

R00A02
Aid to Education
Maryland State Department of Education

Operating Budget Data

(\$ in Thousands)

	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 02-04</u> <u>Change</u>	<u>FY 05</u>	<u>FY 04-05</u> <u>Change</u>
Operations	\$1	\$227	\$0	-\$1	\$0	\$0
Contractual Services	803	597	0	-803	0	0
Grants	3,571,832	3,872,036	4,033,599	461,767	4,414,745	381,146
FY 2004 Deficiencies	0	0	6,983	6,983	0	-6,983
Contingent & Back of Bill Reductions	0	0	0	0	-22,033	-22,033
Adjusted Grand Total	\$3,572,635	\$3,872,860	\$4,040,582	\$467,947	\$4,392,711	\$352,129
General Funds	2,937,575	3,119,657	3,350,224	412,650	3,699,788	349,563
FY 2004 Deficiencies	0	0	6,983	6,983	0	-6,983
Contingent & Back of Bill Reductions	0	0	0	0	-22,033	-22,033
Adjusted General Funds	\$2,937,575	\$3,119,657	\$3,357,208	\$419,633	\$3,677,755	\$320,547
Special Funds	78,414	121,620	250	-78,164	241	-9
Federal Funds	556,173	630,906	682,561	126,388	714,406	31,845
Reimbursable Funds	473	677	563	90	309	-254
Adjusted Grand Total	\$3,572,635	\$3,872,860	\$4,040,582	\$467,947	\$4,392,711	\$352,129
Annual % Change		8.4%	4.3%		8.7%	

- The fiscal 2005 allowance includes a deficiency of \$7.0 million to cover a fiscal 2003 deficit in the nonpublic placements program.
- The fiscal 2005 allowance increases by \$352.1 million, or 8.71%. General funds increase by \$320.5 million, or 9.5% after adjusting for the 2004 deficiency appropriation and fiscal 2005 contingent reductions of \$22.0 million.

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

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- The fiscal 2005 allowance includes several contingent reductions. A reduction of \$3.0 million is contingent upon enactment of a provision in budget reconciliation legislation to provide no minimum increase in the student transportation formula. A reduction of \$6.4 million is contingent upon enactment of a provision in budget reconciliation legislation to alter the State and local contributions for nonpublic placements. A reduction of \$12.6 million is contingent upon enactment of a provision in budget reconciliation legislation to eliminate the Governor’s Teacher Salary Challenge program in fiscal 2005.
- General fund increases attributable to continued implementation of the Bridge to Excellence Act total \$312.8 million, or 98% of general fund increases.
- Other general fund changes include increases in other mandated programs, including teachers’ and librarians’ retirement and State aid for libraries, offset by a decrease for nonpublic placements and elimination of or reductions to discretionary programs.
- Federal funds are expected to increase for fiscal 2005, due primarily to increased nutrition and special education funds, offset by reductions to more accurately reflect federal fund attainment under No Child Left Behind.

Analysis in Brief

Major Trends

Maryland Facing Successes, Challenges in Meeting No Child Left Behind Requirements: The federal No Child Left Behind Act mandates improvements in student achievement and highly qualified teachers in every classroom. The first administration of the Maryland Student Assessment indicates several subgroups are not achieving at target levels. Certain jurisdictions have high percentages of provisionally certified teachers who will not meet the highly qualified standards. **The Maryland State Department of Education (MSDE) should comment on efforts to meet No Child Left Behind mandates.**

Issues

Proposed Changes to Nonpublic Placement Program Would Shift Significant Costs to Local School Systems: Provisions in the Budget Reconciliation Act of 2004 would significantly alter the distribution of the costs of nonpublic placements between the State and local education agencies. **MSDE should comment on the impact of the proposed change to the nonpublic placements formula on local jurisdictions.**

State Superintendent Submits Recommendation for Implementing Geographic Cost of Education Index: Despite the lack of funding for the geographic cost of education index in the Governor's fiscal 2005 allowance, the fiscal committees requested that the State Superintendent develop a recommendation for applying the index. The Superintendent submitted a recommendation based on the intent of the Commission on Education Finance, Equity, and Excellence, the advice of the consultants, and the fiscal impact of the recommendation. **MSDE should comment on how it developed this recommendation and provide the estimated fiscal impact of this recommendation on future year foundation grant estimates.**

Comprehensive Master Plans Submitted – How Local Education Agencies Plan to Use Bridge to Excellence Funding Enhancements: A review of comprehensive master plans submitted by local education agencies reveals similar strategies for spending additional funding to improve student achievement. **MSDE should comment on how it will evaluate the effectiveness of the strategies outlined in the master plans to ensure that additional resources are targeted to areas proven to improve student achievement.**

Continued Implementation of Bridge to Excellence Major Factor in Ongoing Structural Deficit: Education aid will increase by an average of 9.8% annually through fiscal 2008 under the Bridge to Excellence. Education increases will consume approximately 80% of all anticipated revenue growth through that period. The impact of education aid on the structural deficit could be reduced by

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postponing full implementation of the plan. **MSDE should comment on the impact such postponement would have on local school system plans to improve achievement.**

Baltimore City Public School System Facing \$58 Million Deficit – Advance of Future State Aid Proposed: For fiscal 2004 the Baltimore City Public School System is facing a \$58 million deficit and a similar \$58 million cash flow problem. The Governor has proposed advancing the system \$42 million in fiscal 2005 aid in fiscal 2004, to be paid back by the end of fiscal 2005. **MSDE should comment on the proposed advance and the associated accountability plan.**

Recommended Actions

	<u>Funds</u>
1. Amend budget bill language to delete funds for the Governor's Teacher Salary Challenge Program.	
2. Add budget bill language to reduce funds for the Extended Elementary Education Program.	
3. Add budget bill language to prohibit the expenditure of nonpublic placement funds for students at the Charles H. Hickey, Jr. School.	
4. Add budget bill language to reduce funds for Quality Teacher Incentives contingent upon passage of legislation altering eligibility for stipends.	
5. Delete funds for the Maryland's Tomorrow program.	\$ 5,731,335
Total Reductions	\$ 5,731,335

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Operating Budget Analysis

Program Description

The State and local governments share responsibility for Maryland's public schools. 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.

The Bridge to Excellence in Public Schools Act, commonly referred to as "Thornton," requires an estimated \$1.3 billion in enhanced funding between fiscal 2004 and 2008. School systems receive a basic per pupil funding amount through the foundation program. Additional funding formulas provide additional aid for 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 increases. Local jurisdictions receive broad flexibility in determining how to meet State goals for student achievement along with the enhanced funding. However, each school system will be held accountable for achieving goals and student outcome measurements outlined in its Comprehensive Master Plan.

In addition to funding for public education, the State Board of Education (SBE) 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.

Performance Analysis: Managing for Results

Maryland Facing Successes, Challenges in Meeting No Child Left Behind Requirements

The No Child Left Behind Act (NCLB) significantly expanded the involvement of the federal government in education policy. NCLB includes two mandates applicable to all schools: (1) states must assess all students annually and report performance to parents and the public; and (2) all teachers must be "highly qualified" to teach their subjects and grade levels. The Maryland State Department of Education (MSDE) has made great progress over the past year in developing assessments, performance standards, reporting mechanisms, and pathways for teachers to achieve "highly qualified" designations.

Student Performance and Accountability

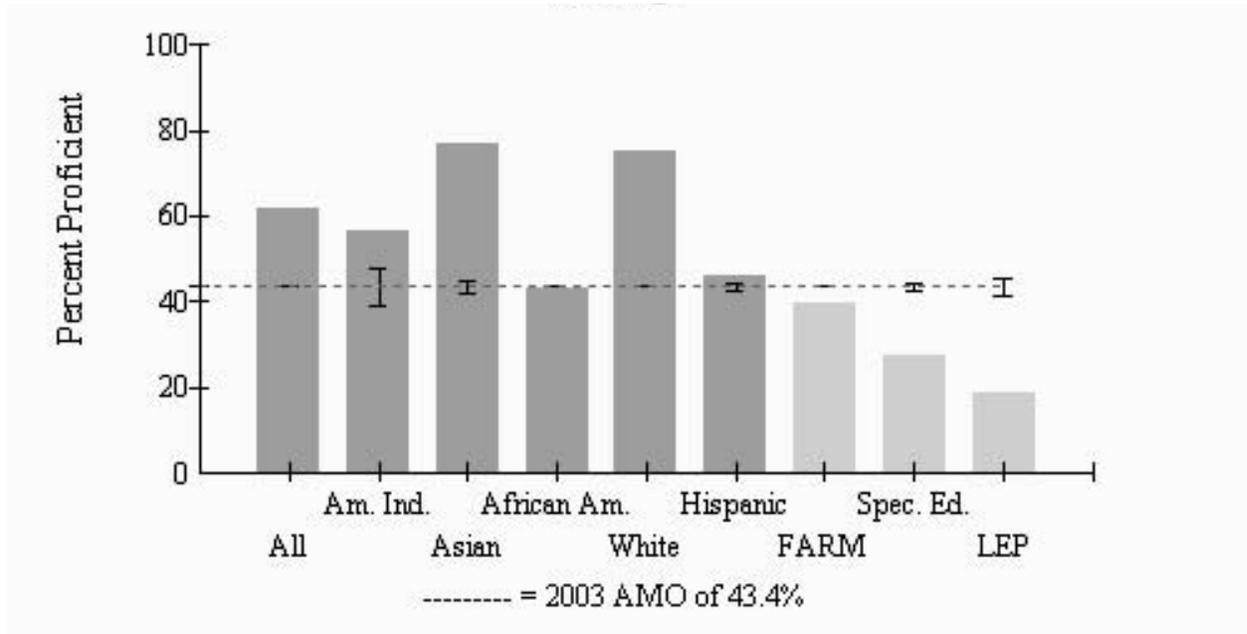
NCLB requires 100% student proficiency by school year 2013-2014. NCLB requires that states develop intermediate targets progressing to 100% for each intermediate year. In order for a school, school system, or state to make “adequate yearly progress” (AYP), all students and students in selected ethnic and special needs subgroups must achieve proficiency at the target rate. The law requires increasing penalties for schools and school systems that fail to meet AYP. For school year 2002-2003, the State target was 43.4% proficiency in reading and 30.7% proficiency in mathematics. In the coming years, these targets will increase linearly towards 100%, meaning that students will have to consistently achieve at higher levels for the State to make AYP.

