention and tutoring strategies. All the so called "accelerators" mentioned in the last Superintendents budget letter are overhead, so that instruction accelerators are buried in the base, and poor performance has no explanation. This leads to the biggest problem of all: **incentives**. **The accountability and transparency problems are management, not money problems**, and new incentives are needed. MCPS doesn't tie its budget approval to reaching performance milestones. MCPS management doesn't even tie teacher or principal effectiveness evaluations to student performance, or even participation in teacher interventions or tutoring. This is why Mr. Beidleman was promoted even though he did little to improve student reading or math proficiency while the principal at Farquhar Middle School, and hadn't run a high school before. **Absent incentives, there's little reason to expect transparency or accountability.** Tying appropriations above the Maintenance of Effort level to achievement gap reductions would provide incentives to manage instruction costs and overhead.

MCPS Overhead- Redirect It To More Instruction: When parents say they want to fully fund MCPS, are they saying they want 45 cents of every dollar spent on non-instruction overhead? The 45% spent on non-instruction grows every year under the Maintenance of Effort mandate controls the county has implemented, and acts much like a cost-plus contract. That compares to 37% for Fairfax County, for a difference of \$270M in extra spending by MCPS, which is 17% of property tax receipts. This wasteful spending should be redirected to boosting instruction strategies like interventions and tutoring for every struggling kid. Again, a strategic budget would make this problem transparent and improve accountability given new incentives.

MCPS OIG- Create a Dedicated OIG: The last dodgy county OIG report (1/24/24, MCPS Complaint Processing was nothing more than a rehash of the much-maligned Jackson Lewis law firm report (9/8/23), and didn't say anything new about how principals and teachers should be evaluated for effectiveness. MCPS is a high-risk organization and **systematic reviews of MCPS performance, policy and practice risks can only be done by a well-staffed and dedicated OIG that reports to and is held accountable by the Board.** This is a serious governance problem and relying on the county OIG is inconsistent with U.S internal control standards for Control Environments adopted by the AICPA and the GAO. Tie any pay raises for Board members to a new OIG to upgrade and replace the overwhelmed internal audit function that spends too much time looking at school activity funds, and an infrequent state Board audit that happens only every 6 years.

WSSC-Reduce Costs and Mismanagement: A whopping 12% spending increase, based on another above market rate increase of 8.5% and fixed fee increases is recommended in the CEs budget. Our water rates are double Fairfax for a family of 4. Capital spending is focused on deferrable plant improvements, while only 25 miles of new pipelines is proposed. WSSC hasn't cut costs in 20 years, and mismanagement has resulted in lost water and unpaid customer bills that remain unacceptably high, reducing revenues and solvency, while putting more upward pressure on customer charges. Further, the rate structure tries to progressively recover more revenues from commercial and government customers, but their demand has dropped, putting even more pressure on residential customers, and now increased fees are proposed to offset this revenue loss. There are no management incentives to cut costs. Recent changes to underwriter bond ratings from negative to stable are a function of resident incomes, not needed cost reductions.