

R00A02
Aid to Education
Maryland State Department of Education

Operating Budget Data

(\$ in Thousands)

	FY 02	FY 03	FY 04	FY 03 - 04	FY 03 - 04
	<u>Actual</u>	<u>Approp.</u>	<u>Allowance</u>	<u>Change</u>	<u>% Change</u>
General Funds	\$2,937,575	\$3,116,882	\$3,495,457	\$378,575	12.1%
FY 2003 Deficiencies	0	4,363	0	-4,363	
Adjusted General Funds	2,937,575	3,121,245	3,495,457	374,211	12.0%
Special Funds	78,414	122,404	250	-122,154	-99.8%
Federal Funds	556,173	611,925	682,553	70,628	11.5%
Reimbursable Funds	473	480	563	83	17.3%
Adjusted Grand Total	\$3,572,635	\$3,856,054	\$4,178,823	\$322,769	8.4%

- The Maryland State Department of Education (MSDE) is requesting a \$4,363,198 fiscal 2003 deficiency appropriation to cover higher-than-anticipated costs for the nonpublic placements of special education students.
- MSDE's fiscal 2004 allowance fully funds the mandates under Chapter 288, Acts of 2002 including a \$178.3 million, or 9.7% general fund increase under the foundation program.
- The allowance includes a \$1.0 million, or 38.4% increase in aid to education for disruptive youth to annualize the funding for the Juvenile Justice Alternative Education Pilot Program established under Chapter 685, Acts of 2001.
- Other changes include level funding the Judy Hoyer Centers with general funds rather than including funding from the Cigarette Restitution Fund (CRF) to delegate more CRF to health-related programs.
- Another \$74.7 million in monies collected from a \$0.34 tax increase on cigarette packages used to pay for "bridge funding" under Chapter 288 is replaced with general funds in fiscal 2004. Revenues from the tax increase will be put into the general fund.
- The allowance eliminates funding for the Maryland Technology Academy.
- Federal funds are anticipated to increase by \$70.6 million, primarily due to the implementation of the federal No Child Left Behind Act (NCLB).

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

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Analysis in Brief

Issues

Crossing the Bridge to Excellence in Fiscal 2004: Fiscal 2004 marks the first year of implementing the new funding formula developed by Chapter 288 of 2002, commonly referred to as the Thornton bill. What developments may occur in fiscal 2004 are discussed. **The Department of Legislative Services (DLS) recommends that MSDE be prepared to comment on the status of the comprehensive master plans, the geographic cost of education index, and student enrollment recommendations. MSDE also should be prepared to comment on the potential educational impact of limiting the Thornton program to a 5% increase in fiscal 2005.**

Implementing the Federal No Child Left Behind Act: The federal NCLB is generating significant changes in the State and local administration of education, including expanded assessments for students in elementary, middle, and high schools as well as enhanced reporting and other accountability requirements. What efforts the State and local government will need to make to comply with the federal law, how much the efforts will cost, and how much the federal government is contributing toward that cost are examined. **DLS recommends that MSDE be prepared to comment on its progress in meeting the NCLB provisions.**

Trying Out the New High School Assessments (HSAs): In addition to phasing in the new assessments required by the NCLB, MSDE is continuing to develop the HSAs. How students in each jurisdiction are performing on the HSAs and what the next steps are for the tests are explored. **DLS recommends MSDE be prepared to comment on its interpretation of the results from the 2002 test administration; whether it anticipates funding will be targeted toward those jurisdictions that consistently fall below the median percentile rank; and what progress the State Board of Education has made in establishing minimum HSA passing scores.**

R00A02 – MSDE – Aid to Education

Recommended Actions

	<u>Funds</u>
1. Reduce funding for the Governor’s Teacher Salary Challenge Program.	\$ 30,565,078
2. Reduce increase in teachers’ and librarians’ retirement by 50%.	14,624,608
3. Reduce funds for the foundation program.	3,742,714
4. Reduce funds for State compensatory education.	2,379,691
5. Reduce funding for School Performance Recognition Awards.	1,375,000
6. Reduce funds for transportation grants.	206,389
7. Delete funds for Maryland Student Service Alliance.	149,481
Total Reductions	\$ 53,042,961

Updates

School Board Starts Anew in Prince George’s County: Due to the inability of the Prince George’s County school board and the county’s superintendent to resolve their differences, the General Assembly replaced the county’s elected school board with an appointed board. The changes since the replacement are discussed.

R00A02 – MSDE – Aid to Education

R00A02
Aid to Education
Maryland State Department of Education

Operating Budget Analysis

Program Description

The State and local governments share responsibility for Maryland's public schools. In prior fiscal years, the Maryland State Department of Education (MSDE) distributed aid to education to local school systems through approximately 50 different programs. In 2002, the State's Commission on Education Finance, Equity, and Excellence recommended and the legislature approved altering and enhancing the distribution of State aid to education beginning in fiscal 2004 through 2008.

Twenty-seven of the programs will be eliminated or phased out with their funding replaced by an estimated \$1.3 billion in enhanced funding between fiscal 2004 and 2008. School systems in the State will receive a basic per pupil funding amount under the foundation program. Additional funding will be based on the number of students with special needs – students with disabilities, students eligible for free and reduced price meals, and students with limited English proficiency. State aid for student transportation also will be enhanced between fiscal 2004 and 2008. Local jurisdictions will receive broad flexibility in determining how to meet State goals for academic achievement along with the enhanced funding. However, they will be held accountable for meeting those student outcomes.

In addition to funding for public education, the State Board of Education is responsible for the general direction and control of library development in Maryland. The State provides support for the State Library Resource Center and several regional resource centers. State library aid is budgeted under this program.

Fiscal 2003 Actions

Proposed Deficiency

MSDE is requesting a \$4,363,198 fiscal 2003 deficiency appropriation to cover higher-than-anticipated special education nonpublic placement costs. MSDE notes that the nonpublic placement program is mandated and is driven by local decision making. The fiscal 2003 deficiency will be used to cover a fiscal 2002 deficiency in the program, as shown in **Exhibit 1**. If the funding for the fiscal 2003 deficiency appropriation and the fiscal 2004 allowance are approved at requested levels, then MSDE anticipates a \$1.9 million fiscal 2004 deficiency appropriation. Interestingly, MSDE estimated that it would not need \$9.5 million in fiscal 2002 for nonpublic placements and received a \$9.5 million negative fiscal 2002 deficiency appropriation. **DLS recommends that MSDE be prepared to comment on how it estimates expenditures for the nonpublic placement program.**

Exhibit 1

Appropriation v. Expenditure for Nonpublic Placements

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Legislative Appropriation	\$91,563,323	\$104,380,655	\$100,191,230
Expenditure*	-88,343,107	-99,221,889	-102,054,864
Subtotal	\$3,220,216	\$5,158,766	-\$1,863,634
Prior Year Deficit	-\$4,779,028	\$0	-\$4,363,198
Deficiency Appropriation/State Aid Transfer**	4,779,029	-9,521,964	4,363,198
Total	\$3,220,217	-\$4,363,198	-\$1,863,634

*The fiscal 2003 expenditure is estimated.

**MSDE has requested the fiscal 2003 deficiency appropriation.

Source: Department of Budget and Management

Governor's Proposed Budget

The Governor's fiscal 2004 allowance for aid to education contains \$4.2 billion, an increase of \$322.8 million, or 8.4% over the fiscal 2003 working appropriation. **Exhibit 2** shows how this increase is distributed among the changes in mandated and discretionary programs generated by Chapter 288 and changes in other programs funded with general, federal, special, and reimbursable funds.

Exhibit 2

Governor's Proposed Budget

Aid to Education

(\$ in Thousands)

	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 03 - 04</u>	<u>FY 03 - 04</u>
	<u>Actual</u>	<u>Approp.</u>	<u>Allowance</u>	<u>Change</u>	<u>% Change</u>
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R00A02 – MSDE – Aid to Education

Where It Goes:

Changes in Education Aid Primarily Attributable to Thornton

Foundation program	\$178,286
Compensatory education	211,232
Special education (offset by a fiscal 2003 deficiency appropriation).....	32,767
Transportation	28,316
Limited English proficient	4,682
Environmental education	-68
High school assessment fees	-350
Summer pilot program.....	-520
Baltimore City teacher certification	-2,000
Gifted and talented education	-5,635
Magnet Schools	-14,100
Academic intervention initiative	-19,100
Innovative programs	-19,538
Class size initiative	-24,622
Teacher Salary Challenge Program	-36,633
Baltimore City-State Partnership	-42,279
School Accountability Funding for Excellence (SAFE)	-74,107
Teacher Mentoring	-5,000

Other General Fund Changes in Education Aid

Teachers' and Librarians' Retirement.....	29,249
Debt service on school construction.....	15,047
State Library Network	1,387
Annualization of the Juvenile Justice Alternative Education Pilot Program.....	1,000
Out-of-county living arrangements	400
Public libraries	222

R00A02 – MSDE – Aid to Education

Where It Goes:

Quality teacher incentives.....	91
School technology.....	-4,856
Federal Fund Changes	
Net federal fund changes	70,628
Other Special and Reimbursable Fund Changes	
East Coast Migrant Head Start Program.....	66
Innovative Programs.....	15
Elimination of Maryland Technology Academy funding.....	-1,680
Other	-132
Total	\$322,769

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

Most State aid for the public schools and libraries is mandated by statute. The Governor must include this aid in the budget submitted to the General Assembly. To reduce mandated education aid programs the General Assembly must adopt legislation authorizing the reduction. The following sections describe the changes in State aid, including those changes primarily attributable to revisions created by Chapter 288, changes in aid provided through other general funds, changes in federal aid, changes in special funds such as the CRF, and changes in reimbursable funds.