School year 2002-2003 marked the first administration of the Maryland School Assessments (MSAs), Maryland’s new testing program in response to the accountability mandates of NCLB. For the first year, MSAs in reading and mathematics were administered to students in grades 3, 5, 8, and 10. SBE approved standards for “proficiency” on these assessments in July 2003, allowing MSDE to calculate and release results on student performance. Performance levels for the State, local school systems, and individual schools can be found on MSDE’s Maryland Report Card web site, www.mdreportcard.org.

Statewide results reflect individual school system results relatively closely. As shown in **Exhibits 1** and **2**, the State failed to make the standard of AYP because students in selected subgroups did not achieve target proficiency levels. Statewide, students eligible for free and reduced price meals (FARM), students with disabilities, and students with limited English proficiency (LEP) did not meet proficiency targets in reading, and African American students and students with disabilities did not meet proficiency targets in mathematics.

Local jurisdictions had similar results. No school system made AYP, due to at least one subgroup not meeting the target on at least one assessment. Special education students missed at least one proficiency target in every jurisdiction. LEP students frequently missed reading targets, though they succeeded on the mathematics assessments more often. African American and FARM student subgroups also missed targets in several jurisdictions.

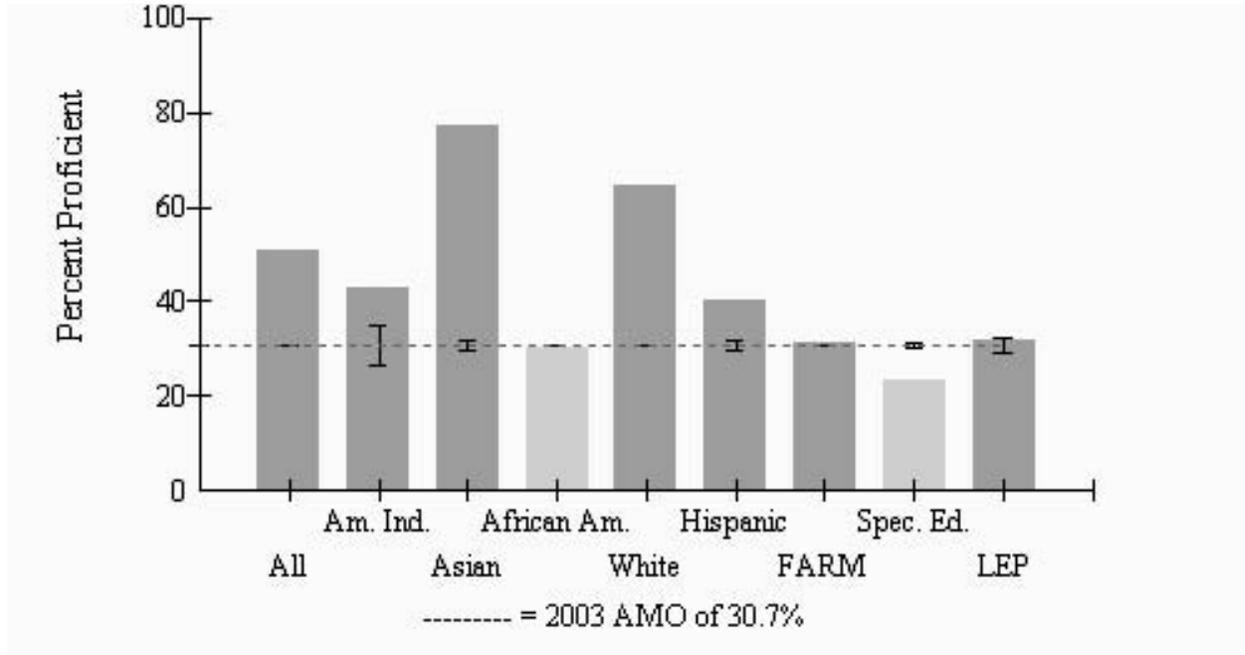
Exhibit 1
2003 AYP Reading



AMO = Annual Measurable Objective (target)

Source: www.mdreportcard.org

**Exhibit 2
2003 AYP Mathematics**



AMO = Annual Measurable Objective (target)

Source: www.mdreportcard.org

NCLB outlines increasing penalties for schools and school systems that consistently fail to make AYP. These consequences apply to all students, even if only selected subgroups are not performing at target levels. Statewide, 131 schools were identified for improvement in 2003. This total includes 19 schools that were identified for school improvement for the first time, meaning that they failed to meet performance targets two years in a row. Though 2003 was the first administration of the MSAs, MSDE took into account whether schools met performance targets for prior assessment regimens in order to identify schools in need of improvement. Also, in 2003, 13 schools exited the school improvement list through sustained advances in student achievement. **MSDE should comment on efforts to work with local school systems to ensure that all students, especially those in subgroups that did not meet AYP targets, achieve at the levels required by NCLB.**

Teacher Qualifications

Another major mandate of NCLB is the requirement that all teachers be highly qualified by the end of school year 2005-2006. Under NCLB, a teacher who is highly qualified must:

- have a bachelor's degree;
- be fully certified or licensed according to State requirements; and
- demonstrate appropriate content knowledge in all grades and subjects taught.

MSDE has been working to develop pathways for teachers to achieve the highly qualified standards outlined above. In October 2003, the State Board of Education approved a “high, objective, uniform, State standard of evaluation” which will allow veteran teachers with experience and professional development to attain highly qualified status. All new teachers must be fully certified and demonstrate competency in their grade levels and subjects through standardized professional assessments.

The issue of existing conditionally certified teachers still remains, however, especially in certain jurisdictions. Statewide, 11.6% of teachers hold provisional certificates and therefore do not meet the second requirement of NCLB. In Baltimore City, 32.7% of teachers hold provisional certifications, and in Prince George's County 21.4% of teachers are not fully certified. The problem is also acute in reconstitution schools, where 24.5% of teachers are provisionally certified. **MSDE should comment on its efforts to ensure that all teachers are fully certified and meet the highly qualified standards of NCLB by the 2006 deadline.**

Fiscal 2004 Actions

Proposed Deficiency

MSDE is requesting a \$6,983,422 deficiency 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 2004 deficiency will be used to cover a fiscal 2003 deficit in the program, as shown in **Exhibit 3**. MSDE had originally estimated a deficit of \$1.9 million for fiscal 2003. If the funding for the fiscal 2004 deficiency appropriation is provided as requested, MSDE still estimates a fiscal 2004 deficit of \$2.6 million. **The Department of Legislative Services (DLS) also questions whether MSDE's fiscal 2004 projections are realistic, given that they assume an overall decrease in the program of 0.6%. This program has experienced annual growth of at least 7.0% since fiscal 1999. Though a rate freeze has been in place in this program for fiscal 2004, some growth should still be expected. Were the program to grow even by 3.5% in fiscal 2004, the deficit would be almost \$7.0 million. MSDE should comment on how it develops expenditure projections in this program and why it expects fiscal 2004 expenditures to decrease.**

Exhibit 3
Appropriation v. Expenditure for Nonpublic Placements
Fiscal 2001 – 2004

	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>
Legislative Appropriation	\$91,563,323	\$104,380,655	\$100,191,230	\$103,967,833
Expenditure*	-88,343,107	-99,221,889	-107,174,672	-106,538,942
Subtotal	\$3,220,216	\$5,158,766	-\$6,983,442	-\$2,571,109
Prior Year Deficit	-\$4,779,028	\$0	-\$4,363,198	-\$6,983,442
Deficiency Appropriation/State Aid Transfer**	4,779,029	-9,521,964	4,363,198	6,983,442
Total	\$3,220,217	-\$4,363,198	-\$6,983,442	-\$2,571,109

*The fiscal 2004 expenditure is estimated.

**MSDE has requested the fiscal 2004 deficiency.

Source: Maryland State Department of Education

Impact of Cost Containment

Fiscal 2004 cost containment reduced non-mandated spending in this program by \$3,036,655. **Exhibit 4** provides a breakdown of the reductions and their programmatic impacts.

Exhibit 4
Fiscal 2004 Cost Containment Actions

<u>Program</u>	<u>Cost Containment Action</u>	<u>Reduction</u>	<u>Potential Impact</u>
Disruptive Youth	Eliminate grant to Annapolis Roads Middle School	\$1,601,655	Students will have to be reassigned or jurisdiction will have to provide additional funds
Innovative Programs	Reduce grant to Center for Educational Progress	105,000	Center has carry-over funds available – no impact
Adult Continuing Education	Reduce grant to Center for Arts and Technology	40,000	Reduction consistent with other State-aided Institutions
School Quality, Accountability, and Recognition	Reduce School Recognition Program	150,000	MSDE will substitute federal funds
School Quality, Accountability, and Recognition	Eliminate Reconstitution Mini-Grants	56,000	Minimal
Teacher Development	Reduce stipends for teachers with advanced certificates in low-performing schools	750,000	None – demand has not been as high as anticipated
Teacher Development	Reduce funds for Regional Professional Development Centers	334,000	Eliminate ineffective centers
Total		\$3,036,655	

Source: Maryland State Department of Education

Governor's Proposed Budget

The Governor's allowance contains a total of \$4.4 billion, an increase of \$352.1 million, or 8.7% over the fiscal 2004 working appropriation. **Exhibit 5** shows how this increase is attributable to the mandated and discretionary programs under the Bridge to Excellence in Public Schools Act (Chapter 288, Acts of 2002) and other programs funded with general, federal, special, and reimbursable funds.

