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BILL: Senate Bill 1026
TITLE: County Boards of Education – Budgets – Notice
(Transparency in Education Spending Act)
DATE: March 6, 2024
POSITION: SUPPORT WITH AMENDMENTS
COMMITTEE: Education, Energy, and the Environment
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The Maryland Association of Boards of Education (MABE) supports Senate Bill 1026 in so far as it would reasonably clarify that certain types of funds and accounts in school system budgets should be provided to local governments in a more transparent manner. However, the bill would also seek to establish a uniform standard for each local government’s review and decisions regarding school system transfers between budget categories. MABE believes this provision should be amended.

The bill would amend the “transfer between budget categories” section of law that has been unchanged for decades, and local practices vary widely. In some counties strict local government approval may be required prior to such transfers, and in other counties after-the-fact school system reports and county approvals are made on a quarterly or even annual basis. Because of this range of local financial management and governance practices, MABE is most concerned about how disruptive a new one-size-fits-all process will be.

Therefore, MABE requests one amendment to increase the amount of local school system flexibility to transfer funds between categories without the local government’s prior approval, by adopting a threshold of less than 15% of each category. The bill would set this threshold at 1%. But to be clear, there has never been any set percentage or even uniform reading of this section of law. This presents a high hurdle to adopting bill language that will not result in a very disruptive change for some school systems. Again, MABE believes that a 15% threshold will help ensure that all 24 local school systems are provided a reasonable degree of flexibility during the fiscal and school year to manage funds not only within but also between the 14 categories specified in state law for school system budgets.

Senate Bill 1026 would make several well-intended changes to the manner in which local school systems must report elements of their budgets. The bill would improve transparency regarding funds held in reserve, federal funds, and more specifically funding for other post-employment benefits (OPEB), which are funds dedicated for retiree health care expenditures. MABE, on behalf of all local school boards, can hardly emphasize enough that Maryland’s local school systems are entirely fiscally dependent on state, local, and federal funding to support their annual budgets. This is entirely unlike the vast majority of the nation’s approximately 13,000 school boards that have taxing authority, generally through property taxes, to support both operating and capital budget needs. However, in Maryland, it is the county funding “guaranteed” at no less than the minimum Maintenance of Effort or newer Blueprint local share amount, which ever is higher, and the state funding provided by per pupil formulas, that represent the bulk of school system budgets.

In this context, there is little argument to be made against budget transparency, but also little argument to be made that it doesn’t already exist, as virtually all local school system funding is a matter of public record in final budgets adopted not by the school system but by the county government. School system budgets, which include a blend of local, state, and federal funds, are developed by local school superintendents and staff, publicly reviewed and approved by local boards of education, and presented to local governments for public review and adoption. In this light, this bill is enhancing an already extremely transparent process.

In Maryland, in addition to the local government budget approval process just described, the state government's oversight and control of school system budgets is also extensive. State law requires the State Board of Education to adopt bylaws, rules, and regulations that govern the administration of the public school systems in Maryland and empowers the State board to direct the local collection and reporting of financial records (Ed. Art. Section 2-205). The law also establishes the operating and capital budget categories and references the *Financial Reporting Manual for Maryland Public Schools* (Ed. Art. Section 5-101). And Sections 2-303 and 5-213 authorize the State Superintendent to withhold funding if a school system violates the legal requirements identified in the laws, bylaws, and State board rules and regulations.

In addition, state law prescribes a uniform method of reporting receipts, expenditures, and balances of the operations and activities of the public schools. Pursuant to Section 5-109, the Code of Maryland Regulations (COMAR) further defines the Annual School Budget and Annual School Financial Report (COMAR 13A.02.01.02). Section 5-111 requires that local boards provide all reports, including financial reports, at the time and including the items requested by the State Board and State Superintendent.

Even more specifically, local school system financial practices must conform to the *State Financial Reporting Manual*. State law establishes the budget categories and references the *Financial Reporting Manual for Maryland Public Schools* as the source for identifying additional budgetary details which the county fiscal authorities may request of the local board of education. The *Manual*, which is also known as "the teal book", is incorporated by reference in COMAR 13A.02.01.02C. Maryland's local school systems are required to adhere to the definitions and terms of the *Manual* when submitting expenditure information to MSDE. Failure to comply with the definitions and other requirements is a violation of State Board regulations and may be the basis for withholding State Aid in accordance with Sections 2-303(b) and 5-205(a) of the Education Article.

MABE assures the legislature that Maryland's 24 local school systems take fiscal transparency and accountability very seriously. A key governance role for local boards of education is to engage the community (parents, students, taxpayers, business leaders, elected officials) to explain the diverse and often complex educational and operational fiscal and policy options being considered and adopted. The public's trust is essential to effective community engagement, and such trust is built, at least in part, on the board of education demonstrating a commitment to upholding its duty and responsibility to advocate vigorously for adequate and equitable funding and to wisely and soundly invest these always limited public dollars in ways deemed to be in the best interests of students.

MABE believes that Senate Bill 1026 is consistent with enhancing school budget transparency. However, while MABE endorses the provisions of Senate Bill 1026 regarding enhanced transparency, local boards respectfully request that no new accountability measures be enacted to shift more budget authority to local governments. The scope of longstanding accountability measures, and the additional accountability provisions imposed by the Blueprint, leave little room for additional accountability requirements without threatening the practical ability of local school systems to financially manage their day-to-day functions. No school system should be required by the necessity of complying with onerous and duplicative budget procedures, to hire more accountants or information technology staff merely to be able to produce reports on expenditures and fund balances. This is a real concern for many school systems confronting very limited increases in state and local funding in FY 2025 and yet expected to adopt new financial management systems and comply with new reporting requirements under the Blueprint, and now, under Senate Bill 1026.

Clearly, from MABE's perspective concerning the scope of budgetary and legal requirements outlined above, no additional school funding accountability measures should be considered beyond those proposed in this bill. For these reasons, MABE requests a favorable report on Senate Bill 1026, with the amendment described above.