

R00A03
Funding for Educational Organizations
Maryland State Department of Education

Operating Budget Data

(\$ in Thousands)

	<u>FY 14</u>	<u>FY 15</u>	<u>FY 16</u>	<u>FY 15-16</u>	<u>% Change</u>
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>	<u>Prior Year</u>
General Fund	\$25,962	\$26,078	\$26,333	\$255	1.0%
Deficiencies and Reductions	0	0	-200	-200	
Adjusted General Fund	\$25,962	\$26,078	\$26,134	\$55	0.2%
Special Fund	5,710	6,040	6,040	0	
Adjusted Special Fund	\$5,710	\$6,040	\$6,040	\$0	0.0%
Adjusted Grand Total	\$31,672	\$32,118	\$32,174	\$55	0.2%

Note: The fiscal 2015 working appropriation reflects deficiencies and the Board of Public Works reductions to the extent that they can be identified by program. The fiscal 2016 allowance reflects back of the bill and contingent reductions to the extent that they can be identified by program.

- The fiscal 2016 adjusted allowance increases by approximately \$55,000 when compared to the fiscal 2015 adjusted working appropriation. The only program to receive additional funding in fiscal 2016 is the Maryland School for the Blind (MSB). In accordance with the statutory formula, the allowance includes a \$255,000 increase for MSB; however, due to actions included in the Budget Reconciliation and Financing Act of 2015, which level fund the per pupil foundation amount at the fiscal 2015 level, the fiscal 2016 budget includes a \$199,591 contingent reduction for MSB operating expenses.

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

For further information contact: Rebecca J. Ruff

Phone: (410) 946-5530

Analysis in Brief

Major Trends

Maryland School for the Blind: The school awarded 13 certificates and 1 diploma in fiscal 2014. The school has a goal to help students learn independent living skills that allow them to achieve success as graduates or when they return to their local schools. Approximately half of graduates from the school were in school or training or employed in fiscal 2014, with the majority being employed.

Blind Industries and Services of Maryland: The Blind Industries and Services of Maryland (BISM) has far exceeded its goal of providing at least 45,540 hours of training in blindness skills to participants. The 60,406 hours provided in fiscal 2014 was more than in any year since prior to fiscal 2007. In fiscal 2014, BISM served 285 program participants. An intensive program to obtain employment or higher education had 27 participants in fiscal 2014.

Issues

Funding for the Maryland School for the Blind: MSB serves students from birth to age 21 who are blind or visually impaired, including some with multiple disabilities. The school educates students whose needs cannot be met in their respective 24 local school systems through community-based outreach and comprehensive on-campus programs on a day or residential basis. MSB receives the majority of its funding through a State formula grant that is based on enrollment and growth in State per pupil funding. Since fiscal 2008, there has been minimal growth in the per pupil foundation, which impacts the mandated funding for MSB through the main formula grant. At the same time, the population of multiply disabled students requiring enhanced services has increased. MSB has expressed concern that the existing level of State aid is not adequate; the school is projecting a fiscal 2016 shortfall of nearly \$2.0 million, which would require an endowment draw of nearly 6% to resolve. In addition to the revenue received from the State, MSB receives tuition from local school systems. Recently, the Maryland State Department of Education (MSDE) and the Department of Legislative Services (DLS) have discovered errors in the methodology used for calculating basic cost and the local share of basic cost, which has an impact on the amount of State and local revenue received by MSB. Resolving these errors will provide additional funding for the school and offset at least part of the identified fiscal 2016 budget shortfall; however, there is no resolution proposed in the fiscal 2016 allowance. Without knowing the Administration's proposal for correcting the errors, it is difficult to determine at this time how much additional revenue will be provided to MSB and whether additional State support is warranted. **MSB should comment on how the student population and services provided have changed between fiscal 2008 and 2016. MSB should also discuss the cost containment measures implemented in previous years and what, if any, measures are currently being considered for implementation, given the identified fiscal 2016 shortfall. Finally, MSDE and the new Administration should be prepared to discuss the issues identified with the calculations for the basic cost and the local share of basic cost and how they have impacted the funding provided to MSB in recent years. The Administration should also comment on potential solutions for correcting the errors in the calculations and proposed timeline for implementing**

those solutions. DLS recommends that language be added to the budget restricting funds within MSDE until a report is provided on proposed solutions to the errors in the basic cost and local share of basic cost calculations. The report should include fiscal estimates associated with correcting the errors, including the amount of additional revenue for MSB. As this issue is not exclusive to MSB and impacts all nonpublic providers, the proposed recommendation will appear in the MSDE Aid to Education analysis.

Recommended Actions

	<u>Funds</u>
1. Add language reducing funding for grants to State Aided Institutions by 10%.	
2. Adopt narrative requesting a report on grant awards made to State Aided Institutions.	
3. Reduce funding for the Maryland Nonpublic School Textbook Program in line with fiscal 2014 actual expenditures.	\$ 330,000
Total Reductions	\$ 330,000

R00A03 – MSDE – Funding for Educational Organizations

R00A03
Funding for Educational Organizations
Maryland State Department of Education

Operating Budget Analysis

Program Description

The Maryland State Department of Education (MSDE) provides funding to certain nonprofit organizations that offer educational programs. The nonprofits include the Maryland School for the Blind (MSB), Blind Industries and Services of Maryland (BISM), and other institutions designated as State Aided Institutions (SAI). This part of MSDE's budget also funds the Maryland Nonpublic Student Textbook Program, which provides grants to eligible nonpublic schools for textbook and computer supplies.