Exhibit 5
Governor's Proposed Budget
MSDE Aid to Education
(\$ in Thousands)

	<u>FY 03</u> <u>Actual</u>	<u>FY 04</u> <u>Approp.</u>	<u>FY 05</u> <u>Allowance</u>	<u>FY 04-05</u> <u>Change</u>	<u>FY 04-05</u> <u>% Change</u>
General Funds	\$3,119,657	\$3,350,224	\$3,699,788	\$349,563	10.4%
FY 2004 Deficiencies	0	6,983	0	-6,983	
Contingent & Back of Bill Reductions	0	0	-22,033	-22,033	
Adjusted General Funds	\$3,119,657	\$3,357,208	\$3,677,755	\$320,547	9.5%
Special Funds	\$121,620	\$250	\$241	-\$9	-3.5%
Federal Funds	\$630,906	\$682,561	\$714,406	\$31,845	4.7%
Reimbursable Funds	\$677	\$563	\$309	-\$254	-45.1%
Adjusted Grand Total	\$3,872,860	\$4,040,582	\$4,392,711	\$352,129	8.7%

Where It Goes:

General Fund Changes Attributable to Bridge to Excellence

Foundation.....	\$101,136
Compensatory education.....	137,299
Special education.....	41,407
Guaranteed tax base.....	19,132
Limited English proficiency.....	12,428
Transportation	5,520
Governor's Teacher Salary Challenge	2,948
Baltimore City Partnership.....	-7,047

Other General Fund Changes

Teachers' and librarians' retirement contributions.....	20,032
State Library Network and public library aid.....	718
Out-of-county living arrangements	400
Lease payments on Technology in Maryland Schools equipment	-4,680

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Where It Goes:

School performance and recognition programs.....	-4,225
Nonpublic placements.....	-2,189
Eliminate Juvenile Justice Alternative Education pilot program.....	-2,000
Eliminate Regional Professional Development Centers.....	-334

Federal Fund Changes

Nutrition grants.....	34,388
Special education.....	11,095
Science and mathematics education grants.....	5,137
Title I funding for disadvantaged students.....	-17,298
Teacher quality enhancement grants.....	-1,355
Miscellaneous federal grant programs.....	-121

Special and Reimbursable Fund Changes

Innovative Programs – Sexual Abuse Prevention Program.....	172
DHMH Community Health Administration Funding.....	-418
Other.....	-16

Total **\$352,129**

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

Changes in Education Aid Primarily Attributable to Bridge to Excellence

Chapter 288, Acts of 2002 commonly known as “Thornton,” dramatically changed the funding of State education aid beginning in fiscal 2004. Changes attributable to the funding formulae and targets outlined in Thornton are detailed below.

- **Foundation Formula (\$101,135,720 Increase):** The foundation formula ensures a minimum funding level per pupil and requires counties to provide a local match. The formula is calculated based on a per pupil amount and student enrollment. The \$101.1 million, or 5.0% increase is attributable to the fiscal 2005 per pupil amount of \$5,029, a \$263, or 5.5% increase over the fiscal 2004 per pupil amount of \$4,766, and a 0.8% increase in student enrollment between September 2002 and September 2003.
- **Compensatory Education (\$137,299,378 Increase):** The compensatory education formula provides additional funding for economically disadvantaged students. The formula recognizes disparities in local wealth by adjusting the grants per eligible student by local wealth. The formula is calculated based on 97% of the per pupil amount in the foundation formula and the number of students eligible for free and reduced price meals in the prior fiscal year. The

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\$137.3 million increase is attributable to a \$464, or 34.6% increase in the per pupil compensatory education amount and a 1.2% increase in compensatory education students funded.¹

- ***Special Education (\$41,407,052 Increase)***: The special education formula provides additional aid for the education of students with disabilities enrolled in public schools. The special education formula is calculated based on 74% of the annual per pupil foundation amount and the number of special education students enrolled in the prior year. For fiscal 2005, formula funding increases by \$41.4 million, or 35.6%. The special education formula increase reflects an increase of \$354, or 34.6% in the per pupil funding offset by a 0.4% decrease in special education students funded.
- ***Guaranteed Tax Base (\$19,131,737 Increase)***: The Bridge to Excellence in Public Schools Act included an add-on grant for jurisdictions with less than 80% of statewide per pupil wealth that contributed more than the minimum required local share under the foundation program in the prior fiscal year. The grant equals the difference between actual and required spending per pupil, up to 20% of the per pupil foundation amount. The grants are phased in, beginning at 25% in fiscal 2005 and ending at 100% in fiscal 2008. For fiscal 2005 eight jurisdictions will qualify for guaranteed tax base grants.
- ***Limited English Proficiency (\$12,428,238 Increase)***: The State provides additional grants for the education of non- and limited-English proficient (LEP) students. The LEP formula is based on 99% of the annual per pupil foundation amount and LEP enrollment. The fiscal 2005 grant per LEP student is \$1,842, a \$474, or 34.6% increase over the fiscal 2004 grant. The \$12.4 million, or 32.0% increase is attributable to this increase and a 2.0% decrease in LEP students funded.
- ***Student Transportation Grants (\$5,520,151 Increase)***: The State also provides grants to assist jurisdictions in transporting their students to school. The grant consists of three components: regular student ridership funds, special education student ridership funds, and additional enrollment funds. The regular student ridership funds are based on the prior year's appropriation, adjusted by the greater of the consumer price index (CPI), or 3.0%, whichever is greater, with no more than an 8.0% increase. Language in the Budget Reconciliation Act (BRA) of 2004 would alter this formula to adjust by the CPI with no minimum upwards adjustment. The special education grant provides a grant of \$600 per student requiring special transportation services. Districts experiencing enrollment growth also receive an additional adjustment equal to the increase in student enrollment over the prior year multiplied by the prior year's aid per pupil. The \$5.5 million increase consists of an increase of \$3.7 million (2.5%) in regular student ridership grants and a \$2.3 million (13.9%) in special education ridership grants offset by a \$502,000

¹ For fiscal 2004 the compensatory, special education, and limited English proficiency formulas were calculated for each county based on the higher of the prior and second prior fiscal year eligible student enrollment. Therefore, the number of students funded statewide was actually higher than enrollment in either fiscal year. For fiscal 2005 the calculation is based on the prior year enrollment. The increases referenced are based on the difference between total enrollments funded in fiscal 2004 vs. 2005.

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(23.0%) decrease in additional enrollment grants. The \$3.7 million increase in regular student ridership grants reflects a \$3.0 million reduction contingent upon passage of the change to the formula included in the BRA of 2004.

- ***Governor’s Teacher Salary Challenge (\$2,948,214 Increase):*** Chapters 492 and 493, Acts of 2000 established this program under which the State provided a 1% match to school systems that increased teacher salaries by at least 4.1% in fiscal 2001 and 2002. Other components of the program provided grants to less wealthy school systems. Chapter 420, Acts of 2001 continued the funding through fiscal 2003. The Bridge to Excellence mandated that the funds be phased out by fiscal 2006 as the new Bridge to Excellence formulas significantly increased overall aid to local school systems. The program consists of four components: a percentage component, a wealth adjusted component, a targeted component, and a hold harmless component. In fiscal 2004 only the targeted and hold harmless components were funded. Seven jurisdictions received a total of \$5.3 million.

The fiscal 2005 budget bill contains a total appropriation of \$20.9 million in this program, with a contingent reduction of \$12.6 million. The BRA of 2004 includes a provision that would eliminate the program entirely in fiscal 2004, making the inclusion of the remaining \$8.3 million discretionary if the provision is enacted. The \$8.3 million remaining appropriation would provide jurisdictions that received targeted component funding in fiscal 2004 with equivalent grants in fiscal 2005 and provide a \$3.0 million hold harmless grant to Montgomery County, which will receive \$3.0 million less in the foundation program in fiscal 2005 than in fiscal 2004. The decision to include the remaining \$5.3 million in targeted funding is somewhat curious, given that the program is scheduled to continue phasing out in fiscal 2005. If the targeted component grants were funded according to current statute, only \$2.6 million would be required for this component, bringing total targeted and hold harmless spending to only \$5.6 million. **Appendix 4** shows funding for each jurisdiction under full statutory funding, the Governor’s allowance, and statutory funding of only the targeted and hold harmless components.

- ***Baltimore City-State Partnership (\$7,046,508 Decrease):*** The State provides additional funding to support the restructuring and improvement of the academic achievement and management of Baltimore City schools. The Bridge to Excellence phased out this funding by fiscal 2007.

Other General Fund Changes in Education Aid

Mandated Education Programs

- ***Teachers’ and Librarians’ Retirement (\$20,032,457 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

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the contribution rate established by the retirement system's actuary. Teacher and library retirement costs increase by 5.1% over the fiscal 2004 working appropriation.

- ***State Library Network and Library Formula Aid (\$718,454 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. The State also provides assistance to public libraries through a formula that determines State and local shares of a minimum per capita library program. All of these programs are funded through minimum per capita grants. The increase consists of a \$486,334, or 1.8% increase for local library funding and a \$232,120, or 1.7% increase for the State Library Network.
- ***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 the placement 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.
- ***Nonpublic placements (\$2,188,974 Decrease):*** The State provides funding for students with severe disabilities who are placed in nonpublic day or residential facilities through nonpublic placement special education funding. After accounting for a \$7.0 million fiscal 2004 deficiency appropriation and a \$6.4 million contingent reduction to the fiscal 2005 allowance included in the BRA of 2004, the allowance for this program decreases by \$2.2 million, or 2.0%. The proposed contingent reduction will be further discussed in *Issue 1*.

