

R00A02
Aid to Education
Maryland State Department of Education

Operating Budget Data

(\$ in Thousands)

	<u>FY 13</u> <u>Actual</u>	<u>FY 14</u> <u>Working</u>	<u>FY 15</u> <u>Allowance</u>	<u>FY 14-15</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$5,447,325	\$5,741,926	\$5,833,433	\$91,507	1.6%
Contingent & Back of Bill Reductions	0	-100,427	-63,309	37,118	
Adjusted General Fund	\$5,447,325	\$5,641,499	\$5,770,125	\$128,625	2.3%
Special Fund	426,363	354,317	421,690	67,373	19.0%
Adjusted Special Fund	\$426,363	\$354,317	\$421,690	\$67,373	19.0%
Federal Fund	740,243	746,342	794,567	48,225	6.5%
Adjusted Federal Fund	\$740,243	\$746,342	\$794,567	\$48,225	6.5%
Reimbursable Fund	38	131	130	-1	-0.9%
Adjusted Reimbursable Fund	\$38	\$131	\$130	-\$1	-0.9%
Adjusted Grand Total	\$6,613,968	\$6,742,290	\$6,986,512	\$244,222	3.6%

- The fiscal 2015 allowance is \$244.2 million above the fiscal 2014 working appropriation, considering all funds. General funds increase \$128.6 million, or 2.3%, partly due to the transfer of the Home and Community Based Services Waiver for Children with Autism program to the Maryland State Department of Education (MSDE) Aid to Education budget from the MSDE – Headquarters budget, along with funding formula increases driven primarily by higher enrollment.
- The fiscal 2015 allowance includes cost containment of \$63.3 million due to a proposed reduction in pension reinvestment.
- There are several significant proposed deficiencies for the fiscal 2014 appropriation. These include both positive and negative deficiencies. The first is a negative deficiency of

Note: Numbers may not sum to total due to rounding.

For further information contact: Jolshua S. Rosado

Phone: (410) 946-5530

\$34.8 million in general funds replaced with Education Trust Fund revenues due to revised video lottery terminal revenue projections. The budget also includes a negative deficiency to reduce retirement reinvestment savings. The State pays retirement on behalf of local school boards and libraries; in total \$63.4 million in teacher retirement is reduced in fiscal 2014. Finally, there is a \$2.2 million proposed cost containment deficiency to revert the funds restricted in the transportation program.

- There is a \$9.6 million deficiency appropriation to provide additional stipends for teachers in comprehensive needs schools that have obtained National Board Certification (NBC) or Advanced Professional Certification (APC) as required in statute.

Analysis in Brief

Major Trends

Maryland School Assessment Reading and Math Scores Decrease: Reading scores had been relatively stable since the 2008-2009 school year, although scores declined starting in the 2011-2012 school year. Math scores decreased for all three grades.

High School Assessment Percent Passing Decreases for Government; Remains Level for English; Increases for Algebra and Biology: The percent passing the English High School Assessment (HSA) remained level in the 2012-2013 school year at 86.4%. The percent passing the Algebra HSA increased from 87.9 to 88.3% in the 2012-2013 school year, and the percent passing the Biology HSA increased to 85.8 from 84.9%. However, the percent passing the Government HSA dropped to 84.6% from 89.2% in the 2010-2011 school year; the Government HSA was not given in 2011-2012. **The State Superintendent should comment on the decline in the percentage passing the Government HSA.**

Statewide Graduation Rate Increases: The statewide graduation rate in the 2012-2013 school year rose to 87.4% using the traditional Leaver Graduation Rate. Maryland's statewide four-year cohort graduation rate is lower than the Leaver Graduation Rate but has increased slightly in each year, reaching 85.0% in the 2012-2013 school year.

Issues

State Aid for Education Increases in Fiscal 2015: Public schools are expected to receive an estimated \$6.2 billion in fiscal 2015, representing a \$138.8 million (2.5%) increase over fiscal 2014. Largely due to recent pension reform and local cost-sharing initiatives, teachers' retirement payments made by the State on behalf of local school boards are increasing by a relatively modest \$10.3 million, representing 1.2% of the increase. The total increase includes \$26.8 million for the second year of a five-year phase in of the Net Taxable Income (NTI) Adjustment Grant. **The Department of Legislative Services recommends freezing the NTI adjustment at 20.0% for one**

year and reducing the NTI by \$13,429,992, contingent on the enactment of SB 172/HB 162 (Budget Reconciliation and Financing Act (BRFA) of 2014), which delays the full phase in of the adjustment to fiscal 2019.

Adequacy Study to Begin in 2014: MSDE must contract with a public or private entity to conduct a study of the adequacy of education funding in the State. The study must be conducted in phases, with the first phase beginning no later than June 30, 2014, and the final phase being completed by December 1, 2016. The adequacy study is estimated to cost approximately \$800,000, but the full amount is not yet known as the contract has yet to be awarded. A request for proposals is currently being developed by MSDE for the contract to perform the study. **The State Superintendent should discuss, in broad terms, the most significant impacts that the adequacy study is expected to have on State aid for education once it is complete.**

All Counties Meet Maintenance of Effort Requirement: As of October 2013, MSDE has certified that the school appropriations of all 24 counties have met the fiscal 2014 maintenance of effort (MOE) requirement. Overall, MOE appropriations increase by approximately 2% statewide over fiscal 2013, and 12 counties appropriated more than the required MOE amount.

Status of the School Progress Index: In May 2012, Maryland received an Elementary and Secondary Education Act (ESEA) flexibility waiver, allowing the State to replace the No Child Left Behind (NCLB) performance measures with the Maryland School Progress Index (SPI). This new accountability system measures school progress in improving student achievement, closing achievement gaps, and moving students toward college and career readiness. Under the waiver, new performance targets are set for each school to reduce student achievement gaps for student subgroups and for all students by 50% by 2017. **The State Superintendent should discuss how progress on annual targets will be assessed in the context of the Partnership for Assessment of Readiness for College and Careers exams being given alongside the Maryland School Assessment tests this year, and how the SPI will be used to inform MSDE resources in helping schools, as all schools are being held harmless for accountability purposes this school year due to the ESEA waiver.**

Quality Teacher Incentive Costs Increase Significantly: Stipends and bonuses for eligible classroom teachers were established in 1999 to attract and retain quality teachers in Maryland public schools. The BRFA of 2009 (Chapter 487) scaled the program back by limiting the number of qualifying teachers, reducing stipends, and eliminating signing bonuses for teachers who graduated with college grade point averages of 3.5 or better. As a result of the change, teachers and other non-administrative school-based employees in schools identified as having comprehensive needs and who hold NBC, receive a stipend from the State equal to the county grant up to \$2,000, while those in non-comprehensive needs schools receive stipends equal to the county grant up to \$1,000. In addition, teachers in comprehensive needs schools holding APC are entitled to \$1,500 stipends. The number of teachers receiving funds through the program has risen dramatically in recent years, as the number of schools identified as having comprehensive needs under NCLB increased. Though the fiscal 2014 appropriation only includes \$5.3 million for the program, a \$9.6 million deficiency using general funds has been proposed to provide stipends for teachers in comprehensive needs schools that have obtained NBC or APC as required in statute. **The State Superintendent should discuss expenditure trends in the Teacher Quality Incentive Program and comment on whether**

research finds such programs to be effective in attracting and retaining teachers to underperforming and underresourced schools.

Recommended Actions

Funds

1. Add language reducing general funds by \$13,429,992 for the net taxable income adjustment contingent on the enactment of legislation.
 2. Add language requiring the Maryland State Department of Education to notify the budget committees of fund transfers from R00A02 Aid to Education to any other budgetary unit.
 3. Add language requiring funds to be reprogrammed for the Digital Learning Innovation Fund to the Partnership for Assessment of Readiness for College and Careers needs.
 4. Delete funding for the Early College Innovation Fund. \$ 2,000,000
- Total Reductions** **\$ 2,000,000**

Updates

Impact of Sequestration on MSDE: Maryland's education funding was affected in fiscal 2013 and part of fiscal 2014 due to federal budget sequestration. MSDE was able to mitigate the effects by prioritized hiring and contracting and carefully using prior year federal carry over funds to manage fiscal 2013 and 2014.

U.S. Department of Agriculture Community Eligibility Option Pilot Program: The U.S. Department of Agriculture's (USDA) Community Eligibility Option (CEO) is the newest tool for schools with high percentages of low-income students to provide meals at no charge to all students. Schools that take advantage of the CEO do not collect school meal benefit applications. Maryland was selected by USDA to pilot the CEO in fiscal 2014 (along with Florida, Georgia and Massachusetts). Maryland's application included Washington County Public Schools and The Seed School of Maryland as eligible local education agencies (LEA) for the pilot year. MSDE is planning to have families receiving free and reduced priced meals still complete an application, in order to capture enrollment figures for those students.

Maryland Meals for Achievement Funding Increasing Again in Fiscal 2015: The 2013 *Joint Chairmen's Report* (JCR) required MSDE to submit a report to the budget committees outlining the steps it has taken to raise awareness of the Maryland Meals for Achievement Program (MMFA) and

how it assists schools in LEAs with low participation rates apply for funds. Annotated Code of Maryland 7-704 states that any school participating in the federal School Breakfast Program with at least 40% of its October 31 enrollment approved for free or reduced price meals can apply for the MMFA – provided that funding is available. The fiscal 2014 appropriation included \$5.2 million in funding. The fiscal 2015 allowance contains a proposed \$6.9 million in general funds.

Prince George’s County Financial Literacy Program: The 2013 JCR required the Prince George’s County Board of Education to submit a report to the budget committees and the Prince George’s County Senate Delegation on the design and implementation of the financial literacy pilot program required by the General Assembly during the 2009 legislative session. The board was required to select three high schools in the county to participate in the pilot program. In the 2013-2014 school year, the course is offered at all of the Prince George’s County high schools, with over 1,900 students enrolled in the course.

R00A02 – MSDE – Aid to Education

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Operating Budget Analysis

Program Description

State and local governments share responsibility for Maryland's public schools. In 2002, the State's Commission on Education Finance, Equity, and Excellence (a.k.a. the Thornton Commission) recommended, and the legislature approved, altering and enhancing the distribution of State aid to education. The new distribution system was phased in from fiscal 2003 through 2008. Since fiscal 2009, funding adjustments have been determined primarily by changes in enrollment.

Under the Bridge to Excellence (BTE) in Public Schools Act of 2002, commonly referred to as "Thornton," school systems receive a basic per pupil funding amount through the foundation program. Additional formulas provide supplemental aid based on students with special needs including students with disabilities, students eligible for free and reduced price meals (FRPM), and students with limited English proficiency (LEP). The Geographic Cost of Education Index (GCEI) is a discretionary formula and is meant to account for differences in the costs of educational resources among school systems. State aid for student transportation also increased under Thornton.

Along with enhanced funding, local jurisdictions received broad flexibility in determining how to meet State goals for student achievement. At the same time, each school system is held accountable for achieving the goals and student outcome measurements outlined in its Comprehensive Master Plan, which is updated annually.

In addition to funding for public education, the Maryland State Department of Education (MSDE) is responsible for the general direction and control of library development in Maryland. The State provides support for local libraries, the State Library Resource Center, and several regional resource centers. State library aid is budgeted under Aid to Education.