Changes in Education Aid Primarily Attributable to Thornton

Chapter 288 of 2002, commonly known as the “Thornton bill,” dramatically changed how State education aid is funded beginning in fiscal 2004. There are significant increases in several programs and funding mandates for a number of other programs that are eliminated in fiscal 2004 as discussed below.

Mandated Education Aid

Foundation Formula (\$178,286,168 Increase): The foundation formula, formerly know as the current expense formula, ensures a minimum funding level per pupil and requires the counties to provide a local match. The formula is calculated based on a per pupil amount and student enrollment. Fiscal 2004 is the first year of funding under the foundation formula. The \$178.3 million, or 9.7% increase is attributable to the fiscal 2004 per pupil amount of \$4,766, a \$475, or 11.1% increase over the fiscal 2003 per pupil amount of \$4,291 and a 1.6% increase in student enrollment. Enrollment for the formula is based on the September 30, 2002, student enrollment count. Enrollment increased by 12,735.35 full-time equivalent

R00A02 – MSDE – Aid to Education

students (FTES) between the September 30, 2001, enrollment count of 810,502.00 and the September 30, 2002 enrollment count of 823,237.35 FTES.

Compensatory Education (\$211,232,016 Increase): The compensatory education formula provides additional funding for economically disadvantaged students. The formula recognizes local fiscal disparities in wealth by adjusting the grants per compensatory education student by local wealth. The formula is calculated based on 97% of the annual per pupil amount used in the foundation formula and the number of students eligible for free and reduced price meals in either the prior fiscal year or the second prior fiscal year, whichever is greater. The \$211.2 million increase is attributable to a \$269, or 25.1% increase in the per pupil amount for compensatory education and an increase in the number of students eligible for compensatory education funding. The increase in the number of eligible students stems from a change in the definition of eligible students under Chapter 288. In prior fiscal years, the student count was based on the student count used in the distribution of federal Title I aid. In fiscal 2004 and beyond, the student count will be based on the number of students eligible for free and reduced price meals.

Special Education (\$32,766,906 Increase): Students with disabilities enrolled in public schools are eligible for additional funding under the State's special education formula. Students with severe disabilities who are placed in nonpublic day or residential facilities are eligible for nonpublic placement special education funding. The \$32.8 million increase in special education consists of a \$33,853,501, or 41.7% increase in the special education formula and a \$3,776,603, or 3.8% increase in nonpublic placement funding offset by a \$4,363,198 fiscal 2003 nonpublic placement deficiency request and removal of \$500,000 in funding for the Baltimore County Foster Care Team. The special education formula is calculated based on 74% of the annual per pupil foundation amount and the greater of the number of special education students from the prior fiscal year or the second prior fiscal year. The special education formula increase is attributable to the change in the formula under Chapter 288 and a 1,406, or 1.3% increase in the special education student enrollment count. The increase in nonpublic placement funding, which was not affected by Chapter 288, reflects an increase in the costs of nonpublic placement students. The counties are responsible for the local share of the basic costs of educating a non-handicapped child plus 200% of the total basic costs. Any costs above the base amount are shared between the State and local school boards on an 80% State/20% local basis. After accounting for the fiscal 2003 deficiency request, fiscal 2004 nonpublic placement funding decreases by \$586,595, or 0.6%.

School Bus Transportation Grants (\$28,316,239): The State also provides grants to help counties transport their students to school. The \$28.3 million, or 20.4% increase consists of a \$16,482,009, or 12.5% increase in regular student ridership funds; a \$834,930, or 53.6% increase in the additional enrollment factor; and a \$10,999,300, or 191.5% increase in special education student ridership funds. The regular student transportation formula is calculated based on the county's fiscal 2003 grant amount. This amount is adjusted by the greater of the transportation consumer price index (CPI) for the Washington-Baltimore area, or 3.0%, with the adjustment limited to no more than an 8.0% increase. School districts experiencing increases in enrollment receive additional transportation aid equal to the student enrollment increase over the previous year multiplied by the total transportation aid per pupil in the prior year. The increase in regular student ridership funds is attributable to a \$12,168,942, or 9.2%

R00A02 – MSDE – Aid to Education

increase in the enhanced base grant provided under Chapter 288; a 13,483.20 or 1.7% increase in FTES enrollment; and an \$18, or 11.5% increase in per student transportation costs. Chapter 288 also increased the transportation grant for special education students from \$500 per student to \$600 per student in fiscal 2004 and based the grant on all disabled students requiring special transportation services rather than the additional number of students requiring special services since the 1980 - 1981 school year. These changes account for the \$11.0 million, or 191.5% increase.

Limited English Proficient (\$4,681,603): The State provides grants to support programs for non- and limited-English proficient (LEP) students using a definition consistent with federal guidelines. The LEP formula is based on 99% of the annual per pupil foundation amount. The fiscal 2004 grant per LEP student is \$1,368, an \$18, or 1.3% increase over the fiscal 2003 grant per LEP student. The \$4.7 million, or 13.7% increase is attributable to the change in the formula under Chapter 288 and a 4,523, or 18.9% increase in the number of eligible LEP students.

Gifted and Talented Education (\$5,635,000 Decrease): The Gifted and Talented Education Program provides technical assistance and funding for gifted and talented programs across the State, supports summer center gifted and talented programs for teachers and students, and supports gifted and talented programs in Baltimore City magnet schools. The \$5.6 million, or 91.3% decrease reflects the discontinuation of most of the funding. The remaining \$534,829 in the allowance for gifted and talented education is for the summer center programs and Destination Imagination.

Academic Intervention and Support Program (\$19,100,000 Decrease): This program assists students with deficiencies in reading and mathematics. Chapter 288 eliminated the program in fiscal 2004.

Class Size Initiative (\$24,622,116 Decrease): Chapters 513 and 514, Acts of 1999 created the Maryland Learning Success Program, which is designed to reduce the size of first and second grade classes for reading instruction to a maximum of 20 students. Chapter 288 eliminated the program.

Teacher Salary Challenge Program (\$36,633,467 Decrease): Chapters 492 and 493, Acts of 2000 established the program which provided up to a 10.0% total increase in the State's teacher salaries in fiscal 2001 and 2002. Chapter 420, Acts of 2001 extended the program through fiscal 2003. The \$36.6 million decrease is attributable to Chapter 288's mandate to phase out the program by fiscal 2006.

Baltimore City-State Partnership (\$42,279,047 Decrease): The State provides additional funding to support the restructuring and improvement of the academic achievement and management of Baltimore City schools. Chapter 288 phases out the partnership and its funding by fiscal 2007.

School Accountability Funding for Excellence (SAFE) Funding (\$74,106,643 Decrease): Funding under this category included monies for targeted poverty grants, additional poverty grants, the Effective

R00A02 – MSDE – Aid to Education

Schools Program, integrated student support services, provisional teacher development grants, teacher development grants, the Baltimore and Prince George’s Mentoring Program, the School Library Media Incentive Program, and targeted improvement grants. Chapter 288 eliminates these programs, with the exception of compensatory education, the Extended Elementary Education Program, and LEP grants, in fiscal 2004.

Discretionary Education Programs

Pursuant to the implementation of the new school finance system under Chapter 288, the legislation expressed the intent that funding for several discretionary programs not be included in the fiscal 2004 and future State budgets.

Environmental Education (\$68,057 Decrease): The Environmental Education Program developed curricula materials and conducted education programs for teachers and students emphasizing the wise use of Maryland’s environment and the Chesapeake Bay.

High School Assessment Fees (\$350,000 Decrease): These fees helped support regional staff development networks for the high school assessments.

Maryland Educational Opportunity Summer Pilot Program (\$520,000 Decrease): The summer pilot program provided an educational curriculum and activities in the summer months to students in Baltimore County and Prince George’s County.

Baltimore City Teacher Certification (\$2,000,000 Decrease): This program provided and expanded professional development opportunities for Baltimore City public school teachers to help reduce the number of provisionally certified teachers. Chapter 288 mandates that this program and its funding be eliminated in fiscal 2004 and beyond.