The following educational services are provided by the nonprofits:

MSB educates students from birth through age 21 who are blind, severely visually impaired, or visually impaired/multi-disabled.

BISM provides employment, training, and rehabilitation services to blind adults at three locations.

SAI Programs

- **Alice Ferguson Foundation** operates an environmental education center on the Potomac River, offering field trips and a summer science camp on a working farm.
- **Alliance of Southern Prince George's Communities, Inc.** partners with community organizations to provide Scholastic Aptitude Test courses, tutoring for students, and parent workshops.
- **American Visionary Art Museum** provides museum tours and library visits to students and teachers, along with Internet programs about self-taught artists.
- **Baltimore Symphony Orchestra/Arts Excel** enhances teaching of the arts through mid-week concerts for students and teachers.
- **B & O Railroad Museum, Inc.** offers a program focusing on history, social studies, and sciences as related to railroad technology.

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- **Baltimore Museum of Industry** provides hands-on exhibits enabling students to apply mathematics, science, and technology to work and industry, as well as a training center for technology education teachers.
- **Best Buddies** pairs special and general education students in middle and high schools in order to foster inclusion and build socialization skills.
- **Calvert Marine Museum**, new in fiscal 2015, is a regionally oriented museum dedicated to the collection, preservation, research, and interpretation of the culture and natural history of Southern Maryland.
- **Chesapeake Bay Foundation** provides an environmental education program encompassing student field experiences at 16 centers and summer in-service courses for teachers.
- **Chesapeake Bay Maritime Museum** offers experiential learning programs about the Chesapeake Bay, including a field trip program for grade 3 students.
- **Citizenship Law-related Education Program** gives students real-world experiences related to the legal system to promote productive citizenship.
- **CollegeBound Foundation** provides college advisors in Baltimore City public high schools to encourage and assist students in continuing their education beyond high school.
- **Dyslexia Tutoring Program, Inc.** offers screening and tutoring services for dyslexic youth and adults who have average or higher basic intelligence and cannot afford private help.
- **Echo Hill Outdoor School** provides instruction in science, ecology, history, and the human environment through student field experiences.
- **Imagination Stage** produces professional theatre productions for children as part of a theatre arts center for young people.
- **The Jewish Museum of Maryland** supports on-site and outreach programs focusing on the history, tradition, and culture of Jewish life in Maryland.
- **Junior Achievement of Central Maryland, Inc.** provides a one-day Exchange City program that simulates owning and operating business enterprises.
- **Living Classrooms Foundation** provides outdoor hands-on experience to at-risk children in mathematics, science, and social studies and runs job-training programs.

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- **Maryland Academy of Sciences** cultivates interest in science through programs for visiting school groups, traveling science programs, and instructional materials for use by teachers.
- **Maryland Historical Society** enriches students' understanding of social studies through on-site and outreach programs.
- **Maryland Humanities Council** promotes humanities programming throughout Maryland.
- **Maryland Leadership Workshops, Inc.** teaches middle and high school students effective leadership skills in a residential summer program setting.
- **Maryland Mathematics, Engineering, and Science Achievement Program** partners with community organizations in providing programs aimed at improving Maryland students' preparation for the study of mathematics-related fields in college.
- **Maryland Zoo in Baltimore** provides a conservation education experience at the zoo or through a mobile outreach program.
- **National Aquarium in Baltimore** supports environmental and science education through on-site programs about aquatic environments.
- **National Great Blacks in Wax Museum** provides exhibit tours and other museum-related activities for students.
- **National Museum of Ceramic Art and Glass** offers an in-school and after-school ceramic art program for middle school students, relating art to other subjects in the curriculum.
- **NorthBay** is an environmental education center on the Elk Neck peninsula that focuses on five-day outdoor learning courses for middle school students.
- **Olney Theatre Center** supports the language arts high school curriculum through professional performances, interactive workshops, and teacher development.
- **Outward Bound** provides high school students a challenging educational experience in an outdoor setting, designed to develop self-esteem, community service involvement, and concern for the environment.
- **Port Discovery Children's Museum** provides hands-on activities for prekindergarten through grade 6 student visitors, as well as lesson plans for teachers.
- **Salisbury Zoological Park** provides programs that enhance the science curriculum and furnishes support material and in-service training for teachers.

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- **Sotterley Foundation** provides a history enrichment program focusing on the people and culture surrounding the Tidewater Tobacco Plantation.
- **South Baltimore Learning Center** supports improving adult literacy to individuals in the South Baltimore area through one-on-one tutoring, General Education Diploma classes, and career counseling.
- **State Mentoring Resource Center** connects volunteer adult mentors with disadvantaged school children.
- **Sultana Projects, Inc.** provides educational programs to increase student understanding of history and awareness of the natural environment of the Chesapeake Bay and its watershed.
- **SuperKids Camp** provides an intensive summer reading and enrichment program for grade 3 and grade 4 students in Baltimore City.
- **The Village Learning Place** provides students in the Margaret Brent Elementary School and in the Charles Village Community at large with programs aimed at increasing performance in reading and mathematics.
- **Walters Art Museum** offers educational programs through tours, studio experiences, outreach, and teacher development.
- **Ward Museum of Wildfowl Art** provides environmental education programs focusing on art, history, and science through tours and hands-on activities adaptable to a school setting.

