

**Department of Legislative Services**  
Maryland General Assembly  
2014 Session

**FISCAL AND POLICY NOTE**  
**Revised**

Senate Bill 128

(Chair, Budget and Taxation Committee)(By Request -  
Departmental - Education)

Budget and Taxation

Appropriations

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**Education - Compensatory Education Grants - Federal Community Eligibility  
Provision**

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This departmental bill alters the enrollment count used to calculate compensatory aid in fiscal 2016 and 2017 for local boards of education that participate, in whole or in part, in the U.S. Department of Agriculture (USDA) Community Eligibility Provision (CEP).

The bill takes effect June 1, 2014.

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**Fiscal Summary**

**State Effect:** The effect of the bill is assumed to be minimal and will depend on CEP participation by local school systems and on the annual change the free and reduced-price meals (FRPM) enrollment counts for each school system. General fund expenditures in FY 2016 and 2017 may be affected. Revenues are not affected.

**Local Effect:** State aid to local school systems may be affected by a minimal amount in FY 2016 and 2017. Local school expenditures are not directly affected.

**Small Business Effect:** The Maryland State Department of Education (MSDE) has determined that this bill has minimal or no impact on small business (attached). The Department of Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

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## Analysis

**Bill Summary:** For fiscal 2016 and 2017, the compensatory education enrollment count for local boards of education that participate, in whole or in part, in CEP is the *greater* of:

The sum of:

- the number of students in CEP participating schools identified by direct certification for the prior fiscal year;
- the number of students identified by the income information provided by the family to the school system on an alternative form developed by MSDE for the prior fiscal year; and
- the number of students eligible for FRPM from any schools not participating in CEP for the prior fiscal year; *or*

The number of students eligible for FRPM from any schools not participating in CEP for the prior fiscal year plus, for schools participating in CEP, the result of multiplying the prior fiscal year total enrollment by the percentage in the year prior to participating in CEP of FRPM-eligible students as compared to total enrollment. However, for the purpose of this calculation, schools participating in CEP in the pilot year may use the percentage of FRPM-eligible students during the pilot year.

The bill also requires the adequacy study originally mandated by Chapter 288 of 2002 to include a review of the identification of low-income students for the purpose of providing State education aid. The review must include an evaluation of (1) the methods used in other states and by the federal government to identify low-income students or families and (2) whether the number of low-income students that would have been identified using a method recommended in the adequacy study is comparable to the number used to calculate compensatory education State aid for the years during which a local board of education participates in CEP.

**Current Law:** The Healthy, Hunger Free Kids Act of 2010, in part, amended the federal National School Lunch Act to provide an alternative to household applications for FRPM in high-poverty local educational agencies (LEAs) and schools. This alternative is referred to as CEP. To be eligible, LEAs and schools must meet a minimum level of students directly certified for free meals (40% of enrollment) in the year prior to implementing the option; agree to serve free lunches and breakfasts to all students; and agree to cover with nonfederal funds any costs of providing free meals to all students above amounts provided in federal assistance.

Reimbursement is based on claiming percentages derived from the percentage of students directly certified as increased by use of a multiplier, which is currently set at 1.6 but may range from 1.3 to 1.6 in subsequent years (as determined by USDA). The claiming

percentages established for a school in the first year are guaranteed for a period of four school years and may be increased if direct certification percentages rise for that school. An LEA may participate in CEP for all schools in LEA or only some schools, depending on the eligibility of the individual schools and financial considerations based on the anticipated level of federal reimbursement and other nonfederal support that may be available.

Participating schools that continue to meet the minimum direct certification percentage may immediately begin another four-year cycle after the initial cycle concludes. For participating schools that fall below the minimum percentage at the end of their four-year cycle, there is the possibility to continue to participate for a “grace year.” A participating LEA or school may stop participating in CEP during the four-year cycle by notifying the State agency no later than June 30 of the prior school year.

Funding for the State compensatory education formula is based on local enrollments of FRPM-eligible students and local wealth (as described below).

**Background:** The State has distributed compensatory aid to local school systems since 1980 to fund programs for students with educational needs resulting from educationally or economically disadvantaged environments. Since fiscal 2004, the aid formula has used the number of students eligible for FRPM. Children from families (1) with incomes at or below 130% of the federal poverty level are eligible for free meals and (2) with incomes no greater than 185% of the federal poverty level are eligible for reduced-price meals.