Innovative Programs (\$19,537,756 Decrease): Programs previously funded under Innovative Programs include the PreK-12 Early Intervention Initiative, rural schools performance studies, and rural school nurses. Chapter 288 mandates that these programs, except for the Smith Island School Boat and Center for Educational Progress, and their funding should be eliminated in fiscal 2004 and beyond.

Other General Fund Changes in Education Aid

Mandated Education Aid

Teachers' and Librarians' Retirement (\$29,249,215 Increase): The State pays 100% of the employer's share of retirement costs for school system and library employees in the Teachers' Retirement and Pension Systems maintained by the State. Rather than distributing the aid to the school and library boards and billing them for the retirement contributions, the State appropriates a lump-sum payment to the retirement system "on behalf of" the local school boards. The appropriation is calculated by increasing the second prior year's salary base by 5.0% and applying the contribution rate established by the retirement system's actuary. Teacher and library retirement costs increase by 8.1% over the fiscal 2003 working appropriation due to an increase in the salary base.

Debt Service on School Construction (\$15,047,367 Increase): The State pays all of the annual cost of debt service on school construction incurred by the local jurisdictions.

State Library Network (\$1,387,120 Increase): The State provides funding for the Enoch Pratt Central Library, which is designated as the State Library Resource Center, regional libraries, metropolitan cooperative libraries, and interlibrary loans. Chapter 701, Acts of 1999 increases the per capita grant amount by \$0.50 to \$1.85 in fiscal 2004 for the State Library Resource Center, accounting for \$916,320 of the increase. Chapter 547, Acts of 2000, which increases the per capita grant by \$0.50 to \$4.50 in fiscal 2004 for regional libraries, accounts for the remaining \$470,800 of the increase.

Out-of-County Living Arrangements (\$400,000 Increase): Funding is provided for students who are placed in one county by a State agency, a licensed child placement agency, or a court and attend school in that county but whose parents or guardians are residents of another county. The resident county is responsible for paying the county of placement the cost of educating the student in the resident county. State funding is provided to make up the difference in education costs for counties that have higher education costs than the resident counties.

Library Formula (\$222,362 Increase): The State provides assistance to public libraries through a formula that determines the State and local shares of a minimum per capita library program. For fiscal 2004, the minimum State per capita share is \$12.00.

Discretionary Education Programs

Juvenile Justice Alternative Education Pilot Program (\$1,000,000 Increase): Chapter 685, Acts of 2001 requires the State Board of Education to establish a Juvenile Justice Alternative Education Pilot Program for students who are either suspended, expelled, or may be suspended or expelled. (Students

R00A02 – MSDE – Aid to Education

who are placed in a facility by a juvenile court are not eligible for the program.) The program provides education to students during their suspension or expulsion. MSDE received \$500,000 in a fiscal 2002 supplemental budget and \$1.0 million in its fiscal 2003 appropriation to begin operating the school in January 2003. The allowance contains an additional \$1.0 million to annualize the operating costs of the school.

Quality Teacher Incentives (\$91,000 Increase): Teacher quality incentives include funding for Advanced Professional Certificate awards, signing bonuses, and National Board Certification assessment fees.

School Technology (\$4,856,000 Decrease): The decrease in general funds for school technology consists of \$250,000 removed when the Governor eliminated funding in fiscal 2004 for the Maryland Technology Academy and \$4.6 million removed for the Education Modernization Initiative. The incentive grant portion of the initiative was removed and funding for the initiative was further reduced to match the funds needed for lease payments on technology equipment.

Federal Fund Changes

Net Federal Fund Changes (\$70,627,660 Increase): The \$70.6 million, or 11.5% increase in federal funds for fiscal 2004 primarily reflects enhanced funding under the NCLB. The federal funds include additional funding for Twenty-first Century Community Learning Centers, special education, Medicaid services, Title I grants, the Reading Excellence Program, professional teacher development, and Technology Literacy Challenge fund grants. Offsetting these increases are decreases primarily in federal funds for teacher quality grants and class size reduction. (The NCLB combined the federal professional development and class size reduction programs.)

Other Special and Reimbursable Fund Changes

Special fund decreases totaling \$122.2 million are largely attributable to:

- Revenues from the \$0.34 cigarette package tax (\$80.5 million). These revenues are being assigned to the general fund in 2004. In fiscal 2003, these dollars were allocated to a special fund and earmarked for education aid or “bridge” funding;
- A redirection of CRF dollars to health programs (\$6.5 million). Education programs financed with CRF dollars in fiscal 2003 are supported by general funds in fiscal 2004;
- The redirection of State revenues from county reimbursements for retirement funding on behalf of teachers whose salaries are funded with federal dollars and grant monies (\$33.3 million). In recent years, these revenues were recognized as special funds and were used to finance education aid.

R00A02 – MSDE – Aid to Education

Beginning in fiscal 2004, the revenues will go to the general fund; and

- The elimination of funding for the Maryland Technology Academy (\$1.7 million). The Maryland Technology Academy assisted in teaching educators how to use technology to improve student learning. The allowance has eliminated funding in fiscal 2004 for the academy.

Exhibit 3 shows how the \$3.0 billion in direct State aid to education is distributed among the 24 jurisdictions.

Exhibit 3

Direct State Aid for Education

<u>Jurisdiction</u>	<u>FY 03 Working Appropriation</u>	<u>FY 04 Allowance</u>	<u>\$ Difference</u>	<u>% Difference</u>
Allegany	\$46,394,165	\$48,276,684	\$1,882,519	4.1%
Anne Arundel	184,617,551	190,334,055	5,716,504	3.1%
Baltimore City	567,416,037	586,094,694	18,678,657	3.3%
Baltimore	286,022,521	309,929,615	23,907,094	8.4%
Calvert	49,288,503	55,008,141	5,719,638	11.6%
Caroline	24,715,795	26,621,913	1,906,118	7.7%
Carroll	86,498,152	92,703,057	6,204,905	7.2%
Cecil	56,408,069	60,213,291	3,805,222	6.7%
Charles	78,637,982	87,940,110	9,302,128	11.8%
Dorchester	18,378,523	19,944,200	1,565,677	8.5%
Frederick	110,714,766	120,281,558	9,566,792	8.6%
Garrett	19,048,377	19,095,337	46,960	0.2%
Harford	122,711,016	133,761,798	11,050,782	9.0%
Howard	103,784,326	118,553,551	14,769,225	14.2%
Kent	8,212,931	7,947,502	-265,429	-3.2%
Montgomery	231,618,443	259,582,057	27,963,614	12.1%
Prince George's	526,178,992	568,432,540	42,253,548	8.0%
Queen Anne's	19,278,689	20,574,545	1,295,856	6.7%
St. Mary's	50,772,811	56,268,939	5,496,128	10.8%
Somerset	13,999,733	14,753,371	753,638	5.4%
Talbot	5,465,864	8,500,792	3,034,928	55.5%
Washington	65,949,199	72,643,766	6,694,567	10.2%
Wicomico	53,033,038	59,037,650	6,004,612	11.3%
Worcester	9,295,156	12,745,504	3,450,348	37.1%
Unallocated	20,696,540	24,183,663	3,487,123	16.8%
Total	\$2,759,137,179	\$2,973,428,333	\$214,291,154	7.8%

Note: Direct State aid excludes teacher retirement payments and debt service on school construction but includes funding for the Aging School Program and the Technology in Maryland Schools Program

Source: Department of Legislative Services

Issues

1. Crossing the Bridge to Excellence in Fiscal 2004

Fiscal 2004 marks the first year of implementing the new funding formula developed by Chapter 288 of 2002, commonly referred to as the Thornton bill. In addition to the changes in the school finance system as discussed in the Governor's proposed budget section, Chapter 288 mandates several other changes in education during fiscal 2004.

Submission of Master Plans Due by October 2003

Chapter 288 eliminated or phased out 27 State aid programs and, in return provided local education agencies (LEAs) with enhanced flexibility in administering their educational programs. However, the LEAs will be held accountable for the educational outcomes of their students. To facilitate the accountability process, all LEAs must submit five-year plans by October 1, 2003, on how they will improve the academic achievement of their students. The plans must contain goals that are aligned with State performance standards. The State Superintendent can require any revisions to the plans to ensure student progress toward meeting State performance standards.

Development of a Geographic Cost of Education Index (GCEI) for Fiscal 2005

In recognizing that the costs of providing education in different regions of the State vary, Chapter 288 also requires the State to apply a new Maryland-specific GCEI to all State aid distributed under the new foundation formula beginning in fiscal 2005. In November 2002, MSDE contracted with the National Conference of State Legislatures (NCSL) to develop a GCEI. NCSL will work with national experts on cost differentials and public school finance to develop the GCEI. NCSL will provide a final report on the GCEI by December 1, 2003.