Discretionary Education Programs

- ***School Technology (\$4,680,000 Decrease):*** The State borrowed money to upgrade computer equipment in schools across the State. The decrease in fiscal 2005 reflects the paying down of the lease agreement for these funds.
- ***School Quality Recognition Programs (\$4,225,000 Decrease):*** The allowance decreases funding for the Challenge Grant program by \$2.0 million, and eliminates \$1.2 million for School Performance Recognition Awards, and \$1.0 million for the Annapolis Feeder School program.
- ***Juvenile Justice Alternative Education Program (\$2,000,000 Decrease):*** Chapter 685, Acts of 2001 required SBE to establish a Juvenile Justice Alternative Education Pilot Program for students who are suspended, expelled, or at risk of being suspended or expelled. The program provides education to students during suspension or expulsion. Chapter 433, Acts of 2003 made the program permanent, specified that it was to be operated by a private entity, and required county governments to pay the basic cost of education for all students at the school to the contractor beginning in fiscal 2006. However, the Governor's allowance eliminates all funding for this program in fiscal 2005. **MSDE should comment on the future of the program.**

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- ***Regional Professional Development Centers (\$334,000 Decrease)***: MSDE indicates that these centers have had mixed success. Fiscal 2004 cost containment reduced the appropriation for this program by half. The fiscal 2005 allowance eliminates the program altogether.

Special, Federal, and Reimbursable Fund Changes

- ***Federal Title I Funding for Disadvantaged Students (\$17,297,896 Decrease)***: Title I funds to local education agencies are one of the major sources of federal education aid. These funds provide assistance to local education agencies in educating economically disadvantaged students. The fiscal 2005 allowance indicates a decrease of almost \$17.3 million in Title I funds. MSDE indicates that this figure is misleading. The fiscal 2004 working appropriation shows greatly overstated funds in this program. The estimates of federal fiscal 2003 funding included in the State fiscal 2004 allowance and appropriation were based on previous years' census poverty data, though NCLB required that these data be updated annually. After the update, Maryland was actually to have lost Title I funding due to decreasing poverty rates. However, Maryland's allocation was held constant at the federal fiscal 2002/State fiscal 2003 level for State fiscal 2004. MSDE is currently working with the Department of Budget and Management to revise the fiscal 2004 working appropriation to reflect actual anticipated federal funds. After accounting for the fiscal 2004 adjustment, the fiscal 2005 allowance estimates reflect a slight increase in federal Title I funds. Though preliminary U.S. Department of Education estimates of federal fiscal 2004 Title I funds show a larger increase for Maryland, MSDE indicates the estimates in the allowance are conservative based on prior years' experience.
- ***Other Federal Fund Sources (\$49,143,126 Increase)***: The fiscal 2005 allowance includes several other federal fund changes. Nutrition programs, including the School Breakfast Program, the School Lunch Program, the School Milk Program, and others, are expected to increase \$34.4 million based on an increase in eligible students. Special education funding increases by \$11.1 million due to increased federal commitment to fund a greater portion of special education costs. Federal aid for science and mathematics instruction is expected to increase by \$5.1 million. Teacher quality grants are estimated to decrease by \$1.4 million, and other miscellaneous federal grants are estimated to decrease by \$121,000.
- ***Special and Reimbursable Funds (\$262,806 Decrease)***: Major changes in reimbursable funds include the addition of \$172,000 in reimbursable funds from the Department of Health and Mental Hygiene (DHMH) for Sexual Abuse Prevention programming. DHMH provided \$143,000 for this purpose in fiscal 2003, but no funds were included in the fiscal 2004 budget. This increase is offset by the elimination of \$418,000 in reimbursable funds, also from DHMH, for community health programming. Other miscellaneous programs have a net decrease of \$17,000.

Issues

1. Proposed Changes to Nonpublic Placement Program Would Shift Significant Costs to Local School Systems

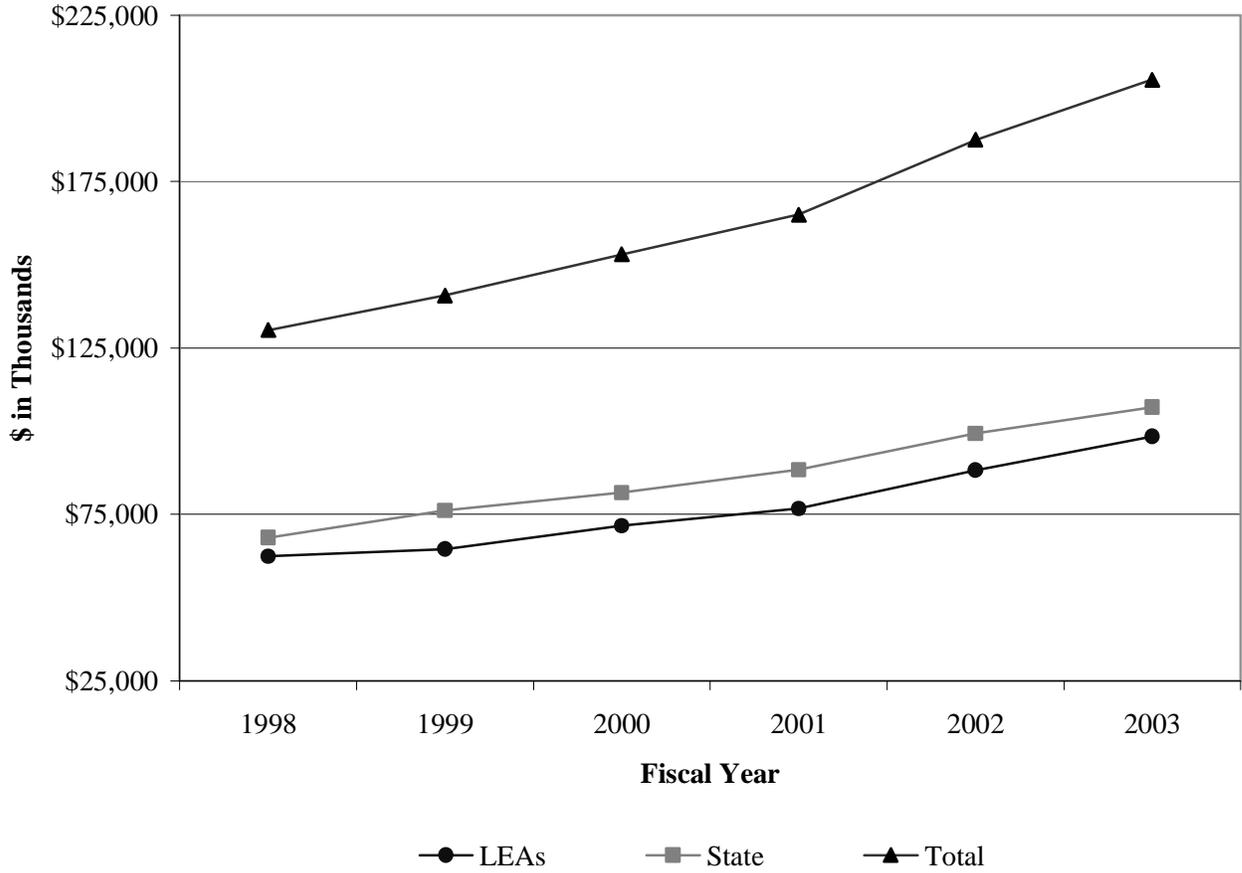
The Budget Reconciliation Act (BRA) of 2004 contains a significant revision to the funding of nonpublic placements. Under current statute, for each nonpublic placement a local school system pays its respective local share of the basic cost of education plus two times the total basic cost of education (commonly referred to as the 300% rule), and 20% of any expense above that sum. The State pays for the remaining 80% of the excess. The proposal would still require local school systems to pay the 300% rule, and shift more of the excess cost to them as well. Local school systems would pay 25% in fiscal 2005, 30% in fiscal 2006, 40% in fiscal 2007, and a full 50% of the excess by fiscal 2008. This proposal would clearly have a dramatic impact on the cost of nonpublic placements to local school systems.

Costs of Nonpublic Placements Increasing

Nonpublic placements have been one of the fastest growing segments of public education in terms of both enrollment and costs. The fiscal 2005 allowance estimates that \$115.2 million will be necessary for nonpublic placements under the current statute in fiscal 2005. The number of nonpublic placements statewide increased by 35% from fiscal 1998 to 2003, at an average annual increase of 6.2%. State spending for nonpublic placements increased by 57.6% over that same time period, and local spending increased by a similar amount as well. **Exhibit 6** demonstrates spending growth over this period. Total spending increased over \$75 million, with local education agency (LEA) spending increasing by \$36 million (48% of the increase) and State spending increasing by \$39 million (52% of the increase).

