

## Wicomico County, Maryland

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May 17, 2010

Anthony South, Executive Director  
Maryland State Board of Education  
200 West Baltimore Street  
Baltimore, Maryland 21201

RE: Maintenance of Effort Waiver Request – reply to follow up question

Dear Mr. South;

Neither the County nor the local Board of Education conduct planning and budgeting in terms of “constant dollars”, i.e. dollars that have been either deflated or inflated to a particular reference year such as constant 2001 dollars.

With budgets denominated in real dollars or current year dollars, it is difficult to back out the effects of inflation. As an example, an increase in salary cost may be based on longevity, performance or improved capability and is therefore a real increase in operating cost. Similarly, increases in student enrolment may create real cost increases. On the other hand, a cost-of-living increase in wages is a direct recognition of inflation. Likewise, a budget increase in fuel budget for buses during periods of increasing fuel costs is also a direct recognition of inflation in the current year dollar budget estimate. Therefore, it is extremely difficult to disaggregate the effects of inflation from program growth, longevity pay raises or merit promotions. Never the less, we will attempt to construct an answer to your question using two methods.

As we went back over the numbers again we found a data entry error in our initial summary. A corrected table is provided below. It reduces the amount of over funding from \$11M to \$10M. We'll use this corrected data to answer your inflation question.

Fiscal Year	Operating Appropriation	Maintenance of Effort	If we only funded MOE	Amount Funded Over Maintenance of Effort
<b>Last Ten Years</b>				
2001	\$ 42,843,788	\$ 143,746	\$ 38,287,534	\$ 4,556,254
2002	\$ 43,743,788	\$ (201,571)	\$ 42,642,217	\$ 1,101,571
2003	\$ 44,665,088	\$ (235,712)	\$ 43,508,076	\$ 1,157,012
2004	\$ 45,679,815	\$ 452,297	\$ 45,117,385	\$ 562,430
2005	\$ 46,131,073	\$ 451,258	\$ 46,131,073	-
2006	\$ 46,925,458	\$ 348,916	\$ 46,479,989	\$ 445,469
2007	\$ 48,329,815	\$ 764,985	\$ 47,690,443	\$ 639,372
2008	\$ 49,443,053	\$ 113,238	\$ 48,443,053	\$ 1,000,000
2009	\$ 50,204,655	\$ 61,602	\$ 49,504,655	\$ 700,000
2010	\$ 50,781,711	\$ 577,056	\$ 50,781,711	-
<b>Last 10 Years Total Funding over MOE</b>				<b>\$ 10,162,108.00</b>

One way to evaluate the effects of inflation on the cost of education would be to inflate the 2001 Board of Education's full MOE budget to future years and compare the amount to the County's appropriation in each corresponding year. The table below shows the result of this analysis. Over 9 years the County contributed \$36.6M more than the 2001 inflation adjusted MOE budget.

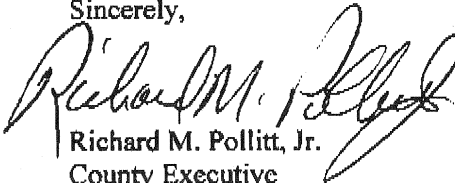
Year	factor to escalate 2001 budget to current year	2001 BOE MOE budget escalated to Current Year Dollars	Budget Year County Funding in Current Year dollars	Over/(short) contribution based on escalated 2001 BOE MOE budget
2001	1	\$ 38,287,534	\$42,843,788	\$4,556,254
2002	1.015810277	\$ 38,892,871	\$43,743,788	\$4,850,917
2003	1.038961039	\$ 39,779,256	\$44,665,088	\$4,885,832
2004	1.066629023	\$ 40,838,595	\$45,679,815	\$4,841,220
2005	1.102766798	\$ 42,222,221	\$46,131,073	\$3,908,852
2006	1.138339921	\$ 43,584,228	\$46,925,458	\$3,341,230
2007	1.170762281	\$ 44,825,601	\$48,329,815	\$3,504,214
2008	1.215714286	\$ 46,546,702	\$49,443,053	\$2,896,351
2009	1.211389046	\$ 46,381,099	\$50,204,655	\$3,823,556
				<b>\$36,608,426</b>

The above analysis however probably under values the real cost growth associated with student enrolment increases, so we performed a second computation.

In the second method, we treated the BOE budget base independently from the annual MOE increment as follows. The base for each year was restated (deflated) to constant CY2001 dollars. The MOE increment reflecting the real current year cost of additional enrollment was then added to this constant dollar base. The resulting number is a hybrid combination of constant 2001 dollars (base) and current year MOE increment. We then restated (deflated) each year of the County's contribution to constant 2001 dollars and compared those to the BOE's hybrid total. This analysis indicates that the County's contributions exceeded the effects of inflation over the 9 year period by \$9.4M. Please see the data table attached.

We conclude that the County provided the local Board of Education with real and substantial increases in funding above and beyond the effects of inflation and student enrollment growth.

Sincerely,



Richard M. Pollitt, Jr.  
County Executive