The State compensatory aid formula uses a per pupil cost that is 0.97 times the per pupil funding level established in the foundation program. This cost is shared by State and local governments. The program level (\$3,327 in fiscal 2015) represents half of this cost per FRPM-eligible student, but because (1) the program is wealth equalized based upon wealth per FTE enrollment and (2) each county is guaranteed a minimum of 80% of the program level for each FRPM-eligible student, State aid per FRPM-eligible student varies by county and the State’s share of the program is over 50% (*i.e.*, above the program level). FRPM enrollment in October 2013 is used in the formula to calculate the fiscal 2015 amount. **Exhibit 1** shows, for each county, the calculation of compensatory aid for fiscal 2015, which totals \$1.25 billion, and the State aid amount per FRPM-eligible student.

Currently FRPM eligibility information is collected either by direct certification or by household income applications. Generally, direct certification verifies a student’s FRPM eligibility by computer matching data records for various programs (such as Head Start, Even Start, Supplemental Nutrition Assistance Programs, and foster care) with enrollment lists. (The option to send letters to households for the purpose of direct

certification has been significantly curtailed.) Thus direct certification generally requires no additional action from a student's parents or guardians, while household income applications do require their action.

Schools and school systems that qualify for CEP (by matching 40% or more of their student population as eligible for free meals by direct certification) and that opt in to the CEP program can use an alternative method, involving a pre-determined multiplier, to establish the number of FRPM-eligible students. By doing so, however, the school or school system may realize a decrease in the rate of return of household income applications because parents will no longer be required to complete the application to secure FRPMs for their children.

While the 40% direct certification threshold determines eligibility, given the CEP multiplier (which is intended to account for low-income families not captured by direct certification) MSDE advises that schools and school systems with 55% or higher direct certification are far more likely to choose to participate in CEP. Data provided by MSDE indicate that there are presently 350 Maryland schools with direct certification rates of at least 40%, and that 198 of these schools have direct certification rates at or above 55%. Of the 198 schools, 157 are in Baltimore City, 7 are in Washington County, 6 are in Dorchester County, and the number of schools is 5 or less in each of 9 additional counties.

Baltimore City Public Schools advises that it has concerns about losing compensatory aid funding (which amounts to about 36% of direct aid to public schools in Baltimore City in the Governor's proposed budget for fiscal 2015) if it chooses to participate in CEP and that CEP participation, by reducing the FRPM count for the school system, may also jeopardize some amount of federal assistance for school food programs, especially support for providing fruits and vegetables to students. According to MSDE, the maximum federal reimbursement for free school meals generally (including breakfast and lunch), based on a 180-day school year, amounts to \$909 per child annually. This is about 19% of the amount of State compensatory aid received by Baltimore City for each FRPM-eligible student (\$4,832) in fiscal 2015.

Local school systems in Maryland were able to participate in the pilot program for CEP beginning with the 2013-2014 school year; CEP will be available nationwide beginning with the 2014-2015 school year. MSDE advises that five schools in Washington County and the SEED school (a public residential boarding school serving at-risk students) currently participate in the pilot program. MSDE further advises that despite CEP participation, these schools were successful in collecting household income applications.

**State Fiscal Effect:** The effect of the bill on State aid to a given local school system in fiscal 2016 and 2017 is assumed to be minimal and will depend upon some level of

participation in CEP and whether the school system's overall FRPM count declines in comparison to the prior fiscal year.

To the extent that more counties choose to participate in CEP, FRPM enrollment counts could decline for those school systems and result in a concomitant loss of compensatory aid under current law. This bill provides a floor for the FRPM, which mitigates the potential loss of FRPM count and therefore compensatory aid for counties that choose to participate in CEP for fiscal 2016 and 2017 only.

The bill does not alter the count of FRPM for schools not participating in CEP. Given available data on the number of schools that will be eligible for CEP participation and on the number of schools with direct certified enrollments at or above 55% eligible for free meals, in the near future, it is likely that participation in local jurisdictions other than Baltimore City will be minimal, if any. In turn, the effect on the FRPM count and therefore compensatory aid to most local jurisdictions, will be similarly minimal.

In recent years the growth in FRPM count has slightly outpaced growth in FTE for Baltimore City Public Schools. The bill will assure that for schools participating in CEP in fiscal 2015 and 2016 that the FRPM count used to determine compensatory education aid at least keeps pace with the growth in FTE in fiscal 2016 and 2017. For schools that do not opt into CEP until fiscal 2016, the floor will affect State aid in only fiscal 2017. Based on current compensatory aid projections, the floor provided by the bill will prevent a significant decline in State aid to Baltimore City if they participate in CEP, but the bill is not anticipated to result in State aid that is above the currently projected amount. Further, it is not certain that Baltimore City will opt to participate in CEP, or will do so to a degree that comes close to full participation systemwide. For these reasons, the floor in the bill may not result in additional State aid to Baltimore City in fiscal 2016 or 2017.