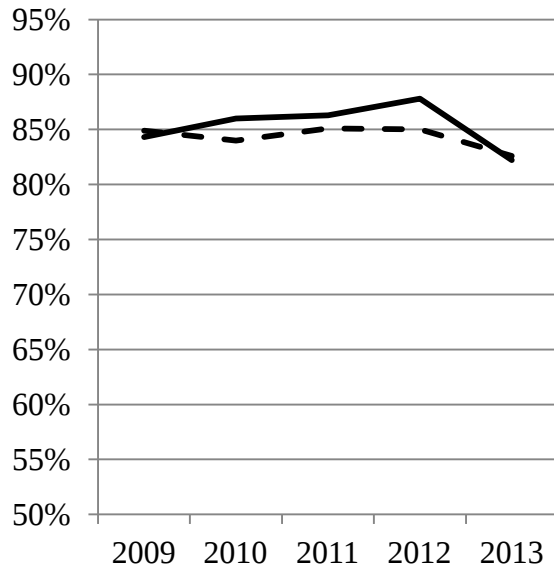
Performance Analysis: Managing for Results

1. Maryland School Assessment Reading and Math Scores Decrease

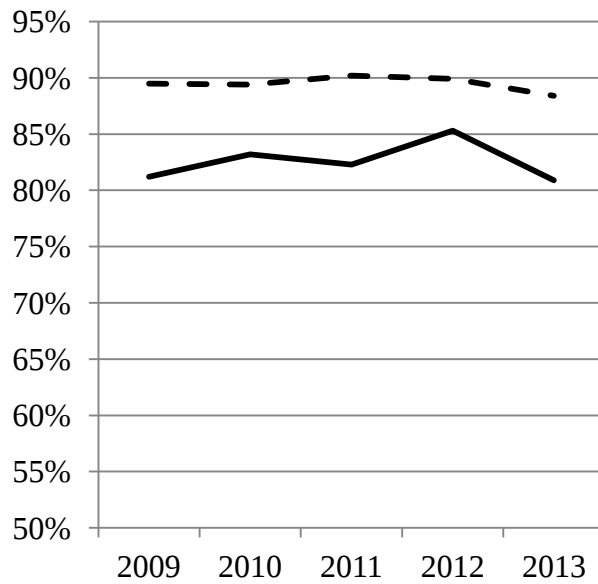
Maryland School Assessments (MSA) measure student achievement in grades 3 through 8. **Exhibit 1** shows the MSA percent proficient or advanced for grades 3, 5, and 8 from the 2008-2009 to the 2012-2013 school years. Reading scores had been relatively stable since the 2008-2009 school year, though scores declined starting in the 2011-2012 school year. Math scores decreased for all three grades during the 2012-2013 school year, with grade 3 decreasing the most, at 5.6 percentage points. Grade 8 reading scores stayed level and were the only scores not declining.

Exhibit 1
Maryland State Assessments
Percent Proficient or Advanced
School Year 2008-2009 to 2012-2013

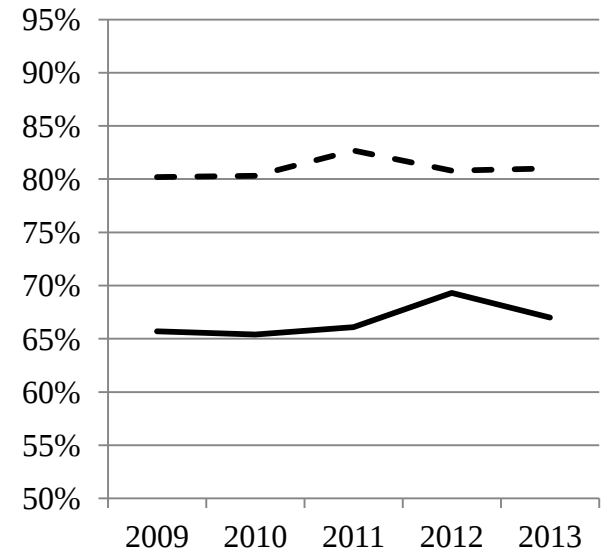
Grade 3



Grade 5



Grade 8



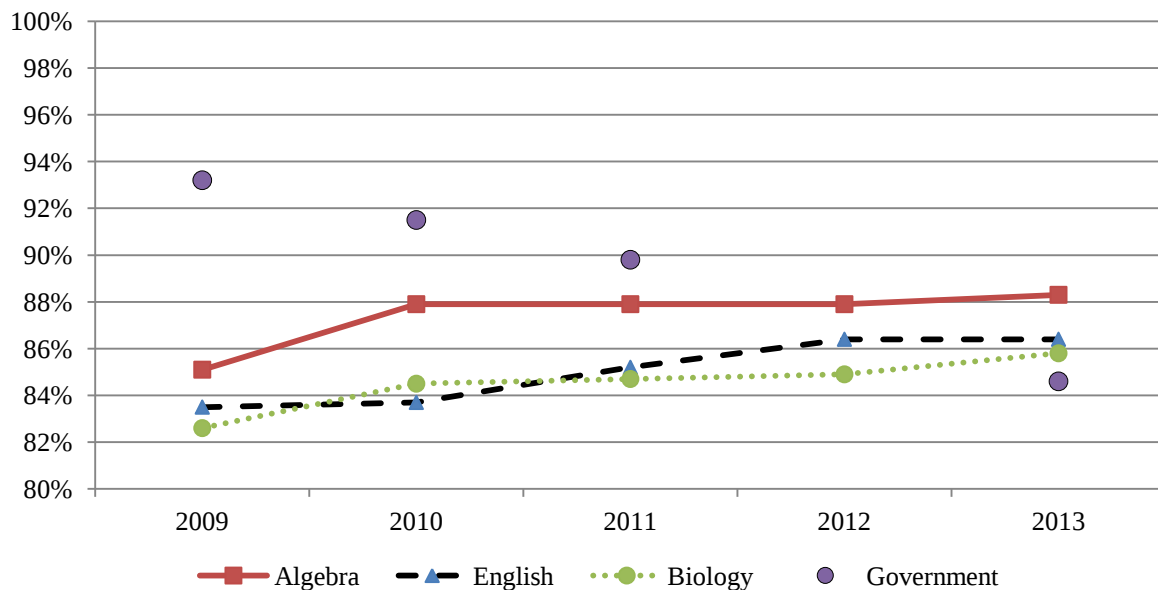
 Mathematics
 Reading

Source: *The Maryland Report Card*, Maryland State Department of Education

2. High School Assessment Percent Passing Decreases for Government; Remains Level for English; Increases for Algebra, and Biology

The Maryland High School Assessments (HSA) measure school and individual student performance in high school English, algebra/data analysis, biology, and government. The assessments are administered at the end of courses and are offered four times per year. Beginning with the class of 2009, the assessments have been a graduation requirement. As shown in **Exhibit 2**, the percent passing the English HSA remained level in the 2012-2013 school year at 86.4%. The percent passing the Algebra HSA increased from 87.9 to 88.3% in the 2012-2013 school year, and the percent passing the Biology HSA increased to 85.8 from 84.9%. In fiscal 2012, the Government HSA was eliminated to recognize cost savings, although Chapter 476 of 2012 required MSDE to reinstate the Government HSA. Due to the elimination and subsequent reinstatement of the government exam, passing the government exam is a graduation requirement beginning with students entering grade 9 in the 2013-2014 school year. The percent passing the Government HSA decreased from 89.8 to 84.6%. **The State Superintendent should comment on the 2012-2013 school year decline in the percentage passing the Government HSA.**

Exhibit 2
High School Assessments
Percent Passing
School Years 2008-2009 to 2012-2013



Note: Pass rates shown are for grade 12 students.

Source: *The Maryland Report Card*, Maryland State Department of Education

Students can meet the HSA requirement by passing all tests, by attaining a minimum combined score (with no minimum score for individual tests), by completing a bridge project instead of the tests, or by qualifying for a waiver. A waiver may be granted if the student (1) has met all other graduation requirements; (2) has taken or will take all tests; (3) has taken advantage of all extra help; and (4) the circumstances that have prevented the student from passing the test are beyond the student's control. In the 2012-2013 school year, all local education agencies (LEA) had students that met the requirement using the waiver. MSDE reports that no students failed to graduate due to an inability to meet the HSA requirements in the 2012-2013 school year, while 2,661 students did not graduate due to other reasons such as insufficient credits.

In the 2013-2014 school year, Maryland public schools are fully implementing the Maryland College and Career Ready Standards for curriculum and instruction. In the 2014-2015 school year, Partnership for Assessment of Readiness for College and Career (PARCC) assessments, which are aligned to the standards, will be fully implemented. PARCC assessments will replace the MSAs in reading and mathematics and some HSAs in 2015, although the HSAs will be phased out due to the graduation requirement.

3. Statewide Graduation Rate Increases

The statewide graduation rate in the 2012-2013 school year rose to 87.4% using the traditional Leaver Graduation Rate, as shown in **Exhibit 3**. The rate hovered around 85.0% between the 2005-2006 and 2008-2009 school years before increasing to 86.6% in the 2009-2010 school year. The graduation rate increased slightly in both 2010-2011 and 2011-2012 school years. Maryland began calculating a new cohort graduation rate with the class of 2010, per federal requirements, and will report both rates for several years. Maryland's statewide four-year cohort graduation rate is lower than the Leaver Graduation Rate but has increased slightly in each year, reaching 85.0% in the 2012-2013 school year. **Exhibit 4** shows the four-year cohort graduation rates by county for the 2013 cohort. Carroll County had the highest rate at 94.4%; Baltimore City had the lowest rate at 68.5%.

The Leaver Graduation Rate method estimates the number of students who entered the class four years prior compared to the number of graduates, but it does not follow the grade 9 cohort. For example, there can be students who count in the dropout number, then return to school and count in the graduate number. The new four-year adjusted cohort rate follows the cohort of students who entered high school. From the beginning of grade 9, students who transfer into the cohort later during grade 9 and the next three years are added, and students who transfer out, emigrate to another country, or die during that same period are subtracted. The four-year cohort graduation rate is calculated by dividing the number of students who graduate in four years or less with a regular high school diploma by the number of students who form the adjusted cohort for that graduating class. Students who drop out remain in the adjusted cohort in the denominator of the calculation. MSDE also reports three- and five-year adjusted cohort rates.

Exhibit 3
State Graduation Rates
School Year 1997-2013

	Leaver Graduation <u>Rate</u>	Adjusted Four-year <u>Cohort Rate</u>
1997	80.3%	
1998	80.3%	
1999	81.4%	
2000	81.8%	
2001	83.1%	
2002	83.8%	
2003	84.7%	
2004	84.3%	
2005	84.8%	
2006	85.4%	
2007	85.2%	
2008	85.1%	
2009	85.2%	
2010	86.6%	82.0%
2011	87.0%	82.8%
2012	87.3%	83.6%
2013	87.4%	85.0%

Source: *Maryland Report Card*, Maryland State Department of Education

Exhibit 4
Graduation Rate by County
2013 Cohort

<u>School System</u>	<u>Students Graduating</u>	<u>Adjusted Cohort</u>	<u>Rate</u>
Allegany	609	676	90.1%
Anne Arundel	5006	5,850	85.6%
Baltimore City	4,101	5,987	68.5%
Baltimore County	6,940	8,042	86.3%
Calvert	1,313	1,431	91.8%
Caroline	345	410	84.2%
Carroll	2,146	2,273	94.4%
Cecil	1,036	1,195	86.7%
Charles	2,066	2,301	89.8%
Dorchester	264	315	83.8%
Frederick	3,014	3,230	93.3%
Garrett	299	323	92.6%
Harford	2,724	3,043	89.5%
Howard	4,061	4,355	93.3%
Kent	154	175	88.0%
Montgomery	9,970	11,286	88.3%
Prince George's	7,167	9,670	74.1%
Queen Anne's	531	568	93.5%
St. Mary's	1,131	1,236	91.5%
Somerset	164	213	77.0%
Talbot	332	364	91.2%
Washington	1,497	1,637	91.5%
Wicomico	805	982	82.0%
Worcester	477	525	90.9%
State	56,152	66,087	85.0%

Source: *Maryland Report Card*, Maryland State Department of Education

Fiscal 2014 Actions

Proposed fiscal 2014 deficiency appropriations total \$100.4 million including cost containment actions.