Performance Analysis: Managing for Results

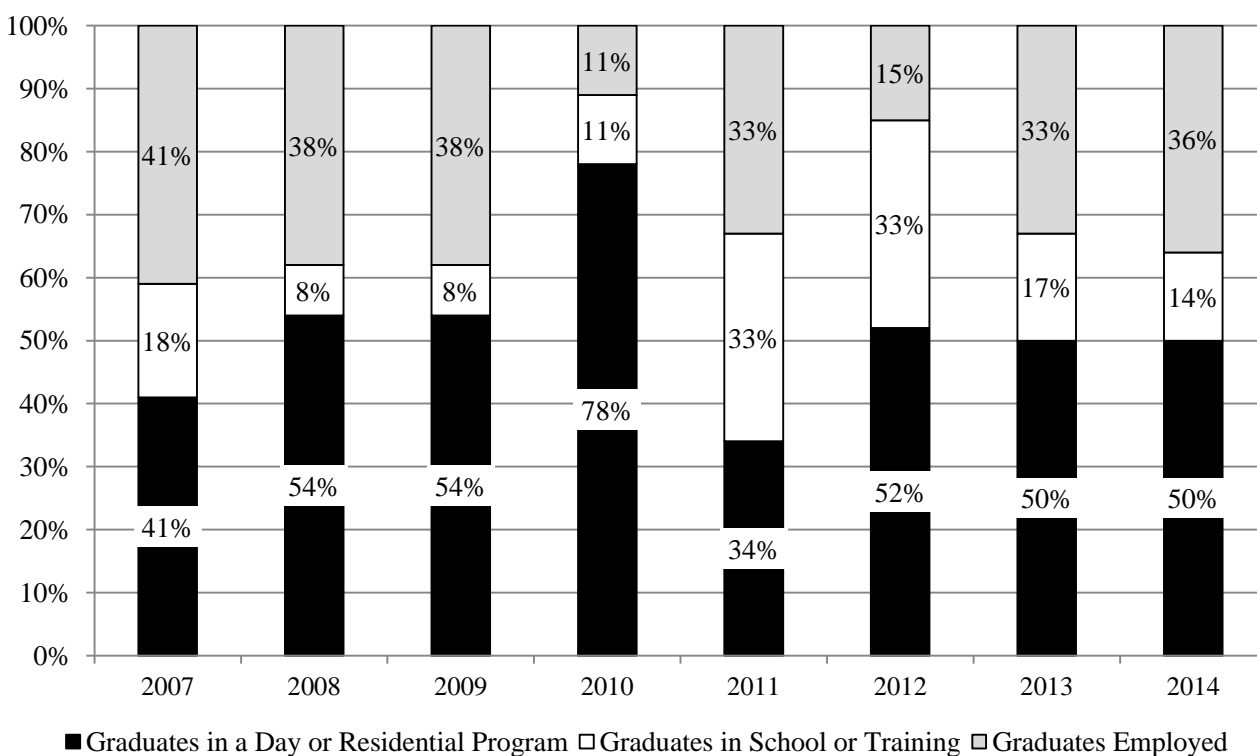
1. Maryland School for the Blind

MSB educates students referred from all 24 local school systems on a day or residential basis according to their Individualized Education Plans (IEP). The program includes the regular education curriculum as well as instruction in Braille, orientation and mobility, and independent living skills. Since fiscal 2008, MSB has averaged 93 students each year in its residential program and 92 students each year in its day program.

One of MSB's goals is that all students who pursue an education will receive a diploma or certificate and that there will be zero dropouts. The school has achieved a zero-dropout rate since at least fiscal 2008. The number of certificates awarded in fiscal 2014 increased to 13 from 11 the previous year; only one student was awarded a diploma.

MSB has another goal that students gain independent living skills that allow them to achieve success as graduates or when they return to their local schools. The average length of stay for MSB students is six years. **Exhibit 1** shows a breakdown of postgraduate outcomes since fiscal 2007, including whether graduates are in a day or residential program, school or training, or are employed. Day and residential programs can include habilitative day programs, group homes, sheltered employment, and institutional placement. For the past two fiscal years, approximately half of graduates are in a day or residential program. The percent of graduates in school or training in fiscal 2014 was smaller than in the previous year, though in line with historical trends. Because the number of graduates each year is small, large year-to-year variation in the percentage of graduates in each postgraduate outcome is typical.