**Local Fiscal Effect:** As described above, any change State aid to local school systems is assumed to be minimal and will depend upon some level of participation in CEP and whether a given school system's overall FRPM count declines in comparison to the prior fiscal year. The effect, if any, will be in either fiscal 2016 and 2017, or in fiscal 2017 alone, depending upon when schools opt into CEP.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Baltimore City; Harford, Howard, Montgomery, and Prince George's counties; Maryland State Department of Education; U.S. Department of Agriculture; Department of Legislative Services

**Fiscal Note History:** First Reader - February 4, 2014  
ncs/rhh Revised - Senate Third Reader - March 31, 2014

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**Exhibit 1**  
**Compensatory Education Formula Calculation**  
**Fiscal 2015**

<b>County</b>	<b>Oct. 2013 FRPM Enrollment</b>	<b>Program Level: \$3,327 x Enrollment</b>	<b>Wealth Per Pupil Factor<sup>1</sup></b>	<b>Adjusted Grant<sup>2</sup></b>	<b>Minimum Grant: \$2,661.60 x Enrollment</b>	<b>Total Aid<sup>3</sup></b>	<b>Aid per FRPM Enrollment</b>
Allegany	4,630	\$15,404,010	0.6210091	\$20,723,718	\$12,323,208	\$20,723,718	\$4,476
Anne Arundel	23,701	78,853,227	1.2383746	53,198,487	63,082,582	63,082,582	2,662
Baltimore City	67,816	225,623,832	0.5752039	327,714,001	180,499,066	327,714,001	4,832
Baltimore	48,901	162,693,627	1.0006857	135,832,813	130,154,902	135,832,813	2,778
Calvert	3,704	12,323,208	0.9561379	10,768,001	9,858,566	10,768,001	2,907
Caroline	2,964	9,861,228	0.6012764	13,702,149	7,888,982	13,702,149	4,623
Carroll	4,790	15,936,330	0.9360085	14,224,610	12,749,064	14,224,610	2,970
Cecil	6,173	20,537,571	0.7860861	21,827,842	16,430,057	21,827,842	3,536
Charles	8,336	27,733,872	0.8009621	28,928,798	22,187,098	28,928,798	3,470
Dorchester	2,899	9,644,973	0.7546800	10,677,511	7,715,978	10,677,511	3,683
Frederick	9,939	33,067,053	0.8491366	32,534,923	26,453,642	32,534,923	3,273
Garrett	1,763	5,865,501	1.3156767	3,724,670	4,692,401	4,692,401	2,662
Harford	10,970	36,497,190	0.9320569	32,715,145	29,197,752	32,715,145	2,982
Howard	9,700	32,271,900	1.1326118	23,805,390	25,817,520	25,817,520	2,662
Kent	995	3,310,365	1.6471407	1,679,102	2,648,292	2,648,292	2,662
Montgomery	48,324	160,773,948	1.3862042	96,899,227	128,619,158	128,619,158	2,662
Prince George's	72,438	241,001,226	0.7911727	254,495,324	192,800,981	254,495,324	3,513
Queen Anne's	1,898	6,314,646	1.1811513	4,466,582	5,051,717	5,051,717	2,662
St. Mary's	5,249	17,463,423	0.8997015	16,216,711	13,970,738	16,216,711	3,089
Somerset	1,964	6,534,228	0.6129392	8,906,534	5,227,382	8,906,534	4,535
Talbot	1,752	5,828,904	2.1713746	2,242,766	4,663,123	4,663,123	2,662
Washington	10,629	35,362,683	0.7050033	41,906,935	28,290,146	41,906,935	3,943
Wicomico	8,139	27,078,453	0.5858666	38,615,082	21,662,762	38,615,082	4,744
Worcester	2,743	9,125,961	2.3097461	3,301,005	7,300,769	7,300,769	2,662
<b>Statewide</b>	<b>360,417</b>	<b>\$1,199,107,359</b>		<b>\$1,199,107,326</b>	<b>\$959,285,887</b>	<b>\$1,251,665,659</b>	<b>\$3,473</b>
		<b>Reducing Factor =</b>	<b>0.8354719</b>				

<sup>1</sup>Wealth per pupil factor equals the local wealth per pupil divided by the statewide wealth per pupil.

<sup>2</sup>The adjusted grant equals the program level divided by the wealth per pupil factor. The outcome is multiplied by the reducing factor, which brings the statewide total back to the calculated State funding level.

<sup>3</sup>Formula aid for each school system equals the greater of the adjusted grant and the minimum grant.

Source: Department of Legislative Services





## ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Compensatory Education Grants for Participating School Systems in the Community Eligibility Provision

BILL NUMBER: SB 128

PREPARED BY: Maryland State Department of Education

### PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

### PART B. ECONOMIC IMPACT ANALYSIS

The proposed legislation will have no impact on small business in Maryland.