Proposed Deficiency

There is a \$122,035 deficiency necessary to supplement the fiscal 2014 appropriation to fund anticipated expenditures in the Nonpublic Placements program for the Students with Disabilities program. There is a \$40,000 deficiency necessary to supplement the fiscal 2014 appropriation to fund the requirements of HB 1188 of 2012, which created the Lacrosse Opportunities program. In addition, there is a \$9.6 million deficiency appropriation to provide stipends for teachers in comprehensive needs schools that have obtained National Board Certification (NBC) or Advance Professional Certification (APC) as required in statute.

Cost Containment

The budget includes a negative deficiency to reduce retirement reinvestment savings. The State pays retirement on behalf of local school boards and libraries; in total \$63.4 million in teacher and librarian retirement is reduced in fiscal 2014. There is a negative deficiency of \$34.8 million in general funds to be replaced by special funds from Education Trust Fund revenues due to revised video lottery terminal (VLT) revenue projections. There is a \$2.2 million proposed cost containment deficiency to revert the funds restricted in the transportation program. These funds were restricted to fund several provisions of the Budget Reconciliation and Financing Act (BRFA) of 2013 (Chapter 425). A grant was provided to counties with a decrease in State aid of more than 1% equal to one quarter of the loss in funds. This totaled \$2.1 million for Carroll, Garrett, Harford, and Kent counties. An additional \$123,667 was provided so that no county receives a supplemental grant of less than zero. The Governor did not transfer the restricted funds, and in the proposed budget, the funds revert to the general fund.

Proposed Budget

The proposed fiscal 2015 allowance is \$7.0 billion. As show in **Exhibit 5**, the increase is \$244.4 million over the fiscal 2014 working appropriation among all funds; however, the exhibit does not include fiscal 2014 deficiencies that increase the fiscal 2014 appropriation. Adjusting for the deficiencies, the increase is \$190.0 million or 2.5%. Further detail on changes by fund is shown in **Exhibit 6**. General funds increase \$118.9 million in fiscal 2015. Fiscal 2015 represents the sixth year of significant special funds budgeted from VLT proceeds. The fiscal 2014 appropriation includes \$350.3 million from VLTs and table games; the proposed deficiency would bring that to \$385.1 million. The fiscal 2015 allowance assumes \$417.0 million in VLT and table game revenues will be available from the special Education Trust Fund. Table games and expanded VLT operations were authorized by Chapter 1 of the Second Special Session of 2012 and approved by voters in November 2012.

Exhibit 5
Proposed Budget
MSDE – Aid to Education
(\$ in Thousands)

How Much It Grows:	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
2014 Working Appropriation	\$5,641,499	\$354,317	\$746,342	\$131	\$6,742,290
2015 Allowance	<u>5,770,125</u>	<u>421,690</u>	<u>794,567</u>	<u>130</u>	<u>6,986,512</u>
Amount Change	\$128,625	\$67,373	\$48,225	-\$1	\$244,222
Percent Change	2.3%	19.0%	6.5%	-0.9%	3.6%

Where It Goes:**Bridge to Excellence Changes**

State share of the foundation, includes negative general fund fiscal 2014 deficiency	\$66,813
Compensatory education	55,681
Net Taxable Income adjustment	18,535
Guaranteed tax base.....	7,073
Limited English proficiency	4,238
Transportation funding	3,855
Special Education formula.....	2,657
Geographic Cost of Education Index.....	1,895

Other General Fund Changes

Autism Waiver from MSDE – Headquarters.....	12,044
Teacher and librarian retirement.....	11,083
Quality Teacher Incentives (does not reflect proposed deficiency).....	7,910
Maryland Meals for Achievement	1,720
Nonpublic placements	1,098
National Board Certification fees	600
Public Library Aid	432
National Board Certification Teacher Pilot	300
State Library Network	126
Science and Mathematics Initiative	100
Lacrosse opportunities	40
Out-of-county living arrangements.....	37

R00A02 – MSDE – Aid to Education

Where It Goes:

Combined Fund Changes

Children at Risk	141
At Risk Youth – SEED School for Disadvantaged Youth.....	446

Federal Fund Changes

Food Services Program.....	41,755
Title I – Educationally deprived children funds and school improvement grants	6,789
Teacher Development – Improving Teacher Quality	418
English Language grants.....	319
Rural education.....	82
Mathematics and Science Partnership	58
Career and technology education.....	-363
Special Education – grants to states, preschool, and infant/family grants.....	-1,049
Other	-611
Total	\$244,222

MSDE: Maryland State Department of Education

Note: The fiscal 2014 working appropriation reflects negative deficiencies and contingent reductions. The fiscal 2015 allowance reflects back of the bill and contingent reductions. Numbers may not sum to total due to rounding.

Exhibit 6
Education Aid by Fund
Fiscal 2014-2015
(\$ in Thousands)

	<u>Adjusted</u> <u>2014</u>	<u>Adjusted</u> <u>2015</u>	<u>Change</u>
General Funds	\$5,651,271	\$5,770,125	\$118,854
Federal Funds	746,342	794,567	48,225
Special Funds from Video Lottery Terminals	385,164	416,965	31,801
Other Special Funds	13,649	4,725	-8,929
Reimbursable Funds	120	130	10
Total	\$6,796,546	\$6,986,512	\$189,966

Note: This exhibit reflects all positive and negative deficiencies and contingent action in the Administrations' budget plan.

Source: Department of Legislative Services

Cost Containment

There is one contingent reduction reflected in the Governor's spending plan for the fiscal 2015 allowance related to retirement reinvestment, which is \$63.3 million.

State Share of the Foundation Program

The foundation program includes the State share of the per pupil foundation formula, the GCEI, the Supplemental Grants (created in Chapter 2 of the 2007 special session), and the Net Taxable Income (NTI) Adjustment (created by Chapter 4 of 2013). In total, adjusting for fiscal 2014 deficiencies, the foundation program increases by \$49.0 million.

- **Foundation Formula (\$66.8 Million Increase, \$32.0 Million Net Increase):** The foundation formula ensures a minimum funding level per pupil and requires the LEAs to provide a local match. The formula is calculated based on a per pupil amount and student enrollment. Less wealthy school systems, as measured by assessable base and NTI, receive more aid per pupil than wealthier school systems. For the fiscal 2015 formula, fall 2014 enrollment increases by 6,526 full-time equivalent students (FTES), or 0.79%, totaling 834,524 statewide. Chapter 397 of 2011 limits inflation in fiscal 2013 through 2015 to the lesser of two inflation rates or 1.0%. The implicit price deflator for local governments increases 0.46%, which will set the fiscal 2015 per pupil amount to \$6,860.

Exhibit 5 shows a \$66.8 million increase in the foundation formula. It does not capture the positive deficiency appropriation from the revised VLT revenue projects, which makes the actual foundation increase only a net \$32.0 million increase in fiscal 2015.

- **NTI Adjustment (\$18.5 Million Increase):** The Governor's budget includes \$18.5 million for the second of a five-year phase in of a change to the NTI amount used to calculate wealth-based education formulas enacted by Chapter 4 of 2013. The majority of State education aid is distributed through formulas that allocate funding to the local school boards inverse to local wealth per pupil. Local wealth includes the NTI and the assessable property tax base. Under the law, the NTI measure is based either on returns filed on or before September 1 of each year or tax returns filed through November 1, aligning the date with the automatic income tax extension deadline of October 15. Using a more complete NTI data set results in a reallocation of State education aid in which most counties receive more aid and some receive less. However, under Chapter 4, jurisdictions that would otherwise be adversely impacted are held harmless, and the NTI adjustment is phased in over five years, so that local school boards that will receive an increase in State aid based on November NTI realize 20.0% of the additional amount in fiscal 2014, 40.0% in fiscal 2015, and increasing incrementally to 100.0% in fiscal 2018. The NTI is discussed in more detail in the Issues section.

- ***GCEI (\$1.9 Million Increase):*** The GCEI is a discretionary formula that accounts for differences in the costs of educational resources among the local school systems. The GCEI was fully funded for the first time in fiscal 2010 and has been fully funded since.
- ***Supplemental Grants – Chapter 2 of the 2007 Special Session (\$123,667):*** To mitigate the impact of an inflation freeze in the per pupil foundation amount in fiscal 2009 and 2010, supplemental grants were established to ensure at least a 1.0% annual increase in State funding in fiscal 2009 and 2010 for each local school system in accordance with a formula codified in the legislation. To determine if a school system was eligible for supplemental grants in fiscal 2009, the amount State aid under the BTE programs, 50.0% of the State payment for teachers' retirement and 50.0% of the GCEI funding received by the LEAs, was compared to State aid from the prior fiscal year. The fiscal 2010 calculation was the same, except 60.0% of the GCEI funding was compared. Eligibility for supplemental grants is not re-determined each year.

Beginning in fiscal 2011, as approved in 2007 and amended by BRFA of 2009, the supplemental grants continue at the amount provided in the previous year. For fiscal 2011 and future years, the amount will total \$46.5 million for the nine counties that receive the grant. The BRFA of 2013 provided that no supplemental grant may be less than zero. Due to a wealth adjustment error in 2009, State aid was adjusted, and Carroll and Harford counties actually received negative supplemental grants totaling \$123,667. The fiscal 2014 budget restricted funds in that amount to address this, but the Governor's budget reverts those funds to the general fund. The fiscal 2015 allowance includes \$123,667 for Carroll and Harford counties.

Other Bridge to Excellence Changes

- ***Compensatory Education (\$55.7 Million Increase):*** The compensatory education formula provides additional funding based on the number of students eligible for FRPM. The formula is calculated using the number of eligible students and 97.0% of the per pupil foundation amount. The State share of the formula cost is 50.0%, with the State paying no less than 40.0% of formula funding for each LEA. Funds are distributed to each LEA based on the enrollment of students eligible for FRPM in the school system and local wealth. The \$55.7 million increase in fiscal 2015 equates to a 4.7% increase over fiscal 2014. Due to the economic recession and the corresponding income decline for many households, 13,919 more students qualify for FRPM. Currently, 43.1% of students statewide qualify for FRPM.
- ***Limited English Proficiency (\$4.2 Million Increase):*** The LEP formula provides additional funds based on the number of students for whom English is a second language. The formula is calculated based on the enrollment of LEP students and 99.0% of the per pupil foundation amount. The \$4.2 million increase represents a 2.2% increase over fiscal 2014 and is based on 678 more LEP students. Like the compensatory formula, the State pays 50.0% of the formula costs statewide for LEP with a floor of 40.0% for each LEA.