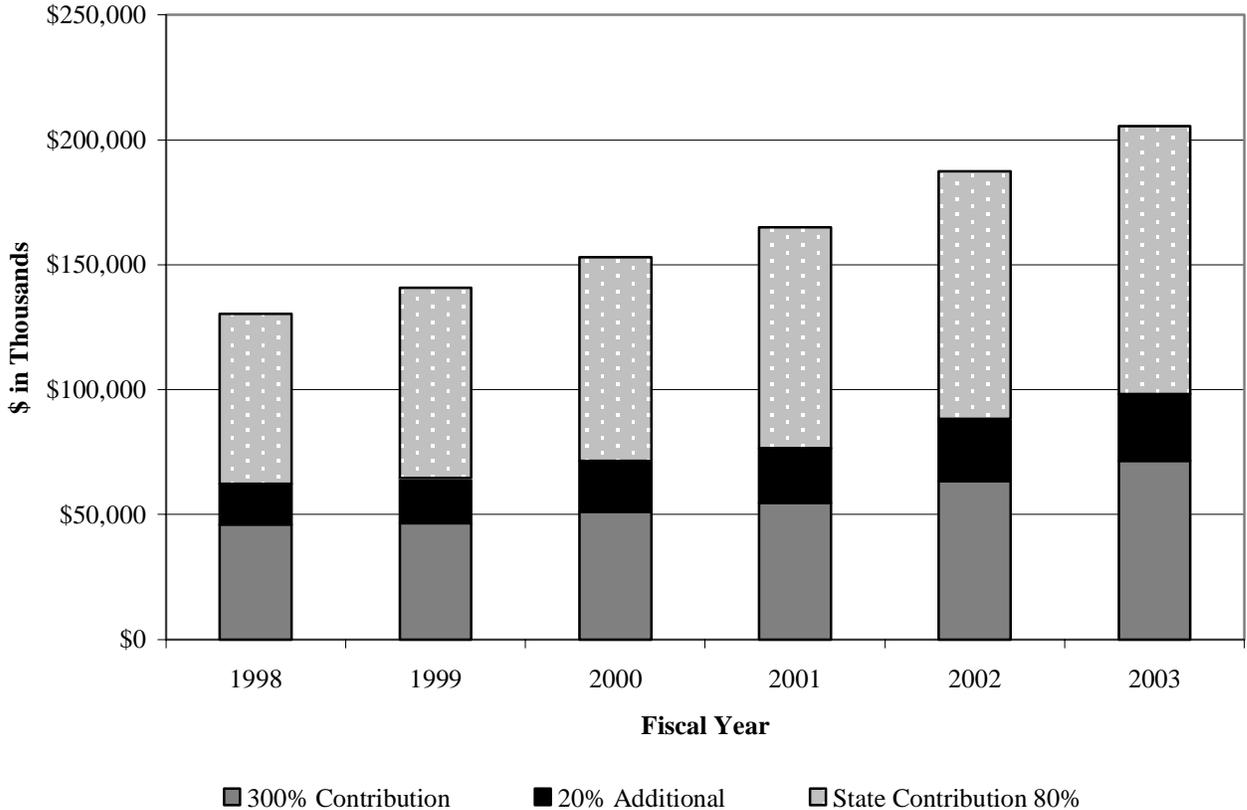
Though the costs of nonpublic placements have been steadily increasing, the proportion of costs borne by the State and local school systems has remained relatively consistent. As shown in Exhibit 6, the State and local school systems share in the costs relatively equally. **Exhibit 7** shows the breakdown of LEA costs by the 300% rule and the additional 20% contribution as well as the State costs. The proportion of funds from each of these sources has remained relatively consistent for the past several years. Local contribution rates under the 300% rule will continue to increase as the Bridge to Excellence Act phases in higher basic costs of education.

Exhibit 6
Growth in Nonpublic Placement Spending
Fiscal 1998 – 2003



Source: Maryland State Department of Education

Exhibit 7
Makeup of Total Nonpublic Placement Spending
Fiscal 1998 – 2003



Source: Maryland State Department of Education

Estimating Nonpublic Placement Costs Difficult

Nonpublic placement costs are difficult to estimate. MSDE has had to request deficiencies in this program for the past several fiscal years due to higher than anticipated spending. Nonpublic placements are mandated for those children with disabilities or emotional disturbances too severe to allow them to function in a public school. Though MSDE is part of the Interagency Rates Committee that sets tuition rates at nonpublic facilities, total costs will be determined by both the number of children receiving nonpublic placements and the level of service these children require. For its out-year projections, MSDE estimates that State costs for nonpublic placements will increase at approximately 6.0% per year under current statute. Estimating local costs is more difficult, because

cost is directly related to the number of placements and the percent local share of basic costs in the jurisdiction. MSDE does not project the total number of placements that will be required, either statewide or by jurisdiction.

Fiscal 2005 Budget May Be Underfunded

The fiscal 2005 allowance includes \$115.2 million, or an increase of approximately 8.1% over estimated fiscal 2004 expenditures (excluding the deficiency appropriation) for the estimated State share of the nonpublic placement program. DLS has raised concerns with the fiscal 2004 estimate, and questions whether an appropriation of \$115.2 million will represent 8.1% growth over actual 2004 expenditures, regardless of whether local jurisdictions pay for part of this cost. Additionally, this figure includes \$2.5 million for special education students at the Charles H. Hickey, Jr. School operated by the Department of Juvenile Services. Excluding this funding, the fiscal 2005 appropriation for current services grows only 5.7% over MSDE's estimated fiscal 2004 expenditures. DLS questions whether MSDE's assumptions about fiscal 2004 and 2005 expenditures are realistic. Even if the proposed policy change is enacted, underestimating fiscal 2004 and 2005 expenditure levels could worsen deficit problems in this program. Accepting a contingent reduction based on these underestimated costs will further exacerbate the problem.

Exhibit 8 presents a possible deficit scenario if expenditures increase by 3.5% in fiscal 2004 and 8.0% in fiscal 2005. These estimates are based on historical rates of growth in this program, and an estimate of the impact of freezing provider rates on overall growth for fiscal 2004. As shown in the exhibit, fiscal 2004 could end with a \$7.0 million deficit if expenditures increase by only 3.5%. If the program then grows at the same rate from fiscal 2004 to 2005 as it did from 2002 to 2003, fiscal 2005 could end with an additional deficit of \$7.1 million. Even taking into account estimated savings from shifting additional costs to LEAs as proposed by the BRA, this program could still have a significant deficit problem over fiscal 2004 and 2005 because the proposal would reduce the fiscal 2005 budget by \$6.4 million contingent on the cost shift. Based on the DLS estimates, this deficit could reach \$13.0 million by the end of fiscal 2005 if the contingent reduction is accepted.

In order to minimize the potential deficit in this program, DLS recommends accepting the cost-share change proposed in the BRA but rejecting the associated contingent reduction. This action would require additional language in the BRA to override the contingent reduction language in the budget bill. DLS further recommends restricting the \$2.5 million proposed for the Hickey School such that it cannot be used to support Hickey School activities. DLS has recommended reducing funding for Hickey School operations and this further restriction is consistent with that recommendation. Based on DLS' estimates, these actions would result in a \$2.8 million surplus in this program for fiscal 2005, which could be applied to reducing the fiscal 2004 deficit, resulting in a cumulative deficit of only \$4.1 million over these two years.

Exhibit 8
Potential Deficit in Nonpublic Placements Program
Fiscal 2004 – 2005

	<u>Actual</u> <u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005 with</u> <u>No BRA and</u> <u>No</u> <u>Contingent</u> <u>Reduction</u>	<u>FY 2005 with</u> <u>BRA and</u> <u>Contingent</u> <u>Reduction</u>	<u>FY 2005 DLS</u> <u>Recommendation</u>
DLS Estimated Cost	\$107,174,672	\$110,925,786	\$119,799,848	\$119,799,848	\$119,799,848
Estimated Growth Rate		3.5%	8.0%	8.0%	8.0%
Appropriation/Allowance		103,967,833	115,157,500	108,762,301	115,157,000
Planned Set Aside for Hickey			-2,500,000	-2,500,000	0
Revised Appropriation			112,657,500	106,262,301	115,157,000
Surplus (Deficit)		-\$6,957,953	-\$7,142,348	-\$13,537,547	-\$4,642,848
Savings from BRA Shifting Costs to Locals*				7,487,491	7,487,491
Revised Surplus (Deficit)			-\$7,142,348	-\$6,050,057	\$2,844,642
Cumulative Surplus (Deficit)			-\$14,100,301	-\$13,008,009	-\$4,113,310

*Estimated savings exceed \$6.4 million contingent reduction because \$6.4 million calculated using lower program costs than DLS estimate.

Source: Department of Legislative Services; Governor's Fiscal 2005 Budget Books

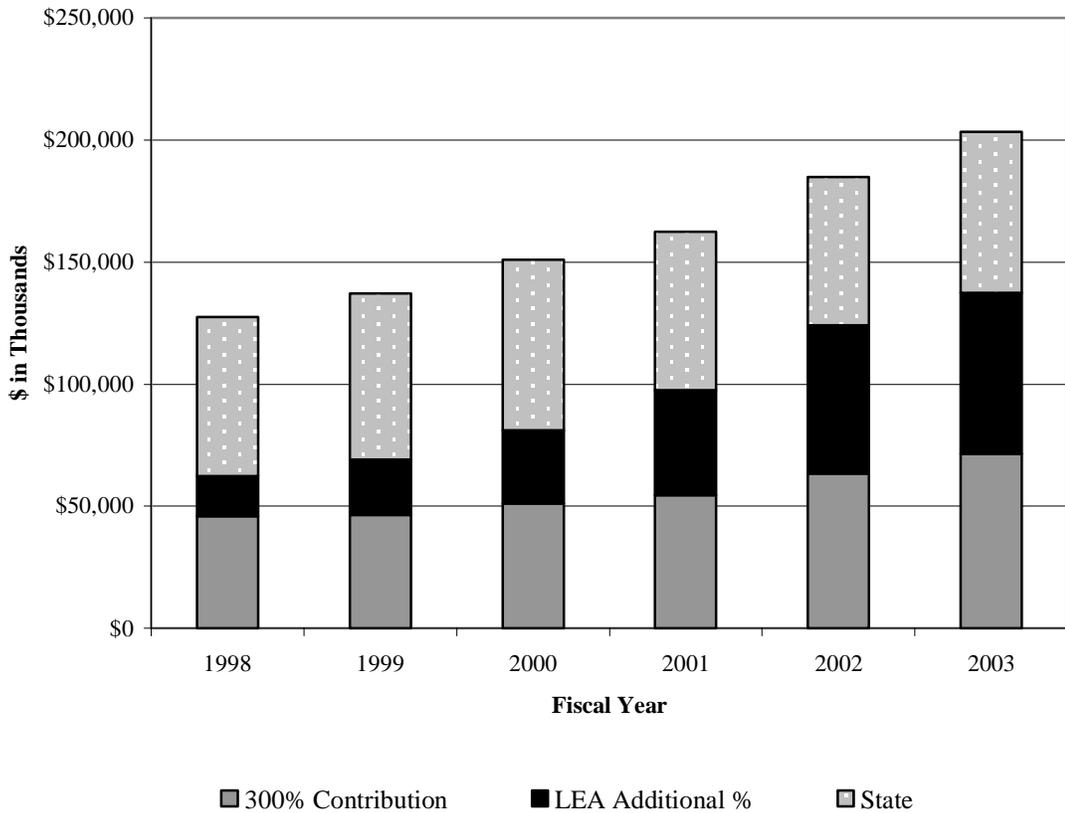
Additionally, it should be considered that language in the Budget Reconciliation and Financing Act of 2003 prohibited increases in provider rates from the fiscal 2003 level in this program unless granted on appeal. For fiscal 2004 MSDE has approved only seven provider rate increases. Fiscal 2005 may see considerable rate increases as providers try to “catch up,” and the assumed 8.1% increase may be even further inadequate. If rates increase dramatically, the proposed BRA change would require local jurisdictions to bear a greater proportion of the increase. **MSDE should comment on whether it expects dramatic provider rate increases for fiscal 2005 and whether these were factored into cost projections for fiscal 2005.**