Exhibit 1
Maryland School for the Blind
Postgraduate Outcomes
Fiscal 2007-2014



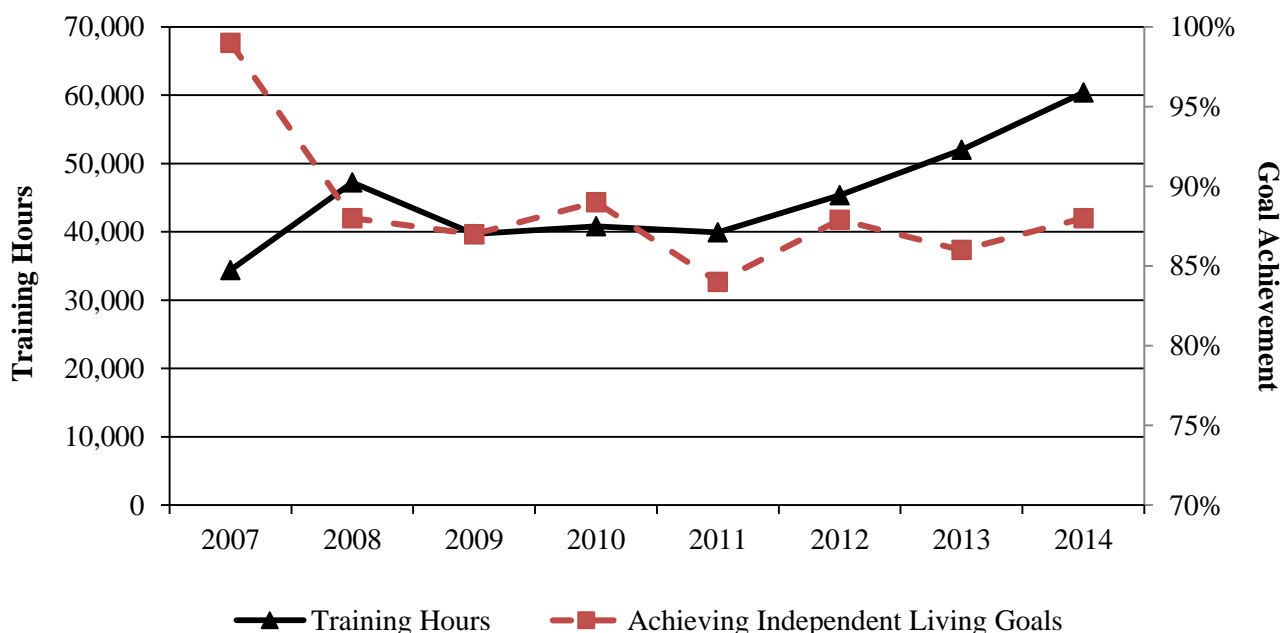
Source: Governor's Budget Books, Fiscal 2009-2016

2. Blind Industries and Services of Maryland

One of BISM’s goals is to help people who are blind or low vision gain the blindness skills and confidence needed to live independently. A related objective is to provide at least 45,540 hours annually of training in blindness skills, such as Braille reading, cane travel, computer, independent living, career exploration, physical fitness, adjustment to blindness, and community-based training.

As shown in **Exhibit 2**, BISM has essentially met or exceeded the goal of providing at least 45,540 training hours annually since fiscal 2012. Most recently, over 60,400 hours of training in blindness skills were provided in fiscal 2014. Exhibit 2 also shows that the percent of participants achieving independent living goals have averaged 89% since fiscal 2007. In fiscal 2014, 88% of BISM participants were again able to achieve independent living goals, in line with recent trends. Since fiscal 2007, an average of 192 individuals have participated in BISM training each year, with an average of 46 participants completing the program.

Exhibit 2
Blind Industries and Services of Maryland
Achievement of Independent Living
Fiscal 2007-2014

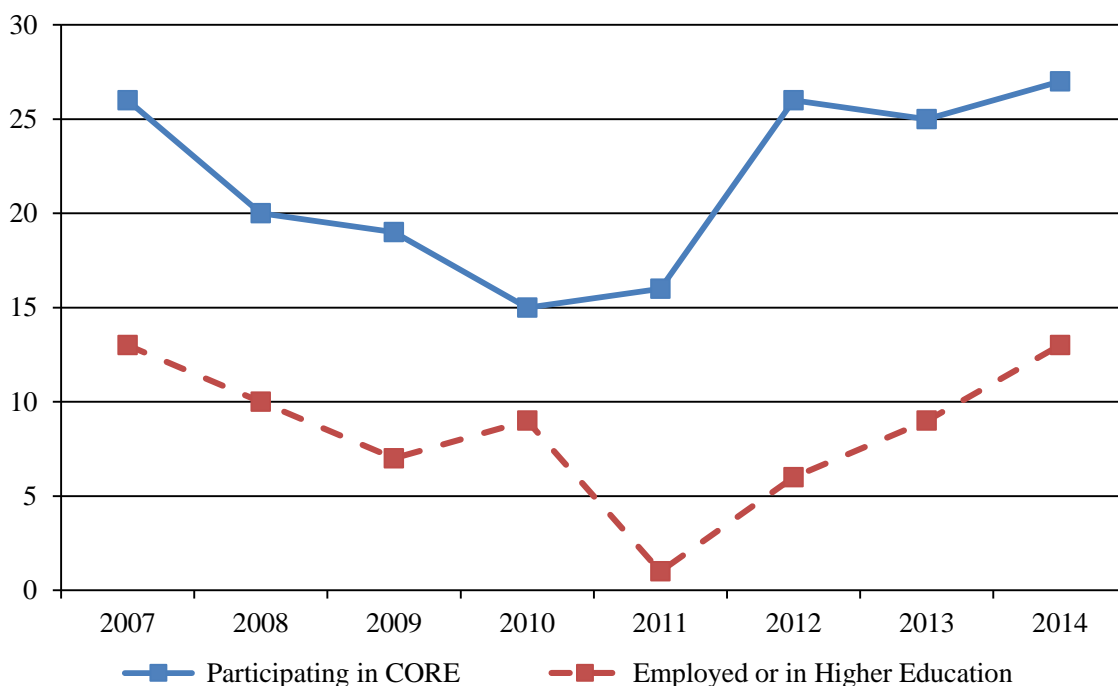


Note: Data for participants achieving independent living goals are from participant surveys.