- ***Special Education (\$2.7 Million Increase):*** The special education formula provides additional aid based on the number of students with disabilities. The formula is calculated using special education enrollment and 74.0% of the per pupil foundation amount. The State share of the formula cost is 50.0% statewide with a floor of 40.0% for each LEA. The State share increases by \$2.7 million, or 1.1%, in the fiscal 2015 allowance, due to the 0.5% increase in the foundation per pupil amount and an increase of 391 students since fiscal 2014.
- ***Transportation Funding (\$3.9 Million Increase):*** The State provides grants to assist LEAs with the cost of transporting students to school. The grant includes a separate component for the transportation of disabled students, which equals \$1,000 per student requiring special transportation enrolled in the school system the prior fiscal year. Section 5-205 of the Education Article requires an inflationary increase based on the Consumer Price Index for private transportation in the second preceding fiscal year for the base grant. Chapter 484 of 2010 capped the rate at 1.0% for fiscal 2011 through 2015, and allows the rate to fluctuate between 1.0 and 8.0% in future years. Previously, the rate could fluctuate between 3.0 and 8.0%. The fiscal 2015 allowance includes funds to support a 1.0% increase to student transportation.
- ***Guaranteed Tax Base (\$7.1 Million Increase):*** The Guaranteed Tax Base provides additional funding to LEAs with less than 80.0% of statewide wealth per pupil and with a contribution of more than the minimum required local share under the foundation program in the prior fiscal year compared to the LEA's wealth (*i.e.*, education effort). In fiscal 2015, nine school systems qualify for the grant. The Guaranteed Tax Base formula has an inverse relationship with per pupil foundation changes. As the per pupil amount increases, the proportion of an LEA's contribution above the minimum local share is reduced as a share of total funds.

Other General Fund Changes

- ***Teachers' and Librarians' Retirement (\$11.1 Million Increase):*** The BRFA of 2012 (Chapter 1 of the First Special Session of 2012) phased in school board payments of the annual normal cost over four years (with increased county maintenance of effort requirements equal to the required payments). After fiscal 2016, each school board is responsible for paying the actual normal costs associated with its employees. Largely due to recent pension reform and local cost-sharing initiatives, teachers' retirement payments made by the State on behalf of local school boards are increasing by a relatively modest \$10.3 million. The State still pays 100% of the retirement costs of certain library employees, which increases \$761,820. These figures account for the fiscal 2014 deficiency and fiscal 2015 contingent reduction due to lower retirement reinvestment.
- ***State Library Network (\$126,492 Increase):*** The State provides funds in addition to the county library formula to libraries designated as resource centers, including the State Library Resource Center in Baltimore City, the Eastern Resource Center in Salisbury, the Southern Resource Center in Charlotte Hall, and the Western Resource Center in Hagerstown.

State funding for the State Library Resource Center had been steady at \$1.85 per Maryland resident, but Chapter 487 of 2009 reduced the amount to \$1.67 per resident in fiscal 2010 and 2011. The BRFA of 2011 (Chapter 397) held funding at \$1.67 per resident for fiscal 2012 through 2016, before a phase in to \$1.85 in fiscal 2019 and in subsequent years. The BRFA of 2011 also set funding for regional resource centers at \$6.75 per resident of each region for fiscal 2012 through 2016, before phasing up to \$7.50 per resident in fiscal 2019 and in subsequent years.

- ***Public Library Aid (\$432,078 Increase):*** Chapter 481 of 2005 provided funding increases for county public libraries based on an increase in a per capita formula funding level. Budget reconciliation legislation enacted between fiscal 2007 and 2011 slowed enhancements and reduced the target per resident amount to \$14 from \$16. The per-resident amount for fiscal 2012 through 2016 is \$14, phasing up to \$15 by fiscal 2019 and in subsequent years.
- ***Out-of-county Living and Schools Near County Lines (\$37,574 Increase):*** The State provides a contribution to counties for educating students who are not permanent residents of the county but may be attending the local school. This includes students who live near county lines, and the closest school is not in their county of residence, and students in State supervised or foster care who are not in the county where their legal guardian resides. The State contribution is a statutory mandate and depends on the number of children in these circumstances. The fiscal 2015 allowance is increasing slightly by \$37,574 for a total of \$3.9 million for the program.
- ***Maryland Meals for Achievement (\$1.7 Million Increase):*** The State provides general funds to support free classroom breakfast to all students at participating schools regardless of income. Under State law, any school that participates in the federal School Breakfast Program and has at least 40.0% FRPM enrollment can apply to participate. The fiscal 2015 increase is expected to provide breakfast to an additional 40,000 students. The current working appropriation funds 366 schools out of the 833 schools which are eligible for the program. This issue is further discussed in Update 3 of this analysis.
- ***Nonpublic Placements (\$1.1 Million Increase):*** The State funds a share of the cost of placing students with special needs in nonpublic school facilities. The costs vary depending on the number of students and the cost of the services provided for students placed in the program. Taking into account the proposed deficiency, the increase in fiscal 2015 is \$976,410. The increase is attributed to recent enrollment growth and a budgeted 1.0% increase in the provider rate. There were decreases in the average placement cost since fiscal 2010, when the State share of funding for nonpublic placements was reduced from 80.0 to 70.0% of the costs exceeding the base local contribution. Provider rate increases in the program were limited to 1.0% in fiscal 2010, prohibited in fiscal 2011 and 2012, and again limited to 1.0% in fiscal 2013 as a result of budget reconciliation legislation. The BRFA of 2013 capped provider rate increases for this program at 2.5% for fiscal 2014. The BRFA of 2014 has proposed that any increase in rates for providers of nonpublic placements take effect

on January 1, 2015. By implementing the rate increase in the middle of the fiscal year, it is estimated that the State will save approximately \$560,000 in fiscal 2015.

- ***Early College Innovation Fund (No Change):*** This is an initiative that supports an expansion of early college access programs that provide accelerated pathways for students seeking career and technical education or training in science, technology, engineering, and math disciplines. MSDE has made competitive grants to partnerships of local school systems and higher education institutions that are formed to create early college high schools and other forms of early college access. Funds are intended as bridge funding to assist in the start-up costs associated with creating new early college programs. The Early College Fund totaled \$2.0 million in fiscal 2014 and there is no change in the amount in fiscal 2015. **The State Superintendent should discuss how the grant money was used in fiscal 2014. The Department of Legislative Services (DLS) recommends deleting funds for the Early College Innovation Fund until the first round of grants is analyzed for effectiveness.**
- ***Digital Learning Innovation Fund (No Change):*** This is an initiative that supports competitive grants to LEAs to create digital learning environments such as multimedia assets to students and teachers; differentiated instruction; differentiated assignments and materials for students advancing at different paces; training and support to educators and students; and offering more current information than traditional textbooks on an ongoing basis. **DLS recommends that the full amount of funding proposed in fiscal 2015, \$3.5 million, be distributed to LEAs based on their need to upgrade their information technology infrastructure to implement PARCC tests fully online by the 2016-2017 school year.** This issue was discussed in greater detail in the MSDE – Headquarters analysis.
- ***Quality Teacher Incentives (\$7.9 Million Increase, \$2.6 Million Net Decrease):*** Funds for Quality Teacher Incentives are used to recruit and retain quality teachers by providing stipends to teachers achieving NBC and teachers holding APC that teach in comprehensive needs schools. The Department of Budget and Management (DBM) reported an additional program shortfall in fiscal 2014. A \$9.6 million deficiency in general funds is needed to cover the full costs for fiscal 2014, which actually results in a net decrease of \$2.6 million in fiscal 2015. Quality Teacher Incentives will be discussed in greater detail in Issue 5 of this analysis.
- ***NBC Fees (\$900,000 Increase, \$140,000 Net Decrease):*** The fiscal 2015 allowance includes \$600,000 in general funds and \$300,000 in special funds to support NBC fees. Chapter 581 of 2013 repealed the termination date for the program, which provides State reimbursement for NBC fees for up to 1,000 teachers. The State pays two-thirds of the fee, and the counties pay one-third. The program is funded at \$1,040,000 in fiscal 2014, so the allowance is a decrease of \$140,000 over fiscal 2014.
- ***Home and Community Based Waiver for Autism (\$12.0 Million Moved from Headquarters to Aid to Education):*** The Home and Community Based Waiver for Autism program is not a new program in MSDE. It was moved from the Headquarters budget into the Students with

Disabilities program in the Aid to Education budget. The full amount of \$12.0 million was moved from the Headquarters budget to the Aid to Education budget and is showing up in this analysis for the first time.

MSDE believes that the waiver program is more appropriately placed in the Aid to Education budget rather than in the Headquarters budget. This has been discussed with DBM in previous years but had not been moved in the allowance until this year.

Combined Fund Changes

- ***At Risk Youth – Various (\$141,060 Increase):*** Other changes in programs for at risk youth include a \$141,060 increase in federal funds for Education for Homeless Children and Youth, and for the 21st Century Community Learning Centers grant.
- ***At Risk Youth – SEED School for Disadvantaged Youth (\$446,460 Increase):*** The SEED School of Maryland is a residential education boarding program for at risk students that opened in August 2008 (fiscal 2009) with a class of 80 6th graders. As of September 30, 2013, the school had the full enrollment of 400 students enrolled in grades 6 through 10.

General funds increase by \$46,460 in the allowance, bringing the total State funds for the SEED School to \$10.1 million in support of 400 students. Beginning in fiscal 2014, minimum funding per student was the prior year funding amount as altered by the annual change in the per pupil foundation amount that is used to determine State aid for public primary and secondary education. The inflationary factor used in the foundation program is 0.46% in fiscal 2015. Applying 0.46% to the prior year per pupil amount, \$25,250, yields a fiscal 2015 per pupil amount of \$25,366. Multiplying 400 students times the new per pupil amount equals \$10,146,460 in general funds.

Special funds increase by \$400,000 in fiscal 2015. Special funds are collected from LEAs where the SEED school students are domiciled. Because the LEA local cost of education (LCE) varies from year to year, the SEED special fund budget is just an estimate which has to be adjusted after the fiscal year starts. Once actual LEA LCE fund amounts are calculated, usually in March, the appropriation is either increased or a deficiency request or budget amendment is submitted to cover the shortfall. The total amount is \$4.4 million in special funds for the fiscal 2015 allowance.

Federal Fund Changes

- ***Food Services Program (\$41.8 Million Increase):*** Federal funds budgeted for food services include the School Breakfast Program, the National School Lunch Program, and the Child and Adult Care Food Program.

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- ***Special Education (\$1.0 Million Decrease):*** Federal special education funds include special education grants to states, preschool grants, and grants for infants and families with disabilities. The fiscal 2015 allowance is \$1.0 million below the fiscal 2014 working appropriation.
- ***Title I – Educationally Deprived Children (\$6.8 Million Increase):*** Federal Title I grants are allocated to states under the Elementary and Secondary Education Act (ESEA) to provide additional resources for low-income children. The fiscal 2015 allowance is \$6.8 million above the fiscal 2014 working appropriation.
- ***Language Assistance (\$319,192 Increase):*** Federal funds for instruction in public and nonpublic schools for students whose native language is not English.
- ***Career and Technology Education (\$363,665 Decrease):*** Federal funds for vocational education basic grants to states decline by \$363,665.
- ***Improving Teacher Quality (\$418,000 Increase):*** Federal funds for Improving Teacher Quality are distributed to states based on a two-part formula: a base allocation and a formula that accounts for each state's share of the population aged 5 to 17 and relative share of poor children in that age range. Funds are used for professional development, class-size reduction, and other activities that improve teacher quality.