Student Enrollment Task Force Recommendations Due in Fiscal 2004

Chapter 288 charged a task force with recommending how to modify the school finance system to resolve issues concerning declining or growing enrollments in school systems and the dates on which student enrollment counts are calculated for the various education funding formulae. The task force recommended the following changes to enrollment counts:

- Change the enrollment collection date for special education students from December 31 to the last Friday in October of the prior year. Moving this collection date will provide a more comparable count with the enrollment count for students eligible for free and reduced price meals (FRPM), which is collected on October 31 and which the U.S. Department of Agriculture will not allow MSDE to change.

R00A02 – MSDE – Aid to Education

- Change the enrollment collection date for LEP students from May 15 to October 31 of the prior year to provide a more comparable count with other at-risk population counts and to collect data in a timely manner for budget requests. The task force also approved a new data collection instrument for LEP student enrollment to collect additional LEP information required by the federal government.
- Review and approve a new FRPM enrollment collection report to calculate State aid only on FRPM students in Kindergarten through grade 12.
- Change the enrollment collection date for the disabled student transportation count from (1) the second prior fiscal year to the prior fiscal year to correspond with all other enrollment counts which are based on the prior fiscal year’s enrollment; and (2) change the enrollment date to the last Friday in October to correspond with special education enrollment counts.

The task force will continue working in the 2003 interim to address local school system problems with growing or declining enrollment. The task force’s final report is due December 30, 2003.

Availability of Funds to Pay for Fiscal 2005 Education Aid Must Be Affirmed

Chapter 288 also requires the General Assembly to ensure that sufficient resources will be available to fully fund the \$356.7 million, or 10.6% increase under the Thornton formula anticipated in fiscal 2005. The law requires the General Assembly to either adopt a joint resolution by the fiftieth day of the 2004 session affirming that sufficient resources will be available to pay for fiscal 2005 funding or increases under the formula will be limited to 5.0% over the fiscal 2004 appropriation. **Exhibit 4** shows the cost difference between funding aid to education if the joint resolution is approved and if it is not approved.

Exhibit 4

State Education Aid Estimates
Fiscal 2004 to 2008
(\$ in Millions)

<u>Program</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
Foundation Program	\$2,013.4	\$2,152.6	\$2,335.8	\$2,487.0	\$2,694.2
Compensatory Education	350.8	474.3	573.5	696.7	829.6
Special Education	116.2	155.1	186.9	226.0	268.8
Limited English Proficiency	38.9	54.1	70.3	92.2	119.0
Guaranteed Tax Base	0.0	19.1	39.6	62.4	85.1
Student Transportation	167.0	175.9	183.9	192.0	199.9
Teachers’ Retirement	383.6	405.5	425.1	451.9	479.7
Baltimore City Partnership	28.2	21.1	14.1	0.0	0.0
Teacher Salary Challenge	35.9	20.7	0.0	0.0	0.0

R00A02 – MSDE – Aid to Education

Extended Elementary Education (EEEP)	19.3	19.3	19.3	19.3	0.0
Other Programs	198.5	210.7	220.9	237.7	253.7
Total with Full Implementation	\$3,351.7	\$3,708.4	\$4,069.5	\$4,465.1	\$4,930.0
% increase over prior year	7.6%	10.6%	9.7%	9.7%	10.4%
Total without 2004 Joint Resolution	\$3,351.7	\$3,524.4	\$3,699.6	\$3,884.5	\$4,076.5
% increase over prior year	7.6%	5.2%	5.0%	5.0%	4.9%

Source: Department of Legislative Services

DLS recommends that MSDE be prepared to comment on the status of the comprehensive master plans, GCEI, and student enrollment recommendations. MSDE also should be prepared to comment on the potential educational impact of limiting Thornton programs to a 5% increase in fiscal 2005.

2. Implementing the Federal No Child Left Behind Act

The federal NCLB is generating significant changes in the State and local administration of education, including expanded assessments for students in elementary, middle, and high schools as well as enhanced reporting and other accountability requirements. These changes include renovating the State's assessment system; requiring detailed report cards on student progress; developing measures of the adequate yearly progress of students; requiring a highly certified teacher in every classroom; and other changes.

State Undertakes a Major Overhaul of State Assessments to Comply with NCLB

The NCLB requires all states to annually test their students. Since the Maryland School Performance Assessment Program (MSPAP) measured school rather than student performance, MSDE had to overhaul its testing program and adopt assessments that measured individual student achievement. Over this past summer, MSDE developed the Maryland State Assessment (MSA) which will satisfy NCLB requirements.

The MSA is a mix of multiple-choice questions and essays. The MSA will measure student and school performance against Maryland content standards. It will be both a criterion-referenced test aligned with the State's content standards to measure student performance against the content standards and a norm-referenced test aligned with national content standards to measure school performance against national norms.

Phase I of the MSAs will be administered March 3-6, 2003. The tests will be administered 90 minutes per day over four days for grades 3, 5, 8, and 10 in reading and for grades 3, 5, and 8 in mathematics. Students will work independently with two days set aside for reading and two days set aside for

R00A02 – MSDE – Aid to Education

mathematics. The MSAs will include both multiple choice and short essay questions.

Phase II will be first administered in March 2004 in which tests for grades 4, 6, and 7 in mathematics will be administered. Phase III will be administered in the future for science in grades 3, 5, and 8 to meet NCLB requirements that students be tested in science in one grade each at elementary, middle, and high school by the 2007 - 2008 school year. The federal government has approved the State's high school assessment test in biology and geometry for the high school science test requirement. Since the English high school assessment test is administered in grade 9, it does not fulfill the federal requirement to test reading within grades 10 through 12.

MSDE has indicated that the results of the March 2003 MSA will be provided to parents before the 2003 fall term begins, with MSDE aiming for notification in late August. MSDE also has indicated that its goal in subsequent years is to have the test results available before the end of the school term in which the test is given.

Paying for the Assessment Overhaul

The Board of Public Works (BPW) approved \$53,021,868 in September for three contracts for MSDE to develop the MSAs. The BPW approved a \$23,679,334 multi-year contract with Harcourt Educational Measurement of San Antonio, Texas for test development and administration of the reading test for grades 1-8. Grades 1 and 2 are included in the contract to measure student progress under NCLB's new federal Reading First Program. The second multi-year contract is for \$29,185,434 with CTB/McGraw-Hill of Monterrey, California for test development and administration of the reading test for grade 10 and test development and administration of the mathematics test for grades 3 through 8. The third contract is for \$157,100 with Achieve, Inc., of Washington, DC for an alignment study, for the analysis of test results, and for making suggestions on assessments. Professional scorers will be scoring the test.

Report Cards

Parents and guardians will receive report cards on their student's performance on the MSAs. The report cards will include norm-referenced results that will allow parents to compare their student's performance with others nationally, and criteria-referenced results which will allow parents to compare their student's performance with others statewide. The report cards must show the student's subgroup with the State's annual measurable objectives for each subgroup; report the qualifications of every student's teacher and notify each parent whose child has an uncertified teacher. The report cards must also show the percentage of teachers with provisional certificates, and the percentage of classes not taught by highly qualified teachers. The report card must compare the percentage of classes not taught by highly qualified teachers in high-poverty schools with the percentage not taught in low-poverty schools.

The report card must contain information in the aggregate on student achievement at each proficiency level of the assessments. The information must be disaggregated by race, ethnicity, gender, disability status, migrant status, English proficiency, and status as economically disadvantaged. If the number of students in a category is insufficient to yield statistically reliable information or would reveal personal

R00A02 – MSDE – Aid to Education

information about the student, then the State does not have to disaggregate the information.

The report card also must include the most recent two-year trend in student achievement in each subject area, and for each grade level, for the assessments. Aggregate information on any other indicators used by the State to determine adequate yearly progress (AYP) must be disaggregated by subgroup. Graduation rates disaggregated by subgroups and information on the performance of LEAs in making AYP also must be included. MSDE is currently evaluating the costs to the State and LEAs for enhancing their technology to produce the report cards. MSDE notes that the current national estimate of costs is \$5 - \$10 per student.

Special Education Students

The report cards also must show the percentage of students not tested. The Individualized Mastery Assessment Program (IMAP) will be administered to students who cannot take the MSA including certain special needs populations. The federal government requires that 95% of students in each subgroup be counted in the assessment statewide. Students with disabilities can take the MSAs with assistance. All students in nonpublic placements will be participating in either the IMAPs or the MSAs.

Adequate Yearly Progress

The NCLB requires the State to develop a definition of a “proficient” score on the MSAs to measure AYP. MSDE has indicated that it will develop an AYP target for the MSAs in the summer of 2003. The AYP must include at least a basic, a proficient, and an advanced level.