Source: Governor’s Budget Books, Fiscal 2009-2016

Another BISM goal is to help people who are blind or low vision to become successful in a career path commensurate with their skills, abilities, and interests. A related objective is for BISM to help participants of the Comprehensive Orientation, Rehabilitation, and Empowerment (CORE) program to obtain employment or higher education. This program is intensive, and residential housing is available for some participants. **Exhibit 3** shows the number of CORE participants, as well as the number of participants who completed the CORE program and are employed or pursuing higher education. Since fiscal 2011, both numbers have been steadily increasing. Most recently, the CORE program had 27 participants and 13 of those individuals went on to gain employment or pursue higher education in fiscal 2014.

Exhibit 3
Blind Industries and Services of Maryland
Employment and Higher Education
Fiscal 2007-2014



CORE: Comprehensive Orientation, Rehabilitation, and Empowerment

Source: Governor's Budget Books, Fiscal 2009-2016

Proposed Budget

The fiscal 2016 allowance for the Funding for Educational Organizations program is approximately \$32.2 million, a \$55,000 increase over the 2015 working appropriation. **Exhibit 4** shows appropriations by major program. **Exhibit 5** provides detail on the changes from fiscal 2015 to 2016.

Exhibit 4
Funding for Educational Organizations
Fiscal 2013-2016
(\$ in Thousands)

	<u>Actual</u> <u>2013</u>	<u>Actual</u> <u>2014</u>	<u>Working</u> <u>Approp.</u> <u>2015</u>	<u>Allowance</u> <u>2016</u>
Maryland School for the Blind	\$18,128	\$19,299	\$19,366	\$19,621*
Blind Industries and Services of Maryland	531	531	531	531
State Aided Educational Institutions	4,131	6,131	6,181	6,181
Nonpublic School Textbook and Technology Grants	4,337	5,710	6,040	6,040
Total	\$27,128	\$31,672	\$32,118	\$32,373

*Does not include \$199,591 general fund contingent reduction to the Maryland School for the Blind formula based on proposed level funding of the fiscal 2016 per pupil foundation amount to the fiscal 2015 level.

Source: Governor's Budget, Fiscal 2016

Exhibit 5
Proposed Budget
MSDE – Funding for Educational Organizations
(\$ in Thousands)

How Much It Grows:	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Fund</u>	<u>Total</u>
Fiscal 2014 Actual	\$25,962	\$5,710	\$31,672
Fiscal 2015 Working Appropriation	26,078	6,040	32,118
Fiscal 2016 Allowance	<u>26,134</u>	<u>6,040</u>	<u>32,174</u>
Fiscal 2015-2016 Amt. Change	\$55	\$0	\$55
Fiscal 2015-2016 Percent Change	0.2%		0.2%

Where It Goes:

General Fund Changes

Maryland School for the Blind per pupil and enrollment adjustment	\$255
Contingent reduction to Maryland School for the Blind resulting from level funding per pupil foundation amount.....	-200
Total	\$55

Note: Numbers may not sum to total due to rounding. The fiscal 2015 working appropriation reflects deficiencies and the Board of Public Works reductions to the extent that they can be identified by program. The fiscal 2016 allowance reflects back of the bill and contingent reductions to the extent that they can be identified by program.

Maryland School for the Blind

The fiscal 2016 allowance provides MSB with a grant of approximately \$19.6 million in general funds, an increase of \$254,922 when compared to the fiscal 2015 working appropriation. The Budget Reconciliation and Financing Act of 2015 (BRFA), however, includes a \$199,591 contingent reduction for the grant based on level funding the fiscal 2016 per pupil foundation amount to the fiscal 2015 level. The net impact is an increase of approximately \$55,000 for the upcoming fiscal year.

The formula for the school is based on enrollment and growth in State per pupil foundation funding provided to local school systems. Enrollment in fiscal 2016 is estimated to be 212 students, a decrease of only 1 from the prior year. The school's formula has an adjustment that reflects the four-year moving average of student enrollment, which softens the effect of enrollment increases and decreases. Absent the BRFA, the per pupil foundation amount would have increased to \$6,954, based on an inflationary increase of 1.4%; however, the action within the BRFA retains the \$6,860 per pupil funding amount from fiscal 2015.

Funding for MSB is discussed further in the Issues section of this analysis.

Nonpublic School Textbook Program

Fiscal 2016 funding from the Cigarette Restitution Fund for the Nonpublic School Textbook and Technology Grants Program is level funded at \$6.0 million. This program supports the purchase of textbooks and computer hardware and software for eligible nonpublic schools. In fiscal 2014, over 340 schools received funding through the program, spending \$4.4 million on textbook purchases and \$1.3 million on technology. Approximately \$330,000 in unexpended funds was reverted at the close of fiscal 2014. **MSDE should comment on why the full appropriation for the Nonpublic School Textbook and Technology Grants Program was not expended in fiscal 2014 and the expectations for fiscal 2015 and 2016 expenditures. The Department of Legislative Services (DLS) recommends reducing the fiscal 2016 appropriation to be in line with fiscal 2014 actual expenditures. This special fund reduction would result in a corresponding general fund reduction within the Medicaid budget.**

State Aided Institutions

Fiscal 2016 funding for SAIs remains at the fiscal 2015 level of \$6.2 million. **Exhibit 6** shows how funds are allocated among the 40 SAIs receiving grants in fiscal 2016. The fiscal 2015 and 2016 amounts for SAIs reflect a \$50,000 increase over fiscal 2014 actual expenditures because of the addition of the Calvert Marine Museum to the list of grant recipients. Fiscal 2014 reflected a \$2.0 million enhancement to the program, evenly distributed among all grant recipients.

