



MONTGOMERY COUNTY BOARD OF EDUCATION

Unleashing Potential

15 West Gude Drive ♦ Suite 100 ♦ Rockville, Maryland 20850

September 30, 2025

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

Dear Ms. Stewart:

This letter provides information regarding State Expenditure Category 12, Fixed Charges, for Montgomery County Public Schools (MCPS) as of June 30, 2025, which is the end of Fiscal Year (FY) 2025.

End-of-fiscal-year comparison of budgeted versus actual expenditures for components of State Category 12, Fixed Charges (all figures are in millions)

| Component | FY 2025 Budget | FY 2025 Actual | Variance |
|--|-------------------|-------------------|--------------|
| Active Employee Group Insurance | \$341.2 | \$344.2 | (\$3.0) |
| Retiree Group Insurance | 38.7 | 38.7 | - |
| Federal Insurance Contributions Act (FICA) | 155.0 | 155.4 | (0.4) |
| Retirement | 153.8 | 149.7 | 4.1 |
| Non-tax Supported Grants | 31.9 | 26.5 | 5.4 |
| Risk Management/Self-Insurance | 28.6 | 23.9 | 4.7 |
| Tuition Reimbursement | 4.6 | 6.6 | (2.0) |
| Miscellaneous | 1.8 | 3.9 | (2.1) |
| Total | \$755.6 | \$748.9 | \$6.7 |

Active Employee Group Insurance

The amounts reflected in the preceding chart are the appropriation and actual contributions from the MCPS General Fund to the MCPS Active Employees Group Insurance Trust Fund (Active Group Fund). This fund receives contributions from MCPS employees and other funds that support employee wages and benefits, such as the Food Services Fund and other enterprise funds, grants, and the MCPS Capital Budget. The fund also receives revenue contributions in the form of prescription rebates.

In the March 2025 Category 12, Fixed Charges update to the County Council, and in alignment with projections from our actuary, Aon, it was shared that the Active Group Fund was experiencing

higher-than-anticipated expenses resulting from increased plan enrollment, as well as increases in actual claims expenses. The fund continues to be impacted by high claims expenditures due to the increased utilization of Glucagon-like Peptide-1 (GLP-1) drugs (i.e., Ozempic, Trulicity, etc.), as well as by general expenditure trend increases for medical claims, as well as large claimants where total claims for the most recent 12-month period range from \$100,000 to more than \$1.0 million. In addition to implementing the Prudent Rx prescription management plan in January 2025, MCPS has engaged in several other strategies to help increase plan revenue and reduce expenditures. This includes negotiating reasonable and necessary employee cost share increases, implementing a GLP-1 management plan, and obtaining contract enhancements for our Cigna health plan. These changes are projected to result in a positive impact on the plan fund balance from \$14.6 million in FY 2026 to \$22.7 million in FY 2028. Furthermore, MCPS is engaging with Caremark around other potential contract enhancements in hopes of yielding additional savings.

Overall, the beginning fund balance of the Active Group Fund at the start of FY 2025 was a deficit of \$31.3 million. The fund ended the fiscal year with a deficit balance of \$60.9 million, which is a slight improvement from the March 2025 projected deficit of \$63.6 million. This improvement is mainly the result of our ability to transfer \$3.0 million in surplus funding in the General Fund to the Active Group Fund to help offset the negative fund balance. This surplus in the General Fund is the result of a higher-than-anticipated portion of the state retirement contribution covered through non-tax-supported grants, resulting in a lower contribution amount required through the general fund.

Retiree Group Insurance

The amounts listed in the table on the previous page are the appropriation and actual contributions from the General Fund to the MCPS Retiree Group Insurance Trust Fund (Retiree Group Fund). In addition to the county appropriation, the fund receives contributions from MCPS retirees, rebates on prescriptions, and reimbursements from the Employer Group Waiver Plan. In FY 2025, the Retiree Group Fund also received a total contribution of \$52.2 million from the county's Consolidated Other Post-Employment Benefits (OPEB) Trust Fund, which includes the \$27.2 million that historically has been diverted from the county OPEB Trust fund to the MCPS retiree fund, as well as an additional \$25.0 million, as agreed upon during the process to finalize the FY 2026 Operating Budget. This agreement with the County Council also resulted in the commitment to contribute an additional \$25.0 million to the Retiree Group Fund from the OPEB Trust fund in FY 2026, bringing the total contribution for the two fiscal years to \$50.0 million. This increase in committed funding from the county's OPEB Trust Fund is offset by the reduction by MCPS of \$50.0 million in funding from the requested local contribution for the FY 2026 Operating Budget.

At the start of FY 2025, the beginning trust fund balance for the Retiree Group Fund was a deficit of \$3.7 million. The ending FY 2025 balance is a surplus of \$2.9 million. Total actual revenues, not including the additional OPEB Trust Fund contribution, and expenditures for FY 2025 for the fund closely aligned with projections within a margin of less than 1.0 percent. However, the additional contribution from the OPEB Trust Fund is the main driver in the ability to close the gap

between expenditures that exceeded revenues for the year, and ultimately restore the Retiree Group Fund to a positive balance.