Schools that do not make AYP will face certain consequences. MSDE will use new data collected from the MSA results to permit schools to exit the local reconstitution list when they have met the State average. The AYP will determine the number of schools in the State that will need extra resources to demonstrate improvement. Three examples of what other states have done in defining AYP include Louisiana, which will consider its students proficient if they reach the state’s “basic” achievement level; Colorado, whose students, if they meet Colorado’s “partially proficient” category in their state assessments will meet proficiency under the federal definition; and Connecticut whose performance level to meet federal standards will be lower than what Connecticut expects from student performance in its accountability system.¹

¹“The Changing Definition of Proficient”, *Education Week*, Vol. 22, Number 06, page 25.

Requirements for Low-performing Schools

In a July 1, 2002, press release, the U.S. Department of Education said that 118 Maryland schools needed improvement as measured in the 2001 - 2002 school year. Under the NCLB, in year one, schools identified for improvement must receive technical assistance. Students must be offered public school choice. These schools must develop or revise a two-year school improvement plan. In year two, LEAs must make supplemental educational services available to students from low-income families. In year three, LEAs must undertake at least one of the following measures: replace school staff; implement a new curriculum; decrease management authority at the school level; extend the school day or school year; appoint an outside expert to advise the school; or internally reorganize the school. In year four, the State must reopen the school as a charter school, replace principal and staff, contract with a private management company, takeover operation of the school, or undertake another major restructuring. In year five, the State must implement the alternative governance plan.

Supplemental Education Services

MSDE notes that 74 schools in 2002 - 2003 are not making AYP and therefore must prepare to provide the parents of these approximately 27,000 eligible students with supplemental services. MSDE has selected and so far accepted two companies to provide supplemental education services: Sylvan Learning Systems and Huntington Learning Centers. MSDE is currently attempting to expand the list of providers to offer parents more choice.

Teachers

NCLB requires a highly qualified teacher in every classroom by the 2005 - 2006 school year. As **Exhibit 5** shows, based on MSDE's preliminary data, 9.2% of the State's teachers are currently provisional teachers and would not meet the NCLB standard.

Exhibit 5

**Number and Percent of Maryland Teachers
Issued a Provisional Certificate
2000 - 2001 and 2002 - 2003**

<u>School System</u>	<u>As of November 2002 *</u>			<u>As of January 2003 **</u>		
	<u>Number of Teachers</u>	<u>Number of Provisional Teachers</u>	<u>Percent of Provisional Teachers</u>	<u>Number of Teachers</u>	<u>Number of Provisional Teachers</u>	<u>Percent of Provisional Teachers</u>
Allegany	676	4	0.6%	688	6	0.9%
Anne Arundel	4,524	189	4.2%	4,596	213	4.6%
Baltimore City	6,388	1,658	26.0%	6,531	1,520	23.3%
Baltimore County	7,098	478	6.7%	7,321	515	7.0%
Calvert	974	59	6.1%	1,026	78	7.6%
Caroline	346	13	3.8%	360	9	2.5%
Carroll	1,624	50	3.1%	1,709	48	2.8%
Cecil	1,083	53	4.9%	1,104	53	4.8%
Charles	1,357	150	11.1%	1,409	122	8.7%
Dorchester	330	16	4.9%	319	15	4.7%
Frederick	2,396	88	3.7%	2,488	120	4.8%
Garrett	358	2	0.6%	360	4	1.1%
Harford	2,542	106	4.2%	2,696	103	3.8%
Howard	3,162	167	5.3%	3,254	132	4.1%
Kent	183	8	4.4%	179	11	6.2%
Montgomery	8,994	673	7.5%	9,375	656	7.0%
Prince George's	8,190	1,602	19.6%	8,514	1,384	16.3%
Queen Anne's	440	38	8.6%	455	39	8.6%
St. Mary's	974	63	6.5%	983	58	5.9%
Somerset	216	13	6.0%	210	10	4.8%
Talbot	312	25	8.0%	312	23	7.4%
Washington	1,356	27	2.0%	1,351	26	1.9%
Wicomico	1,004	50	5.0%	1,020	45	4.4%
Worcester	494	13	2.6%	501	20	4.0%
State Total	55,021	5,545	10.0%	56,875	5,243	9.2%

Note: Data are considered preliminary

*Based on teachers employed by local school systems as of October 15, 2001

**Based on teachers employed by local school systems as of October 15, 2002

Source: Maryland State Department of Education – January 10, 2003

These and other changes required by NCLB are expensive. Many states have argued that the amount of federal funding provided to meet the NCLB requirements is insufficient. **Exhibit 6** shows the federal fiscal 1999 through the proposed federal fiscal 2003 funding for Maryland. (Please note that the federal fund total in Exhibit 6 does not match the federal fund total in the allowance primarily due to (1) the difference between the federal fiscal years and State fiscal years, and (2) not all federal education aid included in the Aid to Education budget being incorporated into Exhibit 6, i.e., funding for food services.)

R00A02 – MSDE – Aid to Education

Exhibit 6

**Federal Funds for Education Aid in Maryland
(\$ in Thousands)**

<u>Program</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>% Increase between FFY 02 & Proposed FFY 03</u>
21st Century Community Learning Centers ¹	\$0	\$0	\$0	\$4,442	\$8,398	89.1%
Adult Education Basic Grant	6,089	6,944	7,675	8,249	8,249	0.0%
Class Size & Teacher Financing ²	17,485	18,949	23,650	0	0	N/A
Client Assistance State Grants	175	175	186	189	189	0.3%
Comp Ed (Title I) - Capital Expenditures	192	76	42	0	0	N/A
Comp Ed (Title I) - Local Education Agencies	102,233	104,383	127,402	155,833	174,089	11.7%
Comp Ed (Title I) - Migrant	449	472	483	502	502	0.0%
Comp Ed (Title I) Comprehensive School Reform	1,613	2,238	2,784	3,372	3,548	5.2%
Comp Ed (Title I) - Even Start	1,614	1,806	3,275	3,397	2,762	-18.7%
Comp Ed (Title I) - State Agency Neglected & Delinquent	1,374	1,678	1,579	1,662	1,592	-4.2%
Drug - Free Schools & Communities State Grants ³	6,602	6,627	6,640	7,447	7,443	-0.1%
Education For Homeless Youth	376	376	521	763	763	0.0%
Eisenhower Professional Development State Grants ²	5,073	5,123	6,736	0	0	n/a
Fund for the Improvement of Education ^{4,5}	0	906	906	1,358	0	-100.0%
Goals 2000 State Grants	7,145	6,963	0	0	0	n/a
Immigrant Education ⁶	1,776	1,690	1,716	0	0	n/a
Impact Aid - Basic Support Payments	4,634	4,686	6,378	8,309	7,664	-7.8%
Impact Aid - Construction ⁴	0	0	0	0	0	N/A
Impact Aid - Special Education Payment	870	529	932	853	853	0.0%
Incarcerated Youth Offenders ⁵	213	260	357	357	0	-100.0%
Independent Living	313	312	312	312	312	0.0%
Indian Education - Grants to LEAs	141	137	186	195	195	0.0%
Innovative Education Program Strategies State Grants ³	6,531	6,538	6,882	6,882	6,882	0.0%
Language Acquisition Grants ⁶	0	0	0	3,802	4,320	13.6%
Protection & Advocacy Individual Rights	165	180	218	237	237	0.3%
Reading First State Grants ⁷	0	0	0	11,345	12,605	11.1%
Rehabilitation Services - Basic State Grant	33,677	34,414	35,285	36,218	38,260	5.6%
School Renovation Grants ⁸	0	0	14,190	0	0	n/a
Special Education Basic State Grant	77,079	88,552	111,365	131,489	148,070	12.6%
Special Education Infants & Toddlers	6,238	6,414	6,560	7,163	7,507	4.8%
Special Education Preschool Grants	6,571	6,824	6,824	6,824	6,824	0.0%
State Grants for Improving Teacher Quality ²	0	0	0	41,298	41,298	0.0%

R00A02 – MSDE – Aid to Education

<u>Program</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>% Increase Between FFY 02 & Proposed FFY 03</u>
State Testing Funds ⁹	0	0	0	6,886	7,069	2.7%
Supported Employment State Grants	659	659	649	645	0	-100.0%
Technology Literacy Challenge Fund ¹⁰	5,486	5,388	5,727	9,274	9,833	6.0%
Vocational Education - Basic State Grant	14,812	15,184	15,994	17,193	17,193	0.0%
Vocational Education - Technical Prep	1,569	1,559	1,576	1,613	1,613	0.0%
Total	\$311,152	\$330,043	\$397,031	\$478,108	\$518,271	8.4%

¹In fiscal year 2002, this program was converted from a competitive to a formula grant program.

²The Eisenhower Professional Development grants were consolidated with the Class Size Reduction grants into a new program designed to aid states in improving teacher quality.

³The fiscal year 2000 state estimates reflect an across-the-board cut enacted as part of the fiscal year 2000 omnibus spending package.

⁴Federal Funds Information for States began tracking these education programs in 2001 and complete historical data was unavailable.

⁵This program was not funded under the president’s FY 2003 budget.