Exhibit 6
State Aided Institutions
Fiscal 2013-2016

	<u>2013</u> <u>Actual</u>	<u>2014</u> <u>Actual</u>	<u>2015</u> <u>Working</u>	<u>2016</u> <u>Allowance</u>
Alice Ferguson Foundation	\$53,486	\$79,378	\$79,378	\$79,378
Alliance of Southern Prince George's Communities, Inc.	21,395	31,752	31,752	31,752
American Visionary Art Museum	10,134	15,040	15,040	15,040
Baltimore Symphony Orchestra/Arts Excel	42,789	63,503	63,503	63,503
B & O Railroad Museum, Inc.	40,537	60,161	60,161	60,161
Baltimore Museum of Industry	54,049	80,214	80,214	80,214
Best Buddies International (MD Program)	106,972	158,756	158,756	158,756
Calvert Marine Museum	0	0	50,000	50,000
Chesapeake Bay Foundation	280,943	416,945	416,945	416,945
Chesapeake Bay Maritime Museum	13,512	20,053	20,053	20,053
Citizenship Law-related Education	19,705	29,244	29,244	29,244
CollegeBound Foundation	24,210	35,930	35,930	35,930
Dyslexia Tutoring Program, Inc.	24,210	35,930	35,930	35,930

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	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
	<u>Actual</u>	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>
Echo Hill Outdoor School	36,033	53,476	53,476	53,476
Imagination Stage	160,459	238,136	238,136	238,136
The Jewish Museum of Maryland	8,445	12,533	12,533	12,533
Junior Achievement of Central Maryland, Inc.	27,024	40,106	40,106	40,106
Living Classrooms Foundation	204,937	304,145	304,145	304,145
Maryland Academy of Sciences	588,352	873,169	873,169	873,169
Maryland Historical Society	80,510	119,484	119,484	119,484
Maryland Humanities Council	28,150	41,777	41,777	41,777
Maryland Leadership Workshops, Inc.	29,277	43,450	43,450	43,450
Maryland Mathematics, Engineering, and Science Achievement Program	51,233	76,035	76,035	76,035
Maryland Zoo in Baltimore Education Component	547,251	812,171	812,171	812,171
National Aquarium in Baltimore	319,792	474,601	474,601	474,601
National Great Blacks in Wax Museum	27,024	40,106	40,106	40,106
National Museum of Ceramic Art and Glass	13,512	20,053	20,053	20,053
NorthBay	625,000	927,558	927,558	927,558
Olney Theatre Center	94,023	139,539	139,539	139,539
Outward Bound	85,578	127,006	127,006	127,006
Port Discovery Children's Museum	74,881	111,130	111,130	111,130
Salisbury Zoological Park	11,823	17,546	17,546	17,546
Sotterly Foundation	8,445	12,533	12,533	12,533
South Baltimore Learning Center	27,024	40,106	40,106	40,106
State Mentoring Resource Center	51,234	76,036	76,036	76,036
Sultana Projects, Inc.	13,512	20,053	20,053	20,053
SuperKids Camp	263,490	391,043	391,043	391,043
The Village Learning Place	29,277	43,450	43,450	43,450
Walters Art Museum	10,697	15,875	15,875	15,875
Ward Museum of Wildflower Art	22,521	33,423	33,423	33,423
Total	\$4,131,446	\$6,131,446	\$6,181,446	\$6,181,446

Source: Governor's Budget Book, Fiscal 2016

Over the past decade, the number of SAIs has increased by 54%, from 26 grant recipients in fiscal 2005 to 40 in fiscal 2015. In many instances, the services provided by the grant recipients fall into duplicative categories. For example, of the 40 SAIs receiving funding in fiscal 2016, 8 recipients provide environmental education services. Additionally, multiple requests for information are received each year from organizations expressing interest in receiving a future grant award. Expansion to accommodate new grant recipients is not a viable option, given the current fiscal situation. Rather than

continuing to expand the number of grant recipients, a better alternative may be alter the process for selecting grant recipients and allocating the grant resources.

Due to the ongoing constraints within the budget, DLS recommends a 10% reduction in grants to SAIs. This would result in a decrease of \$618,145 to be distributed proportionally among the various recipients. In addition, DLS recommends the adoption of committee narrative directing MSDE to evaluate the current process for selecting SAI grant recipients and allocating grant resources. In its evaluation, the department should specifically review the potential for consolidating the number of grant recipients and the potential for rotating recipients from year to year. In addition, the report should identify the percentage of each recipient’s budget that is funded through the SAI grant award.

Issues

1. Funding for the Maryland School for the Blind

MSB serves students from birth to age 21 who are blind or visually impaired, including some with multiple disabilities. The school educates students whose needs cannot be met in their respective 24 local school systems through community-based outreach and comprehensive on-campus programs on a day or residential basis. Each student has a mandated IEP tailored to his or her needs. MSB's program includes general education subjects and, in addition, special instruction in the disability-specific areas of the Expanded Core Curriculum that includes Braille, orientation and mobility, career education, and independent living skills. Exit goals for students, depending on their abilities, are to earn either a high school diploma or a certificate of attendance at graduation or, prior to graduation, return to their local school systems with increased skill levels essential for successful reintegration and academic achievement.