Providing Perspective on the Proposed Formula Change

Though MSDE does not have the data necessary to project revised State and local costs under the proposed revision, hypothetically applying the change retroactively provides an interesting

comparison. **Exhibit 9** shows the impact this revision would have had from fiscal 1998 to 2003, using actual total placement costs² and local 300% contributions. As can be seen from the exhibit, this impact would have shifted a significant portion of the costs to LEAs. In contrast to the relatively evenly shared costs seen in Exhibits 6 and 7, Exhibit 8 presents a scenario in which LEAs would have paid approximately 60% of total costs over this time period, or an additional \$112.0 million. In fiscal 2003, LEAs would have paid two-thirds of the total cost of nonpublic placements.

Exhibit 9
Makeup of Nonpublic Placement Spending
Hypothetical Phase in of the BRA of 2004 Proposal
Fiscal 1998 – 2003



Source: Maryland State Department of Education; Department of Legislative Services

MSDE should comment on the impact of the proposed change to the nonpublic placements formula on local jurisdictions, especially those with large numbers of nonpublic placements.

² This simulation includes only those placements for which there was both a State and local contribution. Placements that did not qualify for a State contribution are not included.

2. State Superintendent Submits Recommendation for Implementing Geographic Cost of Education Index

The Bridge to Excellence in Public Schools Act included a provision that beginning in fiscal 2005, the State share of the foundation program should be adjusted to account for regional differences in the cost of education. The Act required MSDE to hire a consultant to develop a Maryland-specific geographic cost of education index (GCEI) to account for these differences and provide recommendations on how to apply the index. MSDE contracted with Dr. Dan Goldhaber and Dr. William Duncombe on behalf of the National Conference of State Legislatures. The consultants submitted a final report on December 31, 2003.

The consultants developed a GCEI for Maryland using a hedonic wage model and found variation of 11% between the highest cost and lowest cost districts. This variation means that the same per pupil funding will purchase more education resources in the lower cost district than in the higher cost district. The consultants recommended that, however Maryland decides to implement the GCEI, it should be sure to preserve the entire range of the index to ensure that the adjustments reflect the true differences between jurisdictions. The consultants also recommended that GCEI adjustments not be made to counties that receive minimum aid. The consultants further suggested that Maryland consider adjusting other formulas beyond the foundation program by the GCEI to reflect geographic differences in the cost of education in these programs as well.

The Governor's fiscal 2005 allowance did not include funding for the program. The omission was based upon an opinion from the Attorney General assigned to MSDE that stated that the GCEI funding was not mandated due to the lack of a specific or clearly determinable funding level in the statute. The fiscal committees held a joint hearing on this issue on January 30, 2004. At that hearing, the committees requested that the State Superintendent develop a recommendation on how to apply the GCEI despite the lack of funding in the fiscal 2005 allowance. The State Superintendent submitted her recommendation on February 13, 2004.

The Superintendent made the following recommendations:

- the index should fluctuate over the full range, including upwards and downwards adjustments;
- the index should be applied to the State share of the foundation program prior to the calculation of the minimum guarantee;
- the fiscal impact of the index should be phased in over five years, with different schedules for school systems receiving upward and downward adjustments;
- the State should include a hold harmless provision in the foundation program to preclude a reduction in foundation aid from year to year;
- MSDE staff should annually update the data used to determine the cost index; and
- the index should be reviewed in five years to ensure its continued validity and to consider any new methodologies for calculating GCEIs.

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The Superintendent’s recommendation would have a fiscal impact of \$29.4 million if applied in fiscal 2005. Twelve jurisdictions would receive upward adjustments totaling \$30.7 million, eight would receive downward adjustments of \$1.4 million, and four would remain at the current level. Of the four that remain unadjusted, two would have index values of 1.0 according to the phase-in schedule, and two receive minimum funding grants, and therefore would not receive further adjustments under the recommendation. **Exhibit 10** demonstrates the changes the recommendation would make to the fiscal 2005 foundation grants.

**Exhibit 10
Fiscal Impact of State Superintendent's GCEI Recommendation on
Fiscal 2005 Foundation Program Allocations**

<u>LEA</u>	<u>FY 05 Allowance Foundation</u>	<u>Recommendation 2005 GCEI</u>	<u>Recommendation Foundation</u>	<u>Difference</u>
Allegany	\$32,339,637	0.992	\$32,080,920	-\$258,717
Anne Arundel	138,654,882	1.011	140,180,086	1,525,204
Baltimore City	327,773,987	1.025	335,968,337	8,194,350
Baltimore County	241,586,294	1.005	242,794,225	1,207,931
Calvert	47,313,831	1.013	47,928,911	615,080
Caroline	17,963,092	1.000	17,963,092	0
Carroll	80,871,798	1.008	81,518,772	646,974
Cecil	49,408,575	0.998	49,309,758	-98,817
Charles	73,747,520	1.012	74,632,490	884,970
Dorchester	13,803,779	0.996	13,748,564	-55,215
Frederick	105,526,451	1.014	107,003,821	1,477,370
Garrett	12,924,893	0.990	12,795,644	-129,249
Harford	111,673,135	0.998	111,449,789	-223,346
Howard	97,615,003	1.009	98,493,538	878,535
Kent	4,594,995	1.006	4,622,565	27,570
Montgomery	161,374,508	1.020	164,601,998	3,227,490
Prince George's	412,137,212	1.029	424,089,191	11,951,979
Queen Anne's	15,496,103	1.007	15,604,576	108,473
St. Mary's	45,473,504	1.000	45,473,504	0
Somerset	9,495,838	0.995	9,448,359	-47,479
Talbot	5,092,647	0.998	5,092,647	0
Washington	57,366,603	0.995	57,079,770	-286,833
Wicomico	44,583,972	0.994	44,316,468	-267,504
Worcester	7,748,563	0.992	7,748,563	0
Total	\$2,114,566,822		\$2,143,945,588	\$29,378,766
Total Upward Adjustments				30,745,926
Total Downward Adjustments				-1,367,160

Note: Index Values represent the recommendation that values be phased in. Upward adjustments represent 60% of the adjustment; downward adjustments represent 20% of the adjustment.

Source: Maryland State Department of Education

MSDE should comment on how it developed this recommendation and provide the estimated fiscal impact of this recommendation on future year foundation grant estimates.

3. Comprehensive Master Plans Submitted – How Local Education Agencies Plan to Use Bridge to Excellence Funding Enhancements

The Bridge to Excellence Act required each LEA to submit a comprehensive master plan describing the goals, objectives, and strategies the LEA will use to improve student achievement and meet State performance goals. The plans included a description of how the LEA's budget aligned with these goals and strategies. The plans were submitted in October 2003 and all have now been approved by the State Superintendent. A review of the plans reveals similar strategies for spending the funding enhancements provided through the Bridge to Excellence Act.

Not surprisingly, personnel expenses will account for the bulk of the increase. Fifteen jurisdictions plan to increase teacher salaries and benefits. Eighteen plans reference the need for additional personnel to decrease class size, keep up with growing enrollments, and expand services to special populations or some combination of these needs. Several of these plans include the addition of student support personnel, including counselors, tutors, learning specialists, and instructional assistants. Eight jurisdictions intend to offer additional professional development, continuing education, and mentoring programs to their staff.

Eleven jurisdictions indicate that they intend to purchase new instructional materials and technology equipment. Three jurisdictions include plans to adopt a new curriculum or the State voluntary curriculum. Two plans include the development of academic intervention programs for students needing extra remediation or assistance. Some plans state that the increases will only be sufficient to meet existing needs and those created by increasing enrollments and will not allow for development of any new initiatives or programs. One plan even states that in order to fund planned increases and new initiatives, the jurisdiction will have to reduce other operating expenses and continue a hiring freeze at least through fiscal 2004.

MSDE should comment on how it will evaluate the effectiveness of the strategies outlined in the master plans to ensure that additional resources are targeted to areas proven to improve student achievement. MSDE should also comment on whether LEAs should be required to document each year how increases in State and county funding align with their master plans.