Federal Insurance Contributions Act Payments

Required employer *Federal Insurance Contributions Act* (FICA) payments are related directly to the total salaries and wages paid during the fiscal year. For FY 2025, the budgeted amount for FICA was \$155.0 million. The actual amount was \$155.4 million, resulting in a variance of (\$0.4) million or (0.2) percent.

Retirement

This expense includes employer contributions to both the Maryland State Retirement and Pension System (state retirement), including the Maryland State Retirement Agency's administrative fee, as well as the MCPS Employees' Retirement and Pension Fund (local pension). A portion of the state retirement obligation is paid by non-tax-supported grants, enterprise funds, and the MCPS capital budget, based on the salaries of employees funded through these sources who participate in the state plan. The remainder of the obligation is covered by the MCPS General Fund. The local pension contribution also is funded through the General Fund, based on actuarial assumptions and aligned with strategic goals to improve the plan's funded ratio and reduce the Unfunded Actuarial Accrued Liability (UAAL).

During the past decade, the Board and the superintendent of schools have collaborated through challenging financial conditions to strengthen the local pension plan and increase the funded ratio. In 2024, the plan actuary, Gabriel, Roeder, Smith & Company (GRS), performed an experience study to compare actual plan experience and future expectations for experience against the actuarial assumptions. GRS also recommended adopting an Actuarial Funding Policy with a target funding ratio of 100 percent. The recommended funding policy and changes in actuarial assumptions were adopted by the Board at its meeting on May 22, 2025 (Resolution No. 226-25), with the recommended changes in actuarial assumptions to begin with the valuation report as of July 1, 2024.

This revised policy supports the systematic funding of future benefit payments for plan members and improves budget visibility. While this change will increase annual employer contributions, anticipated to begin in FY 2027, it is expected to fully eliminate the local pension plan's UAAL within 20 years. Once fully funded, the required Board contribution is projected to decrease significantly. Additionally, over time, investment gains on contributed funds are expected to help offset employer cost pressures. The most recent MCPS Pension Fund funding level was reported as 84.2 percent, with an update expected to be provided by the end of October 2025.

Non-tax-supported Grants

Non-tax-supported grants include amounts for both budgeted and non-budgeted grants in MCPS. For FY 2025, the budgeted amount for non-tax-supported grants was \$31.9 million. The actual amount for grants was \$26.5 million. The variance of \$5.4 million primarily is the result of revenue

failure for the FY 2025 Title I, Part A grant, due to the actual awarded funding being less than budgeted. To align the budget for the grant with the approved award, there was a reduction in funds used for salaries, thus resulting in surplus funds for employees. Furthermore, the variance results from unused funding for employee benefits budgeted on multiyear grants, such as the Title I, Part A grant and the *Individuals with Disabilities Education Act* grant. The budget for employee benefits on these multiyear grants will continue to be spent until the close of the grant period.

Risk Management/Self-Insurance

The majority of these expenses reflect the assessment made by the Self-Insurance Program, which is based on MCPS' participation in the county insurance fund. The largest component of these expenditures is workers' compensation costs. The actual amount of \$23.9 million is \$4.7 million less than the budgeted amount of \$28.6 million, resulting in a variance of 16.6 percent. This variance is the result of the required self-insurance program contribution being held flat to the amount required in FY 2024. In addition, due to higher-than-anticipated investment income for the county risk management program, MCPS also received a one-time return of contribution of \$1.8 million.

Tuition Reimbursement

Expenditures for tuition reimbursement are the result of employees' requests for reimbursement of tuition costs as provided for in the negotiated agreements between the Board and the employee associations, in addition to tuition payments made directly by MCPS to higher education institutions on behalf of employees participating in identified higher education partnership programs. The FY 2025 expenditures for reimbursements of \$6.6 million are \$2.0 million more than the budgeted amount of \$4.6 million. This variance is the result of higher-than-anticipated reimbursement for the higher education partnership programs for teacher preparation, continuing education and graduate certifications, and school leadership development.

Miscellaneous

Expenditures for miscellaneous benefit components of Category 12 reflect a variance of (\$2.1) million between the budgeted and actual amounts, which mainly is the result of greater-than-anticipated expenditures for the Montgomery County Association of Administrators and Principals/Montgomery County Business and Operations Administrators annual leave conversion.

Summary of any intra-fund transfers that occurred within State Category 12, Fixed Charges (i.e., transfers between State Category 12 components), during the prior fiscal year, as well as an explanation of the need or policy decision that led to each transfer:

During FY 2025, no intra-fund transfers occurred within State Category 12, Fixed Charges.

Members of the Board of Education, the superintendent of schools, and MCPS staff are prepared to work with the County Council and Council staff to provide additional clarification as needed.

Sincerely,

Julie Yang
President



TWT:IAW:CMT:lsh

Copy to:

Members of the Montgomery County Council

Members of the Board of Education

Dr. Taylor

Mrs. Alfonso-Windsor

Ms. McGuire

Ms. Thompson

Ms. Paddyfote

Ms. Webb

Mr. Lockman