⁶Beginning in fiscal year 2002, the Bilingual Education and Immigrant Education programs were consolidated. The new state program is called Language Acquisition Grants

⁷In fiscal year 2002 Congress created and funded this program. This program provides formula grants to the states to aid with early literacy programs.

⁸This program, created in the final fiscal year 2001 conference agreement, was designed to aid states with emergency school renovation projects. This program did not receive funding in fiscal year 2002.

⁹This program provides formula grants to states to help offset the costs of new state education exams.

¹⁰Beginning in fiscal year 2002, the Technology Literacy Challenge Fund has been consolidated with eight other technology programs into a new program called Educational Technology State Grants.

Source: Federal Funds Information for States

DLS recommends that MSDE be prepared to comment on its progress in meeting the NCLB provisions.

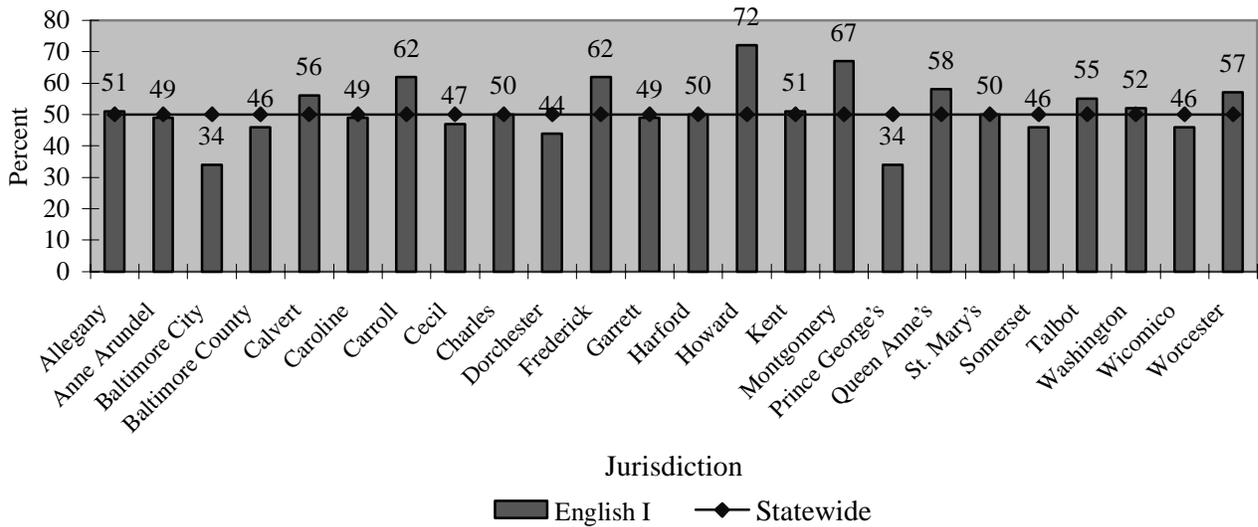
3. Trying Out the New High School Assessments

In addition to phasing in the new assessments required by the NCLB, MSDE is continuing to develop the high school assessments (HSAs). Students must take the HSAs in English I, algebra/data analysis, geometry, government, and biology after they complete each relevant course. Students are required to take the HSAs but are not required to pass them for graduation. MSDE has indicated that the Maryland State Board of Education will determine this summer whether the HSAs shall be required for graduation and what the passing scores should be for each test.

Exhibit 7 shows the median percentile rank for each jurisdiction following the 2002 test administration of the HSAs. The median percentile rank indicates that half of the students taking HSAs scored above the rank and half of the students scored below the middle rank. The statewide median percentile rank is provided as a benchmark for comparison.

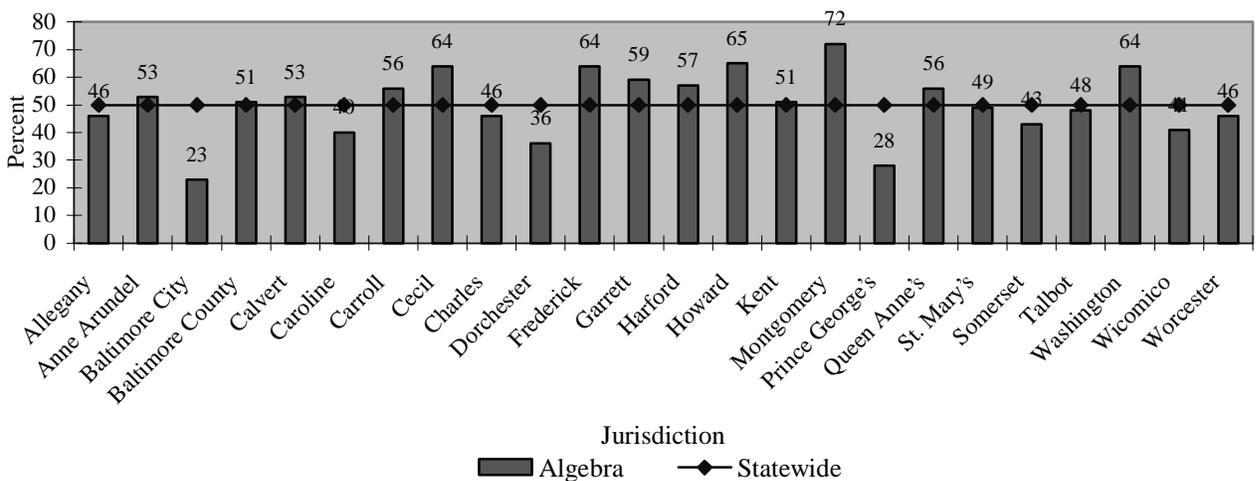
Exhibit 7

**Median Percentile Rank
2002 HSA Test Administration – English I**



As Exhibit 7 shows, students taking the English I HSA test in 14 out of the 24 jurisdictions scored at or above the State’s median percentile rank. Another 8 jurisdictions came within six points or less of the statewide median percentile rank for the English I HSA.

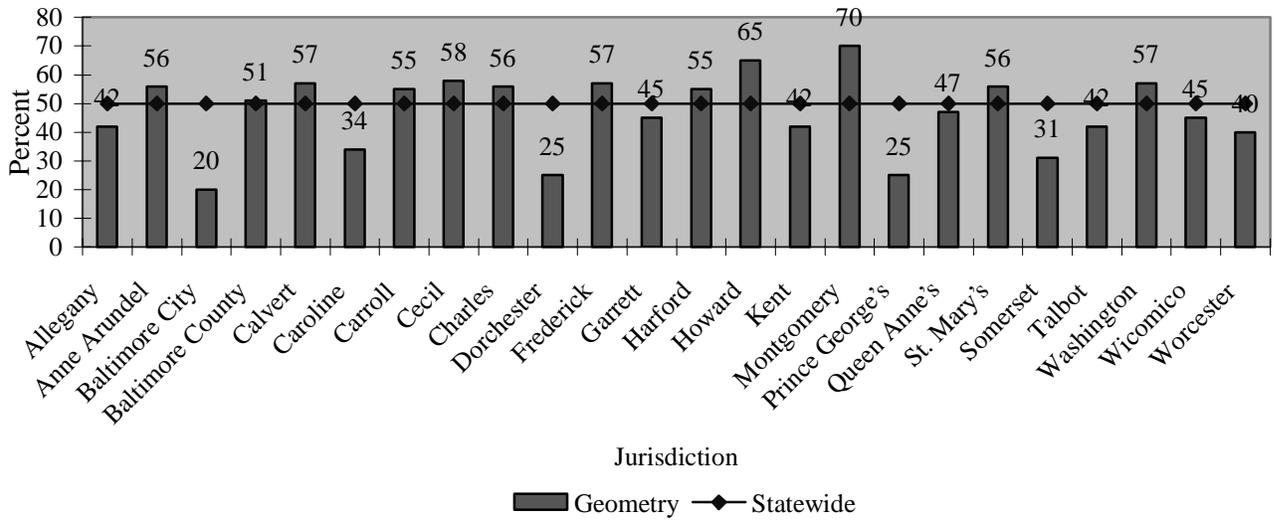
**Median Percentile Rank
2002 HSA Test Administration – Algebra**