Issues

1. State Aid for Education Increases in Fiscal 2015

Education Aid Projected to Increase by \$138.4 Million

Public schools are expected to receive about \$6.2 billion in fiscal 2015, representing a \$138.4 million (2.3%) increase over 2014. Largely due to recent pension reform and local cost-sharing initiatives, teachers' retirement payments made by the State on behalf of local school boards are increasing by a relatively modest \$10.3 million, representing 1.2% increase. Aid that flows directly to local school boards is projected to grow by \$128.1 million (2.5%). The increase in direct aid is driven by an expected rise in the per pupil foundation amount and enrollment increases.

Foundation and Most Other Direct Aid Programs Will Increase Slightly

The foundation program totals \$2.9 billion in fiscal 2015, an increase of \$32 million (1.1%) over fiscal 2014, as shown in **Exhibit 7**. The increase is attributed to enrollment growth of 0.5% (4,300 FTES) and a 0.5% increase in the per pupil foundation amount. Fiscal 2015 is the final year in which the inflation rate used to increase the per pupil foundation amount is capped in statute at 1.0%. The 0.5% increase in the per pupil foundation amount in fiscal 2015 is equivalent to the change in the Implicit Price Deflator for State and Local Government Purchases.

After the foundation program, in fiscal 2015, the compensatory education and LEP formulas have the largest dollar increases among the direct aid programs. A portion of the increase in each program is due to enrollment growth in students eligible for FRPM and English language learners, respectively, and the rest of the increases can be attributed to the increase in the per pupil foundation amount.

Exhibit 7
State Aid for Education
Fiscal 2014 and 2015
(\$ in Thousands)

<u>Program</u>	<u>2014</u>	<u>2015</u>	<u>\$ Change</u>	<u>% Change</u>
Foundation Program	\$2,850,479	\$2,882,444	\$31,965	1.1%
Net Taxable Income	8,325	26,860	18,535	222.7%
Geographic Cost Adjustment	130,790	132,685	1,895	1.4%
Supplemental Grant	46,496	46,620	124	0.3%
Compensatory Education Program	1,195,985	1,251,666	55,681	4.7%
Special Education Program	269,309	271,966	2,657	1.0%
Nonpublic Placements	109,819	110,918	1,098	1.0%
Limited English Proficiency	193,428	197,665	4,238	2.2%
Guaranteed Tax Base	52,317	59,390	7,073	13.5%
Student Transportation	254,528	258,384	3,855	1.5%
Other	63,822	64,828	1,006	1.6%
<i>Direct Aid Subtotal</i>	<i>\$5,175,300</i>	<i>\$5,303,426</i>	<i>\$128,126</i>	<i>2.5%</i>
Teachers Retirement	852,825	863,148	10,322	1.2%
Total	\$6,028,126	\$6,166,574	\$138,448	2.3%

Note: Other includes general and special funds supporting the SEED School; formulas for specific populations; infants and toddlers; innovative programs; food service; science, technology, engineering, and mathematics; and teacher development. Excludes the State Retirement Agency administrative fee for teachers' retirement and contingent reductions in fiscal 2014 and 2015.

Source: Department of Legislative Services

Retirement Costs Grow Slightly Due to Pension Reforms

In an effort to constrain rapidly escalating teachers' retirement costs and reduce the long term liabilities of the State Retirement and Pension System (SRPS), changes to the State's pension structure have been enacted recently. Chapter 397 of 2011 altered the benefit structure for teachers and other professional school employees (along with the benefits provided to State employees) and required that \$300 million of the savings from the reform be reinvested in the system each year, beginning in fiscal 2014. Chapter 397 also requires each local school board, along with the community colleges and all State agencies, to share in the administrative costs of the State Retirement Agency (SRA) in proportion to its active membership in the SRPS.

Further cost-sharing was approved in Chapter 1 of the First Special Session of 2012. Chapter 1 phased in school board payments of the annual normal cost for the teachers retirement

system over four years. The payments required from each school board for fiscal 2013 through 2016 are specified in the legislation, and county maintenance of effort (MOE) payments to the school boards increase to help support the cost-sharing initiative. After fiscal 2016, each school board is responsible for paying the *actual* normal costs associated with its employees. In fiscal 2013, further statutory and nonstatutory changes were made that are expected to generate significant short- and long-term savings in employer contributions to the SRPS.

Largely due to these cost-saving measures, State retirement payments for public school teachers and other professional personnel grow modestly in fiscal 2015. The costs will total an estimated \$863.1 million in fiscal 2015, representing a \$10.3 million increase (1.2%) from the prior fiscal year. This slight increase in State payments is due to a number of offsetting factors and does not reflect the Governor's proposal to reduce by one-third the required amount of pension reinvestment. In addition to the State's share of teacher pension costs, local school boards will contribute approximately \$235.6 million to the payments in fiscal 2015. This represents an increase of \$48.8 million over the combined fiscal 2014 local share and includes \$221.6 million for the local share of pension contributions and \$14.1 million toward SRA administrative costs. To help offset the increased local costs, local school boards are no longer required to reimburse the State for the retirement costs of federally funded teachers beginning in fiscal 2015.

Net Taxable Income Education Grants

Approximately 75% of State aid to public schools is distributed inversely to local wealth, whereby the less affluent school systems receive relatively more State aid. The NTI is one component of calculating local wealth for purposes of State aid for education. Chapter 4 of 2013 provides additional education grants to counties whose formula aid funding amount is higher using NTI data from November 1 as compared to September 1. Chapter 4 phases in the grant amounts over five years, beginning in fiscal 2014. NTI education grants to 18 counties totaled \$8.3 million in fiscal 2014, equal to 20% of the additional amount, and increase to \$26.8 million (40% of the additional amount) in fiscal 2015. Due to changes in local wealth, the cost to provide 20% of the total amount increases to \$13.4 million in fiscal 2015, and the additional 20% to be phased in in fiscal 2015 increased \$7.7 million from last year's estimate. **Therefore, DLS recommends freezing the NTI grant calculation at 20% for one year and reducing the NTI grant amount by \$13,429,992, contingent on the enactment of legislation authorizing the freeze. DLS will recommend an amendment to SB 172/HB 162 (the BRFA of 2014) to freeze the NTI adjustment at 20% for one year, which delays the full phase in of the adjustment to fiscal 2019.**

Exhibit 8 shows the change to the NTI amounts by county if it was frozen to 20% and if it continued at 40% in fiscal 2015 under current law. All counties except Anne Arundel (which receives slightly less) still receive more in fiscal 2015 with the 20% freeze due to changes in wealth. Instead of the State paying \$26.9 million to the counties in fiscal 2015, under current law, the State would only be responsible for \$13.4 million.

Exhibit 8
Net Taxable Income Grant Amounts under Current Law and Frozen at 20 %
Fiscal 2014-2015

<u>County</u>	Current Law			Recommendation		
	<u>20%</u> <u>2014</u>	<u>40%</u> <u>2015</u>	<u>Increase</u> <u>2014-15</u>	<u>Freeze at</u> <u>20%</u> <u>2015</u>	<u>Change</u> <u>2014-15</u>	<u>Allowance</u> <u>Reduction</u> <u>2015</u>
Allegany	\$311,022	\$865,366	\$554,344	\$432,683	121,661	-\$432,683
Anne Arundel	574,459	963,665	389,206	481,833	-92,627	-481,833
Baltimore City	0	0	0	0	0	0
Baltimore	0	0	0	0	0	0
Calvert	241,825	653,800	411,975	326,900	85,075	-326,900
Caroline	171,035	445,024	273,989	222,512	51,477	-222,512
Carroll	384,283	1,163,656	779,373	581,828	197,545	-581,828
Cecil	414,167	1,225,102	810,935	612,551	198,384	-612,551
Charles	863,706	2,342,156	1,478,449	1,171,078	307,371	-1,171,078
Dorchester	140,776	376,519	235,743	188,259	47,483	-188,259
Frederick	469,554	1,314,904	845,349	657,452	187,897	-657,452
Garrett	87,005	274,463	187,458	137,231	50,227	-137,231
Harford	589,164	1,669,292	1,080,129	834,646	245,482	-834,646
Howard	0	389,216	389,216	194,608	194,608	-194,608
Kent	42,171	0	-42,171	0	-42,171	0
Montgomery	0	0	0	0	0	0
Prince George's	2,532,291	10,889,498	8,357,207	5,444,749	2,912,458	-5,444,749
Queen Anne's	71,040	273,594	202,554	136,797	65,757	-136,797
St. Mary's	311,307	906,539	595,232	453,269	141,962	-453,269
Somerset	101,023	278,374	177,351	139,187	38,164	-139,187
Talbot	0	0	0	0	0	0
Washington	648,228	1,814,208	1,165,979	907,104	258,876	-907,104
Wicomico	372,344	1,014,610	642,266	507,305	134,961	-507,305
Worcester	0	0	0	0	0	0
Total	\$8,325,402	\$26,859,985	\$18,534,583	\$13,429,992	\$5,104,591	-\$13,429,992

Source: Department of Legislative Services

2. Adequacy Study to Begin in 2014

In fiscal 2002, the Maryland General Assembly adopted the Bridge to Excellence in Public Schools Act (Chapter 288), which restructured Maryland's public school finance system and increased State aid to public schools by an estimated \$1.3 billion over six fiscal years (fiscal 2003 to 2008). As a result of this legislation, Maryland adopted a standards-based approach to public school funding, which identified base funding for students without special needs, identified per pupil weights for students with special needs, and analyzed the effect of concentrations of poverty on adequacy targets. The follow up adequacy study was originally scheduled to begin in 2012, 10 years after the initial study was completed. However, Chapter 397 of 2011 delayed the study in order to incorporate the new Common Core State Standards and assessments aligned with the standards.

Scope of the Adequacy Study

MSDE, in collaboration with DBM and DLS, must contract with a public or private entity to conduct a study of the adequacy of education funding in the State. The study must be conducted in phases, with the first phase beginning no later than June 30, 2014, and the final phase being completed by December 1, 2016. The study must incorporate standards from the common core curriculum adopted by the State board and two years of results from common core assessments to be implemented beginning in the 2014-2015 school year. The adequacy study is estimated to cost approximately \$800,000, but the full amount is not yet known, as the contract has yet to be awarded. The Governor is required to include sufficient funds in the State budget for the study. To cover the cost of the study, \$400,000 was placed in the MSDE – Headquarters budget in both fiscal 2014 (by a deficiency) and fiscal 2015. A request for proposals is currently being developed by MSDE, DBM, and DLS for the contract to perform the study. **The State Superintendent should discuss in broad terms the most significant impacts that the adequacy study is expected to have on State aid for education once it is complete.**

3. All Counties Meet Maintenance of Effort Requirement

MSDE has certified that the school appropriations of all 24 counties have met the fiscal 2014 MOE requirement. Overall, MOE appropriations increase by approximately 2% statewide over fiscal 2013, and 12 counties appropriated more than the required MOE amount.

Established in 1984, the MOE law requires each county government (including Baltimore City) to provide at least as much per pupil funding for the local school board as was provided the prior fiscal year. In 1996, the law was modified to allow a county to apply for a one-year waiver of the MOE requirement if the county's fiscal condition significantly impeded its ability to fund the full MOE amount. Counties first requested waivers beginning in 2009 due to the economic recession. This initial experience identified concerns with the MOE law, many of which were addressed by Chapter 6 of 2012.