4. Continued Implementation of Bridge to Excellence Major Factor in Ongoing Structural Deficit

The Bridge to Excellence calls for an increase of \$1.5 billion, or 44.8% in education aid from fiscal 2004 to 2008, prior to considering any of the Governor's proposed fiscal 2005 contingent reductions. These increases will represent annual growth of 9.0 to 10.2%. **Exhibit 11** demonstrates that these increases far outpace the DLS forecast for total operating spending, which is predicted

Exhibit 11
Aid to Education as a Percent of Total General Fund Operating Expenses
Fiscal 2004 and 2008
(\$ in Millions)

	<u>FY 2004</u>	<u>FY 2008</u>	<u>Increase</u> <u>FY 04-08</u>	<u>%</u> <u>Increase</u>
Operating Spending	\$10,251	\$13,693	\$3,442	33.6%
Bridge to Excellence	\$3,320	\$4,806	\$1,486	44.8%
Total Education Aid	\$3,369	\$4,859	\$1,490	44.2%

Source: Department of Legislative Services

to increase by 33.6% over the same period, again prior to implementation of any of the fiscal 2005 contingent reductions. Aid for education in Bridge to Excellence programs alone, not including discretionary aid, funding for retirement payments, and library aid, will account for a large and growing percentage of total operating increases over this time period, up to 47.5% from fiscal 2007 to 2008. Adding in the additional aid programs increases these percentages slightly.

This analysis assumes full implementation of the Bridge to Excellence funding. A provision in the Bridge to Excellence required that the General Assembly pass a joint resolution by the fiftieth day of the 2004 session affirming the affordability of the Bridge to Excellence in future years. If this resolution is not passed, annual increases in education aid will average approximately 5.0%. Over the entire period, annual education spending would increase by \$700 million by fiscal 2008 instead of \$1.5 billion as called for in the original Bridge to Excellence Plan. To date, no joint resolution has been introduced. The House of Delegates has passed legislation that would remove the joint resolution requirement from the statute. The legislation is under consideration by the Senate.

The impact of the increases called for in the Bridge to Excellence on the State's structural deficit is clear when compared to estimated ongoing revenues, again prior to considering any potential one-time or new ongoing revenue sources. **Exhibit 12** demonstrates that full implementation of the Bridge to Excellence and other education increases will consume an increasing and overwhelming percentage of expected revenue increases, including 100% of expected revenue growth from fiscal 2007 to 2008. Over the four year period, increases in education aid will consume 81% of total revenue increases.

Exhibit 12
Education Increases as a Percent of Ongoing Revenue Increases
Fiscal 2004 – 2008
(\$ in Millions)

	<u>FY 04-05</u>	<u>FY 05-06</u>	<u>FY 06-07</u>	<u>FY 07-08</u>	<u>Increase FY 04-08</u>
Increase in Ongoing Revenues	\$535	\$439	\$437	\$430	\$1,841
Bridge to Excellence	\$325	\$370	\$362	\$429	\$1,486
% Total Increase	60.7%	84.3%	82.8%	99.8%	80.7%
Total Education Aid	\$346	\$351	\$363	\$430	\$1,490
% Total Increase	64.7%	80.0%	83.1%	100.0%	80.9%

Source: Department of Legislative Services

In order to reduce the impact of education aid on future budgets, the General Assembly may wish to consider extending full implementation of the Bridge to Excellence legislation. **Exhibit 13** demonstrates two options for extending full implementation over an additional two or four years. The exhibit assumes that the proposed extensions would begin to be implemented in fiscal 2005.

As shown in the exhibit, beginning a two-year extension in fiscal 2005 could save \$83 million, and beginning a four-year extension could save \$125 million in fiscal 2005. Annual increases in education aid would be either 6.0% or 7.3% per year throughout the phase-in period. In fiscal 2008 funding requirements would be \$412 million lower under the two year extension and \$614 million lower under the four-year extension.

MSDE should discuss, as specifically as possible, the impact implementing these extension strategies would have on local education agency plans to improve student achievement.

Exhibit 13
Bridge to Excellence Extension Scenarios

Fiscal 2004 – 2012

(\$ in Millions)

	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
Full Implementation	\$3,320	\$3,645	\$4,015	\$4,377	\$4,806	\$4,933	\$5,056	\$5,167	\$5,294
% Increase Over Prior Year		9.8	10.2	9.0	9.8	2.6	2.5	2.2	2.4
Two-year Extension	\$3,320	\$3,561	\$3,820	\$4,097	\$4,395	\$4,714	\$5,056	\$5,167	\$5,294
% Increase Over Prior Year		7.3	7.3	7.3	7.3	7.3	7.3	2.2	2.4
State Savings		\$83	\$195	\$279	\$412	\$219	\$0	\$0	\$0
Four-year Extension	\$3,320	\$3,520	\$3,731	\$3,955	\$4,192	\$4,444	\$4,711	\$4,994	\$5,294
% Increase Over Prior Year		6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
State Savings		\$125	\$284	\$422	\$614	\$489	\$345	\$173	\$0

Note: The estimates do not include any costs to recognize regional differences in the cost of educational resources.

Source: Department of Legislative Services

5. Baltimore City Public School System Facing \$58 Million Deficit – Advance of Future State Aid Proposed

Since fiscal 2002, the Baltimore City Public School System (BCPSS) has accumulated a deficit of approximately \$58 million. This deficit has created an equivalent cash flow problem in fiscal 2004. The situation worsened earlier in the year when the Baltimore City teachers' union rejected a \$16 million cost containment plan that would have reduced teacher salaries by 7% for the remainder of the fiscal year.

On February 17, 2004, the Governor pledged to advance the BCPSS \$42 million in fiscal 2005 State aid as a loan in fiscal 2004. This loan is expected to be submitted to the legislature as a supplemental deficiency appropriation. These funds, combined with loans of \$8 million each from the City of Baltimore and the Abell Foundation, will cover the fiscal 2004 cash flow problem. In exchange, the Governor is requiring BCPSS to submit a plan for solvency that will ensure that BCPSS is financially and academically viable and that the funds are repaid by the end of fiscal 2005.

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MSDE should comment on how the funds will be advanced to BCPSS in fiscal 2004, including the source of the funds and the plan for repayment of the funds. MSDE should also comment on the accountability plan submitted to the Governor by BCPSS. MSDE should also comment on its role in ensuring that BCPSS meets the terms of its accountability plan, resolves its structural deficit problem as quickly as possible, and repays the loan in full and on schedule.

Recommended Actions

1. Amend the following language:

, provided that this appropriation shall be reduced by ~~\$12,632,536~~ \$20,894,314 contingent upon the enactment of legislation reducing the amount of the grant.

Explanation: This amendment would eliminate all funding for this program contingent upon enactment of legislation to reduce the amount of the grant, which is scheduled to expire in fiscal 2006 under current law.

2. Add the following language:

, provided that this appropriation shall be reduced by \$4,815,425 contingent upon the enactment of legislation to reduce the appropriation for the Extended Elementary Education Program beginning in fiscal 2005.

Explanation: This language would reduce the appropriation for the Extended Elementary Education Program (EEEP) by 25% contingent upon enactment of legislation. EEEP is scheduled to expire in fiscal 2008. Accelerating the phase out of this program will help to address the ongoing structural imbalance in the State budget and the need to fund other education priorities that are ongoing components of the Bridge to Excellence framework.

3. Add the following language:

, provided that none of this appropriation may be expended for special education services at the Charles H. Hickey, Jr. School.

Explanation: This language would prohibit the expenditure of nonpublic placement funds for services to special education students at the Charles H. Hickey, Jr. School operated by the Department of Juvenile Services (DJS). This restriction is consistent with the intent that funding for education programs at the Charles H. Hickey, Jr. School be reduced. These funds should not be eliminated from the nonpublic placements program due to the likelihood of a deficit in this program in fiscal 2005.

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4. Add the following language:

. provided that this appropriation shall be reduced by \$2,300,000 contingent upon enactment of legislation altering eligibility for the Quality Teacher Incentives program by providing a \$4,000 stipend to a teacher who holds a professional certificate or a resident teacher certificate working in a school identified as in need of improvement, under corrective action or a restructured school if the school makes adequate yearly progress for two years while the teacher is employed at the school.

Explanation: This language would reduce the appropriation for this program by \$2.3 million contingent upon enactment of legislation that would alter eligibility for the Quality Teacher Incentives program. The current law provides a \$2,000 stipend to all teachers with advanced professional certificates teaching in reconstitution, reconstitution-eligible, and challenge schools. House Bill 162 would provide a \$4,000 stipend to teachers with advanced professional certificates teaching in schools in need of improvement, under corrective action, or restructured schools that make adequate yearly progress for two consecutive years while the teacher is employed at the school. This change is estimated to result in \$2.3 million in savings for fiscal 2005 if enacted.

	<u>Amount Reduction</u>
5. Delete funds for the Maryland’s Tomorrow dropout prevention program. This program is funded through the federal Temporary Assistance for Needy Families (TANF) block grant. Due to an estimated shortfall in TANF funds for human services programs, these funds should be redirected to address these needs. The Maryland State Department of Education indicates that school systems are linking dropout prevention strategies with other student achievement initiatives. Given the large increases in State aid for education, local school systems can fund dropout prevention initiatives through other fund sources.	\$ 5,731,335 FF
Total Federal Fund Reductions	\$ 5,731,335

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 2003					
Legislative Appropriation	\$3,115,832	\$41,880	\$584,253	\$480	\$3,742,445
Deficiency Appropriation	4,363	0	0	0	4,363
Budget Amendments	1,050	79,931	118,585	242	199,808
Cost Containment	-134	0	0	0	-134
Reversions and Cancellations	-1,454	-191	-71,932	-45	-73,622
Actual Expenditures	\$3,119,657	\$121,620	\$630,906	\$677	\$3,872,860
Fiscal 2004					
Legislative Appropriation	\$3,353,261	\$250	\$682,553	\$563	\$4,036,627
Cost Containment	-3,037	0	0	0	-3,037
Budget Amendments	0	0	8	0	8
Working Appropriation	\$3,350,224	\$250	\$682,561	\$563	\$4,033,598

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

Fiscal 2003

The fiscal 2003 appropriation saw significant revision over the fiscal year, primarily in federal funds. Federal fund amendments totaled \$118.6 million, with \$71.9 million either carried forward according to federal grant agreements or cancelled due to unattained funds. Major changes included the following:

- increase of \$39.3 million for teacher quality programs;
- increase of \$32.2 million for economically disadvantaged children under Title I;
- increase of \$10.7 million for students with disabilities;
- increase of \$8.7 million for school technology programs;
- increase of \$5.2 million for enhancement of rural and inner city community learning opportunities and drug and violence prevention;
- increase of \$4.4 million for innovative programs to prevent drug abuse and violence, educate homeless children, and provide meaningful education reform;
- increase of \$4.0 million for federal class size initiatives;
- increase of \$3.8 million for English language acquisition programs;
- increase of \$3.1 million for career and technology education;
- increase of \$2.6 million for adult continuing education and literacy training; and
- increase of \$1.8 million for library aid.