R00A02 – MSDE – Aid to Education

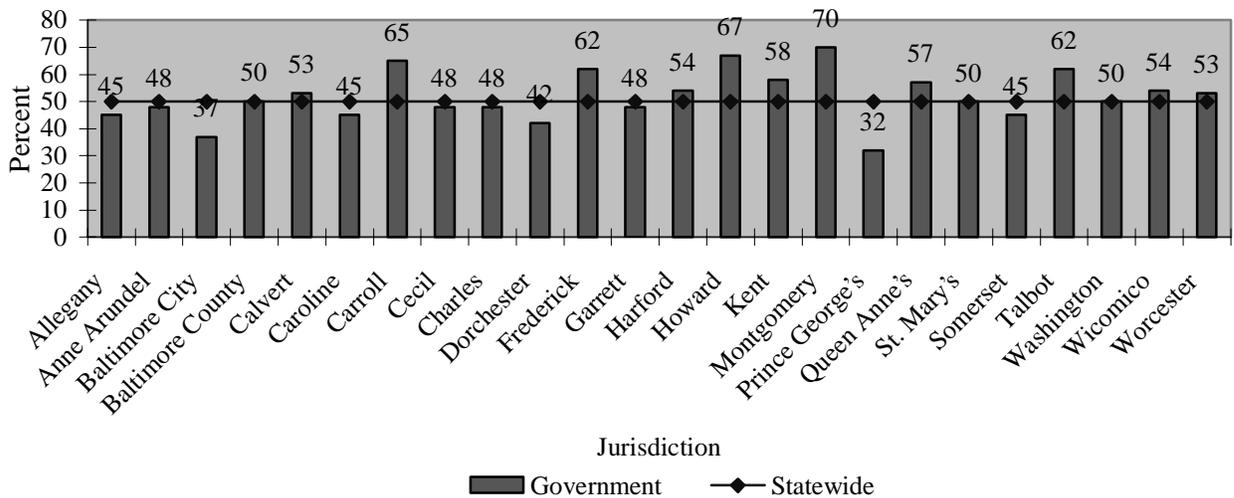
Students taking the Algebra HSA in 13 out of 24 jurisdictions scored at or above the State’s median percentile rank. Another 5 jurisdictions came within four points or less of the statewide median percentile for Algebra HSA.

**Median Percentile Rank
2002 HSA Test Administration – Geometry**



Twelve of the 24 jurisdictions achieved a median percentile rank at or above the State median percentile rank on the Geometry HSA. Another 3 jurisdictions achieved a median percentile rank within five points of the statewide median percentile rank.

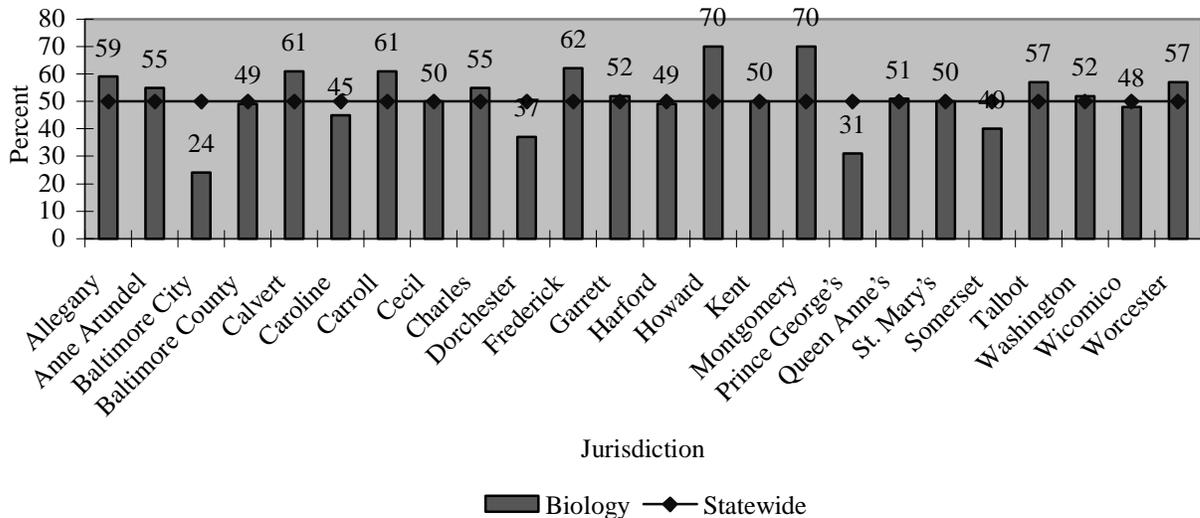
**Median Percentile Rank
2002 HSA Test Administration – Government**



R00A02 – MSDE – Aid to Education

Fourteen of the 24 jurisdictions achieved a median percentile rank at or above the State median percentile rank on the Government HSA. Another 7 jurisdictions achieved a median percentile rank within five points of the statewide percentile rank.

**Median Percentile Rank
2002 HSA Test Administration – Biology**



Sixteen jurisdictions also achieved a median percentile rank at or above the statewide median percentile rank on the Biology HSA. Another 4 jurisdictions achieved a median percentile rank within five points of the statewide percentile rank.

Source: Maryland State Department of Education website

DLS recommends MSDE be prepared to comment on its interpretation of the results from the 2002 test administration; whether it anticipates funding will be targeted toward those jurisdictions that consistently fall below the median percentile rank; and what progress the State Board of Education has made in establishing minimum HSA passing scores.

Recommended Actions

	<u>Amount Reduction</u>	
1. Reduce funding for the Governor’s Teacher Salary Challenge Program. Under current law, all funding will be phased out by fiscal 2006. Due to the current fiscal constraints, funding for all components of this program except for the targeted and hold harmless components should be deleted two years early. This reduction shall be contingent upon enactment of the 2003 Budget Reconciliation and Financing Act.	\$ 30,565,078	GF
2. Reduce State-funded increase in teachers’ and librarians’ retirement by 50% and require local governments to share in funding of additional retirement costs. The State and local governments share funding responsibilities for education, and it is estimated that State support could increase to 50% under the Thornton legislation. The Department of Legislative Services recommends that consideration be given to sharing increases in retirement costs with the counties on a 50-50 basis. The county share could be deducted from local income tax revenues and count toward a county’s education funding for maintenance of effort purposes. These changes would require legislation and could be implemented through the 2003 Budget Reconciliation and Financing Act.	14,624,608	GF
3. Reduce funds for the foundation program. The Maryland State Department of Education has adjusted the full-time equivalent enrollment count since submission of the fiscal 2004 allowance. The adjustment reduces the amount of foundation program funding required in fiscal 2004 from \$2,017,173,816 to \$2,013,431,102.	3,742,714	GF

R00A02 – MSDE – Aid to Education

4.	Reduce funds for State compensatory education. The Maryland State Department of Education has adjusted the number of students eligible for free and reduced price meals since submission of the fiscal 2004 allowance. The adjustment reduces the amount of State compensatory education funding required in fiscal 2004 from \$353,177,677 to \$350,797,986.	2,379,691	GF
5.	Reduce funding for School Performance Recognition Awards. Due to the current fiscal crisis, funding for these awards should be reduced by 50%.	1,375,000	GF
6.	Reduce funds for transportation grants. The Maryland State Department of Education has adjusted the full-time equivalent enrollment count since submission of the fiscal 2004 allowance. The adjustment reduces the amount of transportation funding required in fiscal 2004 from \$167,215,423 to \$167,009,034.	206,389	GF
7.	Delete funds for Maryland Student Service Alliance. Chapter 288, Acts of 2002 specifies that funds for this program shall be eliminated in the budget for fiscal 2004 and future years.	149,481	GF
	Total General Fund Reductions	\$ 53,042,961	

Updates

1. School Board Starts Anew in Prince George’s County

Due to the inability of the Prince George’s County school board and the county’s superintendent to resolve their differences, the General Assembly replaced the county’s elected school board with an appointed board. Chapter 289, Acts of 2002 replaced the elected Prince George’s County Board of Education with an appointed board in May 2002. Chapter 289 included a new Chief Executive Officer (CEO) position. The current superintendent has served as the interim CEO while the board conducts a CEO search. Although the current superintendent is eligible to apply for the permanent CEO position, the current superintendent has announced her resignation.

Current and Prior Year Budgets

Current and Prior Year Budgets 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 2002					
Legislative Appropriation	\$2,948,057	\$79,883	\$510,978	\$473	\$3,539,391
Deficiency Appropriation	-9,522	0	0	0	-9,522
Budget Amendments	2,560	-1,050	96,797	0	98,307
Reversions and Cancellations	-3,520	-419	-51,602	0	-55,541
Actual Expenditures	\$2,937,575	\$78,414	\$556,173	\$473	\$3,572,635
Fiscal 2003					
Legislative Appropriation	\$3,115,832	\$41,880	\$584,253	\$480	\$3,742,445
Budget Amendments	1,050	80,523	27,672	0	109,245
Proposed Deficiency Appropriation	4,363	0	0	0	4,363
Working Appropriation	\$3,121,245	\$122,403	\$611,925	\$480	\$3,856,053

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

The fiscal 2002 general fund legislative appropriation decreased by \$10.5 million. The decrease includes a \$9.5 million negative deficiency appropriation reflecting lower cost estimates for nonpublic special education placements. Offsetting this decrease was a \$2.6 million increase in amendments. The amendments include a \$3.0 million transfer of Head Start Program funds from the Office of Children, Youth, and Families to MSDE to improve the integration of the State's early childhood programs as

R00A02 – MSDE – Aid to Education

recommended by the 2001 *Joint Chairmen's Report*, offset by a \$400,000 transfer from the Teacher Development Program to MSDE Headquarters to pay for a contract to develop the GCEI required under Chapter 288. The decrease in the general fund legislative appropriation also is attributable to \$3.5 million in reversions including \$1.4 million in unused teacher incentive monies, \$550,000 in unspent Teacher Salary Challenge funds, \$450,000 saved from a current expense formula enrollment adjustment, and \$529,651 in unused teacher retirement funds.