Chapter 6 made significant changes to the State's nearly 30-year-old MOE law. Chapter 6 holds counties accountable for meeting minimum school funding levels, while enabling counties to increase their local property tax above locally imposed tax caps for the sole purpose of meeting MOE. In fiscal 2013, Talbot County was the first county to utilize this provision of the law. No counties are using this authority in fiscal 2014. Beginning in fiscal 2015, Chapter 6 requires a county that has an education effort below the five-year statewide average education effort to increase the MOE payment to the school board in years when its local wealth base is increasing. The required increase will be the lesser of the increase in a county's per pupil wealth, the average statewide increase in per pupil local wealth, or 2.5%. Statewide per pupil local wealth decreases slightly, 0.3%, from fiscal 2014 to fiscal 2015 using September NTI. Since Chapter 6 requires the lesser of the three per pupil wealth figures to be used in the MOE adjustment, there is no impact in fiscal 2015 if statewide wealth is declining. However, with the phasing in of November NTI data in the State aid calculations, there is some question as to when to include November NTI in the local wealth calculation. If 100% of November NTI is included in local wealth, statewide local wealth increases slightly, 0.5%, on a per pupil basis in fiscal 2015, which would trigger the requirement under Chapter 6 that three jurisdictions (Baltimore City and Garrett and Kent counties) increase their MOE appropriations by 0.5% in fiscal 2015. At the time Chapter 6 was enacted in 2012, the NTI adjustment did not exist. Therefore, DLS suggests that the September NTI data is the appropriate data to use for the calculation of local wealth for MOE purposes until the November NTI adjustment is fully phased in to 100%. The General Assembly may wish to consider clarifying this provision in the statute.

Exhibit 9 shows required fiscal 2014 MOE levels for each LEA, as well as the amount MSDE certified each LEA as providing. As shown in Exhibit 9, all 24 LEAs met the MOE in fiscal 2014. Nine LEAs exceeded the required fiscal 2014 MOE amount by \$1.0 million or more: Calvert, Carroll, Cecil, Charles, Harford, Howard, Queen Anne's, St. Mary's, and Worcester counties.

Exhibit 9
Fiscal 2014 Maintenance of Effort Certification
By County

<u>County</u>	<u>Fiscal 2014 Appropriation</u>	<u>Certified Net Local Appropriation</u>	<u>Fiscal 2014 Required MOE Level</u>	<u>Local Funding Provided Over MOE</u>
Allegany	\$29,770,045	\$29,770,045	\$29,770,045	–
Anne Arundel	596,454,600	596,454,600	596,454,560	40
Baltimore City	257,441,740	250,228,619	250,228,619	–
Baltimore County	712,086,091	704,776,585	704,776,585	–
Calvert	113,394,429	113,166,429	109,375,140	3,791,289
Caroline	13,416,327	13,416,327	13,416,310	17
Carroll	168,578,000	168,330,938	166,001,947	2,328,991
Cecil	72,848,292	72,848,292	69,264,543	3,583,749
Charles	159,010,300	157,010,300	154,125,871	2,884,429
Dorchester	18,359,680	18,359,680	18,359,680	–
Frederick	233,354,228	229,354,228	229,354,228	–
Garrett	26,201,544	26,201,544	26,042,376	159,168
Harford	221,300,729	221,300,729	219,348,244	1,952,485
Howard	497,485,719	491,335,979	482,487,622	8,848,357
Kent	17,196,312	17,196,312	17,196,312	–
Montgomery	1,448,250,594	1,448,250,594	1,448,250,594	–
Prince George's	623,743,913	570,441,013	570,423,478	17,535
Queen Anne's	48,131,684	48,131,684	45,129,583	3,002,101
St. Mary's	89,910,979	86,955,723	83,514,449	3,441,274
Somerset	9,480,539	9,387,539	9,387,539	–
Talbot	35,158,266	35,158,266	35,158,265	1
Washington	94,453,575	94,453,575	94,453,570	5
Wicomico	40,520,465	40,520,465	39,891,465	629,000
Worcester	75,477,677	75,177,677	73,986,408	1,191,269

MOE: maintenance of effort

Note: The fiscal 2014 appropriation is the total county appropriation to the school board. The certified local appropriation does not include nonrecurring costs and other county appropriations for education that do not count toward MOE. For 13 counties, the certified MOE appropriation is the same as the total appropriation.

Source: Maryland State Department of Education

4. Status of the School Progress Index

In May 2012, Maryland received an ESEA flexibility waiver, allowing the State to replace the No Child Left Behind (NCLB) performance measures with the Maryland School Progress Index (SPI). This new accountability system measures school progress in improving student achievement, closing achievement gaps, and moving students toward college and career readiness. Under the waiver, new performance targets are set for each school to reduce student achievement gaps for student subgroups and for all students by 50% by 2017.

Exhibit 10 shows the elementary and middle school and high school progress indices. Both the elementary and middle school and high school SPIs include student achievement and achievement gap measures. While the elementary and middle school index includes a student growth component, the high school index instead includes a measure of college and career readiness as demonstrated by graduation rates, career attainment, and college attendance. The high school index does not include student growth, as the HSAs are end-of-course exams, so year-over-year growth cannot be assessed.

Annual targets are set for every school based on the progress required to achieve each school's goals by fiscal 2017. School attainment of annual targets for each indicator is combined to generate a SPI for each LEA. The SPI is an estimate of the extent to which the school or LEA has met its targets. A school making progress, as expected, will achieve an Index score of 1 or better.

Exhibit 10 Maryland School Performance Index

<u>Elementary and Middle School Index</u>		<u>High School Index</u>	
Student Achievement – Reading, Math, and Science	30%	Student Achievement – Algebra/Data Analysis, English, and Biology	40%
Student Growth – Reading and Math	30%	College and Career Readiness – Cohort Graduation Rate, College and Career Preparation	20%
Reduce Achievement Gaps – Reading, Math, and Science	40%	Reducing Achievement Gaps – Algebra/Data Analysis, English, and Biology, Cohort Graduation and Dropout Rate	40%

Source: Maryland State Department of Education

SPI, ESEA Waiver, and New Curriculum

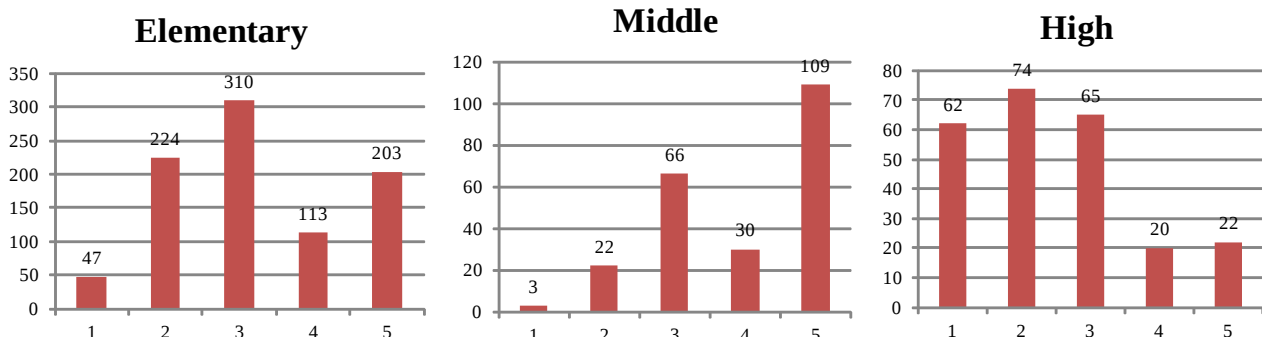
The SPI was created as part of Maryland's request for ESEA flexibility, and as such, that waiver is good through the 2013-2014 school year. The ESEA extension that MSDE is working on would be good for one additional year. It is anticipated that as the assessments change to PARCC, the annual measurable objectives will have to be adjusted to align with a new baseline for the new assessments. Maryland has a goal of reducing by half the number of students in each school who are not achieving at the proficient level by fiscal 2017, with annual improvement targets set for every school and every subgroup individually. The goal allows Maryland to establish targets for each school and not have an unrealistic, arbitrary target that was part of the NCLB formula. MSDE and the ESEA stakeholder committee will also review the SPI, the transition to PARCC, and will consider changes to the SPI.

SPI Performance Strands

Based on the SPI data, schools are placed into one of five performance strands. Schools in strand 1 are the State's highest performing schools with minimal subgroups missing annual targets, while schools in strand 5 are the lowest performing schools overall, and schools with multiple subgroups missing annual targets. MSDE will provide schools and LEAs with a system of oversight and support based on the 5-strand rating system.

Exhibit 11 illustrates the number of schools that were placed in each strand in fiscal 2013.

Exhibit 11
Schools by School Progress Index Strands
2012-2013 School Year



Source: Maryland State Department of Education

Focus schools are schools that do not require schoolwide, systemic change but need to focus on the services to one or two subgroups. Maryland's persistently lowest-performing schools will work with the State's Breakthrough Center and LEA leadership to select one of four approved turnaround models. Focus schools will complete a needs assessment and select targeted strategies designed to meet identified needs such as staff capacity building, collaboration, and planning time. These schools can also access technical assistance from the Breakthrough Center to assist in the analysis of school operations, make recommendations for improving student performance, and provide implementation support.

Priority schools, as defined by the U.S. Department of Education, are the lowest performing Title I schools equal to at least 5% of the State's Title I schools. Priority schools will be monitored by School Improvement Grant Monitoring Teams and new Priority Schools Monitoring Teams. The lowest 5% of non-Title I schools will also undergo additional periodic monitoring with a focus on teachers' individual professional development plans. LEAs will provide additional technical assistance such as data analysis and professional development to Title I schools that do not meet annual subgroup targets or that have large achievement gaps.

Any school in which a subgroup misses an annual target will be required to analyze and address the needs of that subgroup in its school improvement plan. All LEAs will detail in their master plans submitted annually to MSDE strategies to improve the performance of any subgroup not meeting targets. In addition, all schools will develop a school improvement plan. **The State Superintendent should discuss how progress on annual targets will be assessed in the context of PARCC exams being given alongside the MSA tests this year, and how the SPI will be used to**

inform MSDE resources in helping schools as all schools are being held harmless this school year due to the ESEA waiver.