There were also minor adjustments to federal aid for programs for gifted and talented students, environmental education, and math and science initiatives.

Special funds increased by \$79.9 million due to the addition of revenue from a one-cent increase in the tobacco tax for the Bridge to Excellence Fund. Local education agencies received \$64.0 million of this through the foundation program. Prince George's County received an additional \$10.0 million, \$4.8 million supported the Maryland Infants and Toddlers Program, and \$1.1 million supported adult education and literacy programs.

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General fund revenues also increased by \$1.0 million, due to the transfer of funds from the MSDE Headquarters budget for the Juvenile Justice Alternative Education Pilot program and the Head Start program. Significant reversions included \$470,746 in the Out-of-County Living Arrangement program and \$611,043 in the Quality Teacher Incentives Program. Both of these programs had less than anticipated demand.

Fiscal 2004

Cost containment reduced the fiscal 2004 legislative appropriation by \$3.0 million. All reductions were made in non-mandated programs. Federal funds increased by \$8,456 due to a supplemental grant to provide integrated English literacy and civics education to immigrants and other limited English proficient populations.

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

<u>Object/Fund</u>	<u>FY03 Actual</u>	<u>FY04 Working Appropriation</u>	<u>FY05 Allowance</u>	<u>FY04 - FY05 Amount Change</u>	<u>Percent Change</u>
Objects					
02 Technical & Spec Fees	\$ 135,599	\$ 0	\$ 0	\$ 0	0.0%
08 Contractual Services	597,183	0	0	0	0.0%
09 Supplies & Materials	1,254	0	0	0	0.0%
12 Grants, Subsidies, Contracts	3,872,036,312	4,033,598,668	4,414,744,532	381,145,864	9.4%
14 Land & Structures	89,923	0	0	0	0.0%
Total Objects	\$ 3,872,860,271	\$ 4,033,598,668	\$ 4,414,744,532	\$ 381,145,864	9.4%
Funds					
01 General Fund	\$ 3,119,657,078	\$ 3,350,224,444	\$ 3,699,787,884	\$ 349,563,440	10.4%
03 Special Fund	121,620,115	250,000	241,374	-8,626	-3.5%
05 Federal Fund	630,905,947	682,561,044	714,406,274	31,845,230	4.7%
09 Reimbursable Fund	677,131	563,180	309,000	-254,180	-45.1%
Total Funds	\$ 3,872,860,271	\$ 4,033,598,668	\$ 4,414,744,532	\$ 381,145,864	9.4%

Note: The fiscal 2004 appropriation does not include deficiencies, and the fiscal 2005 allowance does not reflect contingent reductions.

**Fiscal Summary
MSDE – Aid to Education**

<u>Unit/Program</u>	<u>FY03 Actual</u>	<u>FY04 Legislative Appropriation</u>	<u>FY04 Working Appropriation</u>	<u>FY03 - FY04 % Change</u>	<u>FY05 Allowance</u>	<u>FY04 - FY05 % Change</u>
01 State Share of Basic Current Expenses	\$ 1,838,257,821	\$ 2,013,431,102	\$ 2,013,431,102	9.5%	\$ 2,114,566,822	5.0%
02 Compensatory Education	0	371,192,725	370,060,486		507,359,864	37.1%
03 Aid for Local Employees Fringe Benefits	362,292,033	391,585,761	391,585,761	8.1%	411,618,218	5.1%
04 Children at Risk	16,474,335	20,992,615	20,992,615	27.4%	20,262,745	-3.5%
05 Formula Programs for Specific Populations	5,865,615	6,863,043	6,863,043	17.0%	7,263,043	5.8%
07 Students with Disabilities	191,507,771	224,274,678	225,406,917	17.7%	278,003,636	23.3%
08 Assist State Educating Students with Disabilities	224,146,313	246,725,000	246,725,000	10.1%	257,819,625	4.5%
09 Gifted and Talented	6,541,592	534,829	534,829	-91.8%	954,829	78.5%
10 Environmental Education	113,779	0	0	-100.0%	51,000	
11 Disruptive Youth	2,467,655	3,601,655	2,000,000	-19.0%	0	-100.0%
12 Educationally Deprived Children	155,336,705	173,250,259	173,250,259	11.5%	155,943,737	-10.0%
13 Innovative Programs	46,835,798	20,081,868	19,976,868	-57.3%	20,471,188	2.5%
14 Adult Continuing Education	11,135,927	10,726,807	10,695,263	-4.0%	9,962,240	-6.9%
15 Language Assistance	3,794,732	4,103,842	4,103,842	8.1%	4,995,834	21.7%
18 Career and Technology Education	16,618,733	17,106,070	17,106,070	2.9%	16,102,493	-5.9%
20 Baltimore City Partnership Funding	70,465,079	28,186,032	28,186,032	-60.0%	21,139,524	-25.0%
22 Compensatory Education and SAFE Funding	269,331,735	0	0	-100.0%	0	0%
23 Class Size Initiative	28,899,041	0	0	-100.0%	0	0%
24 Limited English Proficient	0	38,870,353	38,870,353		51,298,591	32.0%
25 Guaranteed Tax Base	0	0	0	0%	19,131,737	
27 Food Services Program	145,693,863	147,894,083	147,894,083	1.5%	182,281,941	23.3%
31 Public Libraries	29,415,926	29,226,188	29,226,188	-0.6%	29,679,432	1.6%
32 State Library Network	12,557,844	13,944,964	13,944,964	11.0%	14,177,084	1.7%
39 Transportation	138,868,799	167,009,034	167,009,034	20.3%	175,534,529	5.1%
45 School Building Construction Aid	89,862,347	0	0	-100.0%	0	0%
52 Science and Mathematics Education Initiative	949,916	41,148,366	883,139	-7.0%	6,020,291	581.7%
53 School Technology	24,105,480	18,021,602	18,021,602	-25.2%	13,608,313	-24.5%
54 School Quality, Accountability and Recognition	21,892,086	19,999,427	19,793,427	-9.6%	15,568,427	-21.3%

55 Teacher Development	54,515,055	8,968,000	48,149,227	-11.7%	46,460,075	-3.5%
56 Governor's Teacher Salary Challenge Program	72,274,548	5,313,564	5,313,564	-92.6%	20,894,314	293.2%
57 Transitional Education Funding Program	29,639,743	10,575,000	10,575,000	-64.3%	10,575,000	0%
58 Head Start	3,000,000	3,000,000	3,000,000	0%	3,000,000	0%
Total Expenditures	\$ 3,872,860,271	\$ 4,036,626,867	\$ 4,033,598,668	4.2%	\$ 4,414,744,532	9.4%
General Fund	\$ 3,119,657,078	\$ 3,353,261,099	\$ 3,350,224,444	7.4%	\$ 3,699,787,884	10.4%
Special Fund	121,620,115	250,000	250,000	-99.8%	241,374	-3.5%
Federal Fund	630,905,947	682,552,588	682,561,044	8.2%	714,406,274	4.7%
Total Appropriations	\$ 3,872,183,140	\$ 4,036,063,687	\$ 4,033,035,488	4.2%	\$ 4,414,435,532	9.5%
Reimbursable Fund	\$ 677,131	\$ 563,180	\$ 563,180	-16.8%	\$ 309,000	-45.1%
Total Funds	\$ 3,872,860,271	\$ 4,036,626,867	\$ 4,033,598,668	4.2%	\$ 4,414,744,532	9.4%

Note: The fiscal 2004 appropriation does not include deficiencies, and the fiscal 2005 allowance does not reflect contingent reductions.

**Governor's Teacher Salary Challenge
Fiscal 2005 Funding Scenarios**

<u>LEA</u>	<u>Full Statutory Funding</u>	<u>Governor's Allowance</u>	<u>Statutory Funding of Hold Harmless and Targeted Components</u>
Allegany	\$408,459	\$375,874	\$187,937
Anne Arundel	1,138,184		
Baltimore City	3,782,067	3,549,296	1,774,648
Baltimore County	1,796,203		
Calvert	132,721		
Caroline	155,390	197,174	98,587
Carroll	468,987		
Cecil	568,897	568,467	284,234
Charles	432,022		
Dorchester	43,127		
Frederick	616,485		
Garrett	86,291		
Harford	673,682		
Howard	833,477		
Kent	41,513		
Montgomery	5,918,217	2,961,776	2,961,776
Prince George's	2,278,413		
Queen Anne's	104,947		
St. Mary's	257,074		
Somerset	112,377	107,130	53,565
Talbot	64,877		
Washington	345,795		
Wicomico	523,635	502,061	251,030
Worcester	111,474		
Total	\$20,894,314	\$8,261,778	\$5,611,777

Source: Maryland State Department of Education, Governor's Fiscal 2005 Budget Books