The fiscal 2002 special fund legislative appropriation decreased by \$1.1 million due to a transfer of school readiness funding from the Aid to Education budget to the MSDE's Headquarters budget offset by a reversion of \$419,390 for unused funds in the Teacher Salary Challenge Program and Judy Hoyer Centers.

The fiscal 2002 federal fund legislative appropriation increased by \$45.2 million primarily from federal programs for special education, vocational education, adult education, early childhood education, food services, reading programs, and professional development. Reversions of \$51.6 million reflect either funds that were anticipated in the fiscal 2002 appropriation but were either not received or received at a lower level or are federal funds that are available for subsequent fiscal years.

The fiscal 2003 general fund legislative appropriation was increased by \$1.1 million due to two transfers from MSDE Headquarters to MSDE Aid to Education: a \$1.0 million transfer to help fund the Juvenile Justice Alternative Education School and a \$50,336 transfer to the Head Start Program to be used for program grants rather than administrative expenses.

The fiscal 2003 special fund legislative appropriation was increased by \$80.5 million reflecting revenues collected from a \$0.34 increase in the tax on a package of cigarettes. The revenues will be distributed as follows: \$64.7 million in unrestricted grants to local education agencies; \$10.0 million in unrestricted grants to the Prince George's County Board of Education; \$4.8 million to local agencies under the Maryland Infants and Toddlers Program; and \$1.1 million for adult education and literacy services.

The fiscal 2003 federal fund legislative appropriation was increased by \$27.7 million reflecting NCLB funds for professional development and class size reduction, state assessments, language assistance, funds for systemic technology improvements, and funds for the protection of the Chesapeake Bay.

R00A02 – MSDE – Aid to Education

Appendix 2

Object/Fund Difference Report
MSDE – Aid to Education

Object/Fund	FY 02	FY 03	FY 04	FY 03 – FY 04	Percent Change
	Actual	Working Appropriation	Allowance	Amount Change	
Objects					
04 Travel	\$ 626	\$ 0	\$ 0	\$ 0	0.0%
08 Contractual Services	802,985	0	0	0	0.0%
09 Supplies & Materials	(1)	0	0	0	0.0%
12 Grants, Subsidies, Contr	3,571,831,554	3,851,690,714	4,178,822,695	327,131,981	8.5%
Total Objects	\$ 3,572,635,164	\$ 3,851,690,714	\$ 4,178,822,695	\$ 327,131,981	8.5%
Funds					
01 General Fund	\$ 2,937,574,729	\$ 3,116,882,244	\$ 3,495,456,927	\$ 378,574,683	12.1%
03 Special Fund	78,414,106	122,403,542	250,000	(122,153,542)	(99.8%)
05 Federal Fund	556,173,329	611,924,928	682,552,588	70,627,660	11.5%
09 Reimbursable Fund	473,000	480,000	563,180	83,180	17.3%
Total Funds	\$ 3,572,635,164	\$ 3,851,690,714	\$ 4,178,822,695	\$ 327,131,981	8.5%

R00A02 – MSDE – Aid to Education

Fiscal Summary
MSDE – Aid to Education

<u>Unit/Program</u>	FY 02		FY 03		FY 03		FY 02 – FY 03		FY 04		FY 03 – FY 04	
	<u>Actual</u>	<u>Legislative Appropriation</u>	<u>Working Appropriation</u>	<u>Appropriation</u>	<u>Appropriation</u>	<u>Working Appropriation</u>	<u>% Change</u>	<u>% Change</u>	<u>Allowance</u>	<u>Allowance</u>	<u>% Change</u>	<u>% Change</u>
01 State Share of Basic Current Expenses	\$ 1,681,184,139	\$ 1,764,230,813	\$ 1,838,887,648				9.4%		\$ 2,017,173,816			9.7%
02 Compensatory Education	136,373,053	0	161,208,161				18.2%		372,440,177			131.0%
03 Aid for Local Employees Fringe Benefits	335,478,301	362,336,546	362,336,546				8.0%		391,585,761			8.1%
04 Children at Risk	15,477,028	12,835,155	12,835,155				(17.1%)		20,992,615			63.6%
05 Formula Programs for Specific Populations	5,750,854	6,463,043	6,463,043				12.4%		6,863,043			6.2%
07 Students With Disabilities	177,045,286	182,377,825	187,144,574				5.7%		224,274,678			19.8%
08 Assist State Educating Students with Disabilities	194,591,132	228,640,000	228,640,000				17.5%		246,725,000			7.9%
09 Gifted and Talented	6,414,150	6,169,829	6,169,829				(3.8%)		534,829			(91.3%)
10 Environmental Education	68,057	68,057	68,057				0%		0			(100.0%)
11 Disruptive Youth	1,601,655	1,601,655	2,601,655				62.4%		3,601,655			38.4%
12 Educationally Deprived Children	131,912,873	132,368,591	132,239,598				0.2%		173,250,259			31.0%
13 Innovative Programs	50,026,571	48,188,117	48,228,217				(3.6%)		20,231,349			(58.1%)
14 Adult Continuing Education	9,466,465	8,048,774	9,148,794				(3.4%)		10,726,807			17.2%
15 Language Assistance	1,689,953	1,500,423	2,888,614				70.9%		4,103,842			42.1%
18 Career and Technology Education	16,485,199	14,306,179	14,306,179				(13.2%)		17,106,070			19.6%
20 Baltimore City Partnership Funding	70,465,079	70,465,079	70,465,079				0%		28,186,032			(60.0%)
22 Compensatory Education and SAFE Funding	72,780,181	269,503,554	74,106,643				1.8%		0			(100.0%)
23 Class Size Initiative	43,065,280	45,351,641	45,351,641				5.3%		0			(100.0%)
24 Unknown Title	29,964,600	0	34,188,750				14.1%		38,870,353			13.7%
27 Food Services Program	141,974,348	153,070,201	153,070,201				7.8%		147,894,083			(3.4%)
31 Public Libraries	27,475,868	29,027,762	29,027,762				5.6%		29,226,188			0.7%
32 State Library Network	11,011,769	12,557,844	12,557,844				14.0%		13,944,964			11.0%
39 Transportation	133,312,867	138,899,184	138,899,184				4.2%		167,215,423			20.4%
45 School Building Construction Aid	100,522,850	89,862,347	89,862,347				(10.6%)		104,909,714			16.7%
52 Science And Mathematics Education Initiative	5,929,888	5,897,710	5,897,710				(0.5%)		41,148,366			597.7%
53 School Technology	20,776,810	15,416,000	18,595,481				(10.5%)		18,021,602			(3.1%)
54 School Quality, Accountability and Recognition of	19,856,227	21,894,427	21,894,427				10.3%		21,374,427			(2.4%)
55 Teacher Development	15,044,860	16,227,000	39,420,466				162.0%		8,968,000			(77.3%)
56 Governor's Teacher Salary Challenge Program	84,305,221	72,512,109	72,512,109				(14.0%)		35,878,642			(50.5%)
57 Transitional Education Funding Program	29,584,601	29,675,000	29,675,000				0.3%		10,575,000			(64.4%)
58 Head Start	2,999,999	2,949,664	3,000,000				0%		3,000,000			0%
Total Expenditures	\$ 3,572,635,164	\$ 3,742,444,529	\$ 3,851,690,714				7.8%		\$ 4,178,822,695			8.5%

<u>Unit/Program</u>	<u>FY 02 Actual</u>	<u>FY 03 Legislative Appropriation</u>	<u>FY 03 Working Appropriation</u>	<u>FY 02 – FY 03 % Change</u>	<u>FY 04 Allowance</u>	<u>FY 03 – FY 04 % Change</u>
General Fund	\$ 2,937,574,729	\$ 3,115,831,908	\$ 3,116,882,244	6.1%	\$ 3,495,456,927	12.1%
Special Fund	78,414,106	41,879,938	122,403,542	56.1%	250,000	(99.8%)
Federal Fund	556,173,329	584,252,683	611,924,928	10.0%	682,552,588	11.5%
Total Appropriations	\$ 3,572,162,164	\$ 3,741,964,529	\$ 3,851,210,714	7.8%	\$ 4,178,259,515	8.5%
Reimbursable Fund	\$ 473,000	\$ 480,000	\$ 480,000	1.5%	\$ 563,180	17.3%
Total Funds	\$ 3,572,635,164	\$ 3,742,444,529	\$ 3,851,690,714	7.8%	\$ 4,178,822,695	8.5%