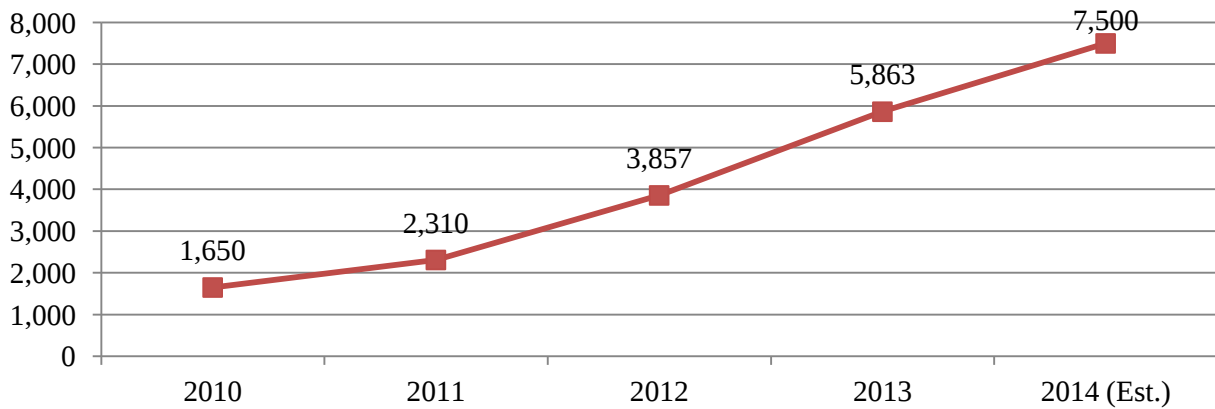
5. Quality Teacher Incentive Costs Increase Significantly

Stipends and bonuses for eligible classroom teachers were established in 1999 to attract and retain quality teachers in Maryland public schools. The BRFA of 2009 (Chapter 487) scaled the program back by limiting the number of qualifying teachers, reducing stipends, and eliminating signing bonuses for teachers who graduated with college grade point averages of 3.5 or better. As a result of the change, teachers and other non-administrative school-based employees in schools identified as having comprehensive needs and who hold NBC, receive a stipend from the State equal to the county grant up to \$2,000, while those in non-comprehensive needs schools receive stipends equal to the county grant up to \$1,000. In addition, teachers in comprehensive needs schools holding APC are entitled to \$1,500 stipends.

Quality Teacher Incentive Programs

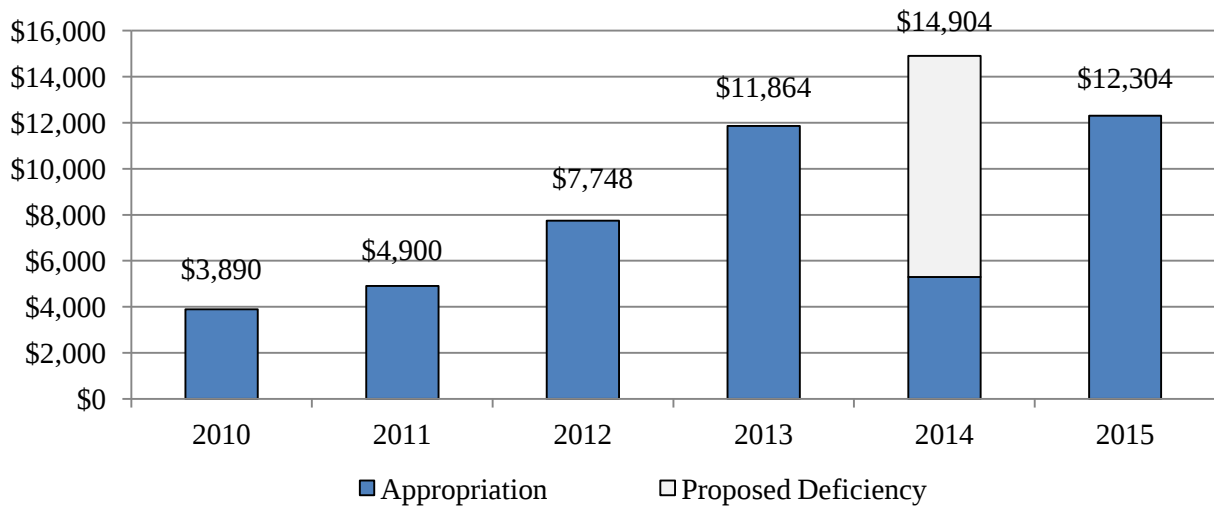
The number of teachers receiving funds through the program has risen dramatically in recent years, as the number of schools identified as having comprehensive needs under the NCLB increased. **Exhibit 12** shows the number of teachers receiving APC stipends between fiscal 2010 and 2014. Over this period, the number of stipends more than tripled, increasing from 1,650 in fiscal 2010 to an estimated 7,500 in fiscal 2014. **Exhibit 13** shows appropriations for the Quality Teacher Incentive Program (including stipends for NBC and APC), which have increased from \$3.9 million in fiscal 2010 to \$14.9 million in fiscal 2014. Though the fiscal 2014 appropriation only includes \$5.3 million for the program, a \$9.6 million deficiency using general funds has been proposed to provide stipends for teachers in comprehensive needs schools that have obtained NBC or APC as required in statute. The fiscal 2015 allowance for the incentives is \$2.6 million lower than fiscal 2014 with the deficiency.

Exhibit 12
Advanced Professional Certificate Stipends
Fiscal 2010-2014 Est.



Source: Maryland State Department of Education

Exhibit 13
Quality Teacher Incentive Appropriations
Fiscal 2010-2015
(\$ in Thousands)



Source: Governor's Budget Books, Fiscal 2012-2015, Department of Budget and Management

In May 2012, Maryland received an ESEA flexibility waiver. As a result, the Adequate Yearly Progress is no longer part of Maryland's accountability system and is replaced by the SPI. Based on their SPI, schools are placed into one of five performance strands. Schools in the lowest two strands will be identified as comprehensive needs schools, and their teachers will be eligible for APC stipends and larger NBC stipends. In addition, consistent with its Race to the Top application, MSDE has proposed regulations that would allow "highly effective" teachers to receive APC without earning a master's degree beginning in the 2016-2017 school year. This will put further pressure on the Quality Teacher Incentive budget.

Based on fiscal 2013 using the SPI, there were 432 stipend-eligible schools. As shown in Exhibit 13, the fiscal 2015 allowance includes \$12.3 million for the program. **The State Superintendent should discuss expenditure trends in the Quality Teacher Incentive Program and comment on the effectiveness of the program in attracting and retaining teachers to underperforming and underresourced schools in Maryland.**

Recommended Actions

1. Add the following language to the general fund appropriation:

, provided \$13,429,992 of this appropriation made for the purpose of the Net Taxable Income (NTI) adjustment be reduced contingent on the enactment of SB 172 or HB 162, which would freeze the NTI adjustment at 20% for fiscal 2015.

Explanation: This language would reduce general funds for the NTI adjustment contingent on enactment of a provision in the Budget Reconciliation and Financing Act of 2014 that would freeze the phase-in at 20% for fiscal 2015 and delay the full phase-in until fiscal 2019.

2. Add the following language to the general fund appropriation:

Provided that the Maryland State Department of Education shall notify the budget committees of any intent to transfer the funds from program R00A02 Aid to Education to any other budgetary unit. The budget committees shall have 45 days to review and comment on the planned transfer prior to its effect.

Explanation: The Maryland State Department of Education (MSDE) should not transfer any funds from Aid to Education until the transfer is reviewed by the budget committees.

Information Request	Author	Due Date
Report on any transfer of funds from R00A02	MSDE	45 days prior to transfer

3. Add the following language to the general fund appropriation:

, provided that 3,500,000 of this appropriation made for the purpose of the Digital Learning Innovation Fund shall be distributed to local education agencies in need of funds to upgrade their information technology infrastructure to implement the Partnership for Assessment of Readiness for College and Careers tests online. The allocation of funds will be made by the Maryland State Department of Education. Funds not expended for this restricted purpose may not be transferred by budget amendment or otherwise to any other purpose and shall revert to the General Fund.

Explanation: All local education agencies must be ready to implement the Partnership for Assessment of Readiness for College and Careers (PARCC) tests fully online by the 2016-2017 school year. The Digital Learning Innovation Fund is restricted to the purpose of supplying local education agencies with funding to upgrade their information technology infrastructure as overseen by the Maryland State Department of Education. Funds allocated will help upgrade information technology infrastructure still needed to meet the requirement of implementing PARCC online.

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	<u>Amount Reduction</u>	
4. Delete funds for the Early College Innovation Fund until the first round of grants is analyzed for effectiveness.	\$ 2,000,000	GF
Total General Fund Reductions	\$ 2,000,000	

Updates

1. Impact of Sequestration on MSDE

As established in the Budget Control Act of 2011, sequestration was triggered when the Joint Select Committee on Deficit Reduction failed to reach an agreement. Sequestration would have generated automatic cuts for each of nine years, federal fiscal 2013-2021, and totaling \$1.2 trillion. This would have affected all parts of government spending including education funding. Sequestration was originally scheduled to take effect on January 2, 2013. However, it was delayed for two months, until March 1, 2013, by the agreement struck on New Year's Eve, called the American Taxpayer Relief Act of 2012. Maryland was affected by sequestration in fiscal 2013 and part of 2014. The sequester constrained MSDE – Headquarters federal staffing and technical support efforts. To mitigate the sequester's effect, MSDE prioritized hiring and contracting and used prior year federal carry over funds to manage the fiscal 2013 and 2014 sequester cuts while maintaining management oversight over federal grants.

In January 2014, President Barack H. Obama signed a budget bill that restored most education funding to pre-sequester levels. The bill, known as the Bipartisan Budget Act of 2013, reversed a majority of the across-the-board sequester cuts that had a negative effect on education funding to MSDE and the LEAs who receive pass through federal funding through the ESEA, the Individuals with Disabilities Education Act (IDEA), Perkins, and other grants. The measure replaced \$63 billion in sequester cuts that would have happened in the next two years, which restored most of the nondefense discretionary spending including education. Without the signed budget bill, sequestration during fiscal 2015 would have resulted in reductions to services and staffing at both the State and local levels as there would have been no federal carry over funds to mitigate the sequester's effect.

2. U.S. Department of Agriculture Community Eligibility Option Pilot Program

The U.S. Department of Agriculture's (USDA) Community Eligibility Option (CEO) is the newest tool for schools with high percentages of low-income students to provide meals at no charge to all students. Schools that take advantage of the CEO do not collect school benefit applications for FRPM. Instead, the school's reimbursement is calculated from a formula that is based on the number of students that are directly certified; meaning they are certified for free school meals because they live in a household that receives Supplemental Nutrition Assistance Program/Food Stamps and/or Temporary Assistance for Needy Families cash assistance, are in foster care or Head Start, are migrants, or are experiencing homelessness. The CEO is available in all schools or in groups of schools where 40% or more of the students meet this definition. The federal reimbursements are determined by multiplying the percentage of directly certified students (referred to as Identified Students), by a 1.6 multiplier. The resulting number is the percentage of meals reimbursed at the "free" reimbursement rate, with the remainder of the meals being reimbursed at the "paid" rate. MSDE has forecast that approximately 150 to 210 schools would be eligible and could take

advantage of the program if it opened up throughout the State. The CEO is paid for wholly by federal funds.

Maryland's Role in Pilot Program

Maryland was selected by USDA to pilot CEO in fiscal 2014 (along with Florida, Georgia, and Massachusetts). Maryland's application included Washington County Public Schools and The SEED School of Maryland as eligible LEAs for the pilot year. The SEED School and five schools in Washington County took part in the pilot. This meant a total of 1,943 students participated in the program in those schools. Maryland and the three other states join Illinois, Kentucky, Michigan, New York, Ohio, West Virginia, and Washington, DC who have already implemented the CEO in many of their school districts. During the 2014-2015 school year, the option to implement the CEO will be open nationwide to any school or group of schools that meet(s) the 40% Identified Student threshold.

While the CEO will provide more meals to students, reduce paperwork for families and schools, and make it easier for states to be reimbursed by the federal government, Maryland's compensatory education formula uses FRPM enrollment counts. School systems with high FRPM counts are concerned that if families are not required to fill out the alternative form MSDE has developed to continue to collect FRPM counts, their compensatory education funding may be reduced due to participating in the CEO. MSDE has proposed legislation (SB 128 of 2014) that would give local school systems two options to count FRPM enrollment for formula funding purposes. SB 128 would allow for fiscal 2015 through 2017 a compensatory education enrollment count for local school systems that participate, in whole or in part, in the CEO to choose the greater of two amounts:

- FRPM enrollment for the participating school system for the year prior to opting into CEO; or
- the sum of:
 - the number of students in the CEO 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 the CEO for the prior fiscal year.