MSB receives the majority of its funding through a State formula grant that is based on enrollment and growth in State per pupil funding. The school also receives additional State funding through the Enhanced Services grant, which provides supplemental funding for blind students with additional disabilities who are at-risk for out-of-state placement. Although there has been minimal fluctuations in the school's total enrollment, the percent of the population receiving funding through the Enhanced Services grant has increased from 22% to 35% of the population between fiscal 2008 and 2014. In fiscal 2013, the most recent year of audited actual financial data, funding from State sources accounted for 86% of the school's revenues. The Enhanced Services grant funding accounted for 15% of total State funding to the school.

Since fiscal 2008, there has been minimal growth in the per pupil foundation, which impacts the mandated funding for MSB through the main formula grant. After accounting for the contingent reduction resulting from the proposed freeze to the per pupil foundation amount, MSB receives \$19.4 million in fiscal 2016. As a point of comparison, the school received \$17.9 million through the main formula grant in fiscal 2008. In essence, MSB's State support, exclusive of the Enhanced Services grant, has only increased by \$1.5 million from fiscal 2008, even after the General Assembly added \$1.0 million to the base funding for the formula in fiscal 2014.

MSB has expressed concern that its State operating funding does not adequately address the considerable expense of providing the services necessary to meet the needs of its student population, particularly because so many students have multiple disabilities. The school is particularly concerned with the increased cost of providing residential services. The average cost per student in the residential program has increased by more than \$16,000 between fiscal 2008 and 2014. This reflects an 11% increase over a seven-year period, when funding from the main formula grant only increased by 8%.

The school is expected to cover costs for both day and residential students with the base State grant it receives plus funds from local school systems and other sources. In the past few years, the school has reduced some costs internally by employing fewer staff, revising employee pension plans, and implementing other cost containment measures; however, the gap between revenues and

expenditures has persisted. **Exhibit 7** provides detail on MSB’s use of its endowment to support operating expenses.

Exhibit 7
History of the Maryland School for the Blind Income and Endowment Draws
Fiscal 2005-2015

<u>Fiscal Year</u>	<u>Endowment Draw for Operations</u>	<u>Endowment Draw for Capital</u>	<u>Total Endowment (As of Previous Year End)</u>	<u>Percentage Drawn from Endowment</u>
Actual 2005	\$1,147,008	*	\$20,900,515	5.49%
Actual 2006	1,095,204	*	20,872,018	5.25%
Actual 2007	1,732,594	*	21,868,682	7.92%
Actual 2008	1,237,092	*	23,057,308	5.37%
Actual 2009	1,308,591	*	22,600,805	5.79%
Actual 2010	912,520	*	20,865,075	4.37%
Actual 2011	427,467	*	21,976,048	1.95%
Actual 2012	0	—	27,043,529	0.00%
Actual 2013	116,327	\$763,673	27,098,914	3.25%
Actual 2014	243,770	1,883,990	29,646,049	7.18%
Budget 2015	734,796	2,693,000	33,064,314	10.37%

*Endowment draws were not broken down in this time period.

Source: Maryland School for the Blind

From fiscal 2005 through 2009, the school’s endowment draw to support operating expenses totaled at least 5% of its endowment. Since fiscal 2009, however, the need to draw from the endowment declined, primarily due to the previously mentioned internal cost containment measures adopted by MSB. In fiscal 2012, the school did not require use of its endowment to subsidize operations at all. Since fiscal 2013, however, as the school has undertaken significant capital investments, the endowment draw has increased. Although the draw for operating expenses has been 2% or less in the past three years, if the school’s use of its endowment toward capital costs that are ineligible for State funding are accounted for, the total draw is well above the 5% typically accepted for use each year according to general accounting standards. It is worth noting that in total, the amount of MSB’s endowment draw since fiscal 2005 has essentially equaled the endowment’s growth. Although \$14 million has been drawn from the endowment over the past decade, the fund has grown by approximately \$13 million in the same time period.

In addition to the revenue received from the State, MSB receives tuition from local school systems. A student's home local education agency (LEA) pays the local share of the basic cost as tuition. The basic cost means the average amount spent by the county from county, State, and federal sources for the public education of a nonhandicapped child. Basic cost does not include amounts specifically allocated and spent for identifiable compensatory programs for disadvantaged children.

Recently, MSDE and DLS have discovered errors in the methodology used for calculating basic cost and the local share of basic cost. More detail on the specific issues with calculations is provided in the MSDE Aid to Education analysis; however, these errors do have an impact on the amount of revenue received from LEAs for students who receive education services from MSB. The impact of the miscalculations to basic cost and the local share of basic cost have resulted in some of the per student costs being understated in some counties and overstated for others. A significant portion of the school's population comes from Baltimore City. The errors in the local share of basic cost calculation have resulted in Baltimore City's local share of basic cost totaling zero or being reflected as negative for a number of years. The ultimate impact to MSB is that the school has likely not been receiving its appropriate share of revenues from the LEAs.

The fiscal 2016 allowance does not correct the errors in the calculation for basic cost or the local share of basic cost for nonpublic placements or MSB. The school is anticipating a budget shortfall in fiscal 2016 of nearly \$2.0 million, for which it will need to rely on its endowment to fund. This will reflect a draw of 5.9%, without accounting for any capital expenditures associated with ongoing projects.

MSB should comment on how the student population and services provided have changed between fiscal 2008 and 2016. MSB should also discuss the cost containment measures implemented in previous years and what, if any, measures are currently being considered for implementation, given the identified fiscal 2016 shortfall.

MSDE and the new Administration should be prepared to discuss the issues identified with the calculations for the basic cost and the local share of basic cost and how they have impacted the funding provided to MSB in recent years. The Administration should also comment on potential solutions for correcting the errors in the calculations and proposed timeline for implementing those solutions.