The adequacy study will include examining the use of FRPM or another proxy for students from low-income families.

3. Maryland Meals for Achievement Funding Increasing Again in Fiscal 2015

The 2013 *Joint Chairmen's Report* (JCR) required MSDE to submit a report to the budget committees outlining the steps it has taken to raise awareness of the Maryland Meals for Achievement Program (MMFA) and how it assists schools in LEAs with low participation rates apply for funds. The MMFA is an alternative breakfast program that improves students' access to a healthy meal by offering all students in-class breakfasts at no charge. It is believed that an in-class breakfast has significant benefits on students' health, academic performance, attendance, and behavior. The MMFA began in 1998 as a pilot program in six schools. The MMFA now operates in 366 schools, providing more than 170,000 students access to a healthy breakfast.

Section 7-704 of the Education Article states that any school participating in the federal School Breakfast Program with at least 40% of its October 31 enrollment approved for FRPM may apply for the MMFA – provided that funding is available. The fiscal 2014 appropriation included \$5.2 million in funding, an increase of \$1.8 million over fiscal 2013. The fiscal 2015 allowance contains \$6.9 million in general funds. As of October 31, 2012, 833 Maryland schools were eligible to apply for the MMFA. MSDE helped provide technical assistance to all eligible schools and LEAs throughout the application process.

Schools that previously participated in the MMFA and reapplied were automatically approved for fiscal 2014. Additionally, socioeconomic and geographic balance was ensured as required by State law. For fiscal 2014, all schools in LEAs with six or fewer applications and every LEA's top priority school were approved. Sixty-four percent of schools participating in the MMFA for fiscal 2014 have 50 to 70% of their student population eligible for FRPM. Eighty-one percent of newly added MMFA schools had less than 50% of their student body participating in the School Breakfast Program during fiscal 2013. Approximately 40,000 additional students will have access to the program in fiscal 2015.

4. Prince George's County Financial Literacy Program

The 2013 JCR required the Prince George's County Board of Education to submit a report to the budget committees and the Prince George's County Senate Delegation on the design and implementation of the financial literacy pilot program required by the General Assembly during the 2009 legislative session. Chapter 270 of 2009 required the Prince George's County Board of Education to develop and implement a pilot program that includes a semester-long elective course in financial literacy as part of the county board's high school curriculum. The board was required to select three high schools in the county to participate in the pilot program. In the 2013-2014 school year, the course is offered at all of the Prince George's County high schools, with over 1,900 students enrolled in the course.

Prince George's County Public Schools also provides an instruction program in personal financial literacy at the elementary and middle school levels. Financial literacy is integrated in to the social studies curriculum in grades 3 through 5. In grades 6 through 8, financial literacy is incorporated into both the social studies and mathematics curriculums.

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On October 31, 2013, Prince George’s County Public Schools, Junior Achievement, and Capital One hosted the groundbreaking ceremony of the Junior Achievement Finance Park of Prince George’s County. Capital One provided the \$2.5 million in funding for the new center. The Finance Park is scheduled to open for the 2014-2015 school year. At that time, every grade 8 student in the Prince George’s County Public School system, as well as other students from the Greater Washington region, will visit Finance Park each year to test out their financial literacy skills gained in the classroom.

Current and Prior Year Budgets

Current and Prior Year Budgets MSDE – Aid to Education (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2013					
Legislative Appropriation	\$5,435,181	\$430,642	\$790,551	\$175	\$6,656,549
Deficiency Appropriation	13,249	0	0	0	13,249
Budget Amendments	-100	-3,698	40	0	-3,758
Reversions and Cancellations	-1,006	-581	-50,348	-137	-52,072
Actual Expenditures	\$5,447,325	\$426,363	\$740,243	\$38	\$6,613,968
Fiscal 2014					
Legislative Appropriation	\$5,741,926	\$354,317	\$746,342	\$131	\$6,842,717
Budget Amendments	0	0	0	0	0
Working Appropriation	\$5,741,926	\$354,317	\$746,342	\$131	\$6,842,717

Note: The fiscal 2014 working appropriation does not include deficiencies or contingent reductions. Numbers may not sum to total due to rounding.

Fiscal 2013

The fiscal 2013 budget closed at \$6,613 million, which was \$42.6 million less than the legislative appropriation.

Deficiencies

There were \$13.25 million in general fund deficiencies. These included \$12.9 million to the Children at Risk program and \$311,650 for Aid for Local Employee Fringe Benefits.

Budget Amendments

There was a \$100,000 decrease in general funds due to budget amendments. General funds decreased by \$100,000 in the foundation program due to the transfer of general funds from the Aid to Education budget to the Division of Business Services in the MSDE – Headquarters. Also, \$6.53 million was transferred from the State share of the foundation program and the Students with Disabilities program to cover the shortfall in the Quality Teacher Incentive stipend program.

Special funds decreased by \$3.7 million due to budget amendments. Special funds increased \$9.1 million in the foundation program to reflect the transfer of \$3.0 million in VLT revenue from the Small, Minority, and Women-Owned Business Investment Account and the Problem Gambling Fund authorized by the fiscal 2013 budget bill and a \$6.1 million increase in the special fund appropriation to backfill general funds based on projected VLT revenue growth. Special funds decreased by \$13.0 million in the Aid for Local Employee Fringe Benefits program to SRA, as SRA began billing local school systems directly.

Federal funds increased by a net \$40,000 due to budget amendments.

Reversions and Cancellations

Reversions and cancellations totaled \$52.1 million. There was \$1.0 million in total general fund reversions. This was due to a reversion of \$615,190 in Montgomery County Librarian retirement and \$270,762 because enrollment was less than budgeted in Formula Programs for Specific Populations. There was a \$581,080 in total special fund cancellations due to actual attainment being less than the budget estimate in the Teacher Development program.

There was \$50.35 million in total federal fund cancellations which are all being carried over into fiscal 2014. The programs being carried over are:

- \$1.1 million in the 21st Century Community Living Centers;
- \$37.9 million in the Individuals with Disabilities Act;
- \$1.0 million in Chapter 1 Programs;

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- \$7.4 million in Charter Schools Program;
- \$813,030 in Career and Technical Education Grants;
- \$744,406 in the National School Lunch Act – Fresh Fruits and Vegetable; and
- \$1.0 million Teacher and Principal Training and Recruiting Fund.

There was \$137,176 in total reimbursable fund cancellations. The cancellation was for the Department of Health and Mental Hygiene – Sexual Abuse program because the reimbursable agreement estimate was higher than expenditures.

**Object/Fund Difference Report
MSDE – Aid to Education**

<u>Object/Fund</u>	<u>FY 13 Actual</u>	<u>FY 14 Working Appropriation</u>	<u>FY 15 Allowance</u>	<u>FY 14 - FY 15 Amount Change</u>	<u>Percent Change</u>
Objects					
12 Grants, Subsidies, and Contributions	\$ 6,613,968,434	\$ 6,842,716,804	\$ 7,049,820,349	\$ 207,103,545	3.0%
Total Objects	\$ 6,613,968,434	\$ 6,842,716,804	\$ 7,049,820,349	\$ 207,103,545	3.0%
Funds					
01 General Fund	\$ 5,447,324,848	\$ 5,741,926,473	\$ 5,833,433,463	\$ 91,506,990	1.6%
03 Special Fund	426,362,629	354,316,789	421,689,682	67,372,893	19.0%
05 Federal Fund	740,243,133	746,342,414	794,567,204	48,224,790	6.5%
09 Reimbursable Fund	37,824	131,128	130,000	-1,128	-0.9%
Total Funds	\$ 6,613,968,434	\$ 6,842,716,804	\$ 7,049,820,349	\$ 207,103,545	3.0%

Note: The fiscal 2014 appropriation does not include deficiencies. The fiscal 2015 allowance does not include contingent reductions.

Fiscal Summary					
MSDE – Aid to Education					
<u>Program/Unit</u>	<u>FY 13 Actual</u>	<u>FY 14 Wrk Approp</u>	<u>FY 15 Allowance</u>	<u>Change</u>	<u>FY 14 - FY 15 % Change</u>
01 State Share of Foundation Program	\$ 2,986,815,207	\$ 3,036,090,442	\$ 3,088,609,064	\$ 52,518,622	1.7%
02 Compensatory Education	1,146,252,211	1,195,984,922	1,251,665,659	55,680,737	4.7%
03 Aid for Local Employee Fringe Benefits	772,081,581	873,136,954	884,220,378	11,083,424	1.3%
04 Children at Risk	42,450,139	31,223,407	31,910,913	687,506	2.2%
05 Formula Programs for Specific Populations	2,940,226	3,843,426	3,881,000	37,574	1.0%
07 Students with Disabilities	386,449,031	389,517,794	405,316,891	15,799,097	4.1%
08 State Assistance for Students with Disabilities	208,711,140	202,948,035	201,898,733	-1,049,302	-0.5%
09 Gifted and Talented	910,444	916,850	916,850	0	0%
12 Educationally Deprived Children	213,941,287	200,625,196	207,414,579	6,789,383	3.4%
13 Innovative Programs	8,228,945	13,687,128	13,808,028	120,900	0.9%
15 Language Assistance	9,597,321	9,500,808	9,820,000	319,192	3.4%
18 Career and Technology Education	13,598,679	13,164,126	12,800,461	-363,665	-2.8%
24 Limited English Proficient	177,405,509	193,427,735	197,665,470	4,237,735	2.2%
25 Guaranteed Tax Base	44,205,671	52,317,464	59,390,154	7,072,690	13.5%
27 Food Services Program	249,696,489	276,397,293	319,872,764	43,475,471	15.7%
31 Public Libraries	34,429,429	34,614,134	35,046,212	432,078	1.2%
32 State Library Network	16,058,820	16,196,779	16,323,271	126,492	0.8%
39 Transportation	251,327,845	256,733,718	258,383,692	1,649,974	0.6%
52 Science and Mathematics Education Initiative	3,647,662	3,918,593	4,076,230	157,637	4.0%
53 School Technology	90,674	0	0	0	0%
55 Teacher Development	45,130,124	38,472,000	46,800,000	8,328,000	21.6%
Total Expenditures	\$ 6,613,968,434	\$ 6,842,716,804	\$ 7,049,820,349	\$ 207,103,545	3.0%
General Fund	\$ 5,447,324,848	\$ 5,741,926,473	\$ 5,833,433,463	\$ 91,506,990	1.6%
Special Fund	426,362,629	354,316,789	421,689,682	67,372,893	19.0%
Federal Fund	740,243,133	746,342,414	794,567,204	48,224,790	6.5%
Total Appropriations	\$ 6,613,930,610	\$ 6,842,585,676	\$ 7,049,690,349	\$ 207,104,673	3.0%
Reimbursable Fund	\$ 37,824	\$ 131,128	\$ 130,000	-\$ 1,128	-0.9%
Total Funds	\$ 6,613,968,434	\$ 6,842,716,804	\$ 7,049,820,349	\$ 207,103,545	3.0%

Note: The fiscal 2014 appropriation does not include deficiencies. The fiscal 2015 allowance does not include contingent reductions.