Resolving the errors in the calculations for the basic cost and the local share of basic cost will provide additional funding for the school and offset at least part of the identified fiscal 2016 budget shortfall. Without knowing the Administration's proposal for correcting the errors, it is difficult to determine at this time how much additional revenue will be provided to MSB and whether additional State support is warranted.

DLS recommends that language be added to the budget restricting funds within MSDE until a report is provided on proposed solutions to the errors in the basic cost and local share of basic cost calculations. The report should include fiscal estimates associated with correcting the errors, including the amount of additional revenue for MSB. As this issue is not exclusive to MSB

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and impacts all nonpublic providers, the proposed recommendation will appear in the MSDE Aid to Education analysis.

Recommended Actions

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

Provided that the general fund appropriation for grants to State Aided Institutions shall be reduced by \$618,145. This reflects a 10% reduction in overall funding for this program. The reduction shall be allocated proportionally across all grant recipients.

Explanation: This action reduces funding for State Aided Institutions by 10%, which reflects a total reduction of \$618,145 in general funds. The language also specifies that the reduction shall be allocated proportionally among all grant recipients.

2. Adopt the following narrative:

Evaluation of Grants Made to State Aided Institutions: Over the past decade, the number of State Aided Institutions (SAI) has increased by 54%, from 26 grant recipients in fiscal 2005 to 40 in fiscal 2015. In many instances, the services provided by the grant recipients fall into duplicative categories. The budget committees, therefore, direct the Maryland State Department of Education (MSDE) to evaluate the current process for selecting SAI grant recipients and allocating grant resources. In its evaluation, the department should specifically review the potential for consolidating the number of grant recipients and the potential for rotating recipients from year to year. In addition, the report should identify the percentage of each current recipient's budget that is funded through the SAI grant award. The report shall be submitted to the budget committees no later than October 1, 2015.

Information Request	Author	Due Date
Evaluation of grants made to State Aided Institutions	MSDE	October 1, 2015

	<u>Amount Reduction</u>
3. Reduce Cigarette Restitution Funding for the Maryland Nonpublic School Textbook Program in line with fiscal 2014 actual expenditures. This action will result in a related general fund reduction to Medicaid funding.	\$ 330,000 SF
Total Special Fund Reductions	\$ 330,000

Current and Prior Year Budgets

Current and Prior Year Budgets MSDE – Funding for Educational Organizations (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2014					
Legislative Appropriation	\$25,962	\$6,040	\$0	\$0	\$32,002
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Reversions and Cancellations	0	-330	0	0	-330
Actual Expenditures	\$25,962	\$5,710	\$0	\$0	\$31,672
Fiscal 2015					
Legislative Appropriation	\$26,078	\$6,040	\$0	\$0	\$32,118
Cost Containment	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Working Appropriation	\$26,078	\$6,040	\$0	\$0	\$32,118

Note: Numbers may not sum to total due to rounding. The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies.

Fiscal 2014

The fiscal 2014 budget closed at \$31.7 million in total funding for educational organizations. This reflects a decrease of \$330,000 from the legislative appropriation due to unexpended special funds in the Maryland Nonpublic Student Textbook Program.

Object/Fund Difference Report
MSDE – Funding for Educational Organizations

<u>Object/Fund</u>	<u>FY 14 Actual</u>	<u>FY 15 Working Appropriation</u>	<u>FY 16 Allowance</u>	<u>FY 15 - FY 16 Amount Change</u>	<u>Percent Change</u>
Objects					
12 Grants, Subsidies, and Contributions	\$ 31,671,538	\$ 32,118,406	\$ 32,373,328	\$ 254,922	0.8%
Total Objects	\$ 31,671,538	\$ 32,118,406	\$ 32,373,328	\$ 254,922	0.8%
Funds					
01 General Fund	\$ 25,961,824	\$ 26,078,406	\$ 26,333,328	\$ 254,922	1.0%
03 Special Fund	5,709,714	6,040,000	6,040,000	0	0%
Total Funds	\$ 31,671,538	\$ 32,118,406	\$ 32,373,328	\$ 254,922	0.8%

Note: The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies. The fiscal 2016 allowance does not reflect contingent or across-the-board reductions.

Fiscal Summary
MSDE – Funding for Educational Organizations

<u>Program/Unit</u>	<u>FY 14 Actual</u>	<u>FY 15 Wrk Approp</u>	<u>FY 16 Allowance</u>	<u>Change</u>	<u>FY 15 - FY 16 % Change</u>
01 Maryland School for the Blind	\$ 19,299,263	\$ 19,365,845	\$ 19,620,767	\$ 254,922	1.3%
02 Blind Industries and Services of Maryland	531,115	531,115	531,115	0	0%
03 Other Institutions	6,131,446	6,181,446	6,181,446	0	0%
04 Aid to Nonpublic Schools	5,709,714	6,040,000	6,040,000	0	0%
Total Expenditures	\$ 31,671,538	\$ 32,118,406	\$ 32,373,328	\$ 254,922	0.8%
General Fund	\$ 25,961,824	\$ 26,078,406	\$ 26,333,328	\$ 254,922	1.0%
Special Fund	5,709,714	6,040,000	6,040,000	0	0%
Total Appropriations	\$ 31,671,538	\$ 32,118,406	\$ 32,373,328	\$ 254,922	0.8%

Note: The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies. The fiscal 2016 allowance does not reflect contingent or across-the-board reductions.