

**R00A02**  
**Aid to Education**  
Maryland State Department of Education

***Operating Budget Data***

(\$ in Thousands)

	<u>FY 06</u> <u>Actual</u>	<u>FY 07</u> <u>Working</u>	<u>FY 08</u> <u>Allowance</u>	<u>FY 07-08</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$4,028,257	\$4,498,157	\$5,187,424	\$689,267	15.3%
Special Fund	45	0	0	0	
Federal Fund	735,470	777,185	728,170	-49,015	-6.3%
Reimbursable Fund	<u>348</u>	<u>619</u>	<u>572</u>	<u>-47</u>	<u>-7.5%</u>
<b>Total Funds</b>	<b>\$4,764,119</b>	<b>\$5,275,960</b>	<b>\$5,916,166</b>	<b>\$640,206</b>	<b>12.1%</b>

- The fiscal 2008 Aid to Education budget allowance contains a \$689.3 million, or 15.3% general fund increase over the fiscal 2007 working appropriation. Most of the increase stems from the final year of phasing in the formulas in the 2002 Bridge to Excellence in Public Schools Act. Retirement costs for teachers and librarians increase by \$122.6 million, with \$78.1 million attributable to the enhancement enacted in Chapter 110 of 2006.
- Other increases in general funds include funding for students in the nonpublic placement program, aid to public libraries, and Literacy Works grants for adult education programs.
- Offsetting the rise in general funds in the allowance is a \$49.0 million decline in federal funds. The decline is exaggerated by the inclusion of \$27.3 million in fiscal 2006 funds carried over to the fiscal 2007 working appropriation and overbudgeted federal funds in some programs in fiscal 2007.

***Analysis in Brief***

**Major Trends**

***Student Performance Continues to Improve Overall, but Achievement Gaps Persist:*** In the fourth year of measuring adequate yearly progress, as required by the No Child Left Behind Act (NCLB), both reading and math proficiency results improved for students. While some achievement gaps have narrowed during the last four years, other trends have proven more difficult to reverse.

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

For further information contact: Susan M. Werthan

Phone: (410) 946-5530

The Maryland State Department of Education (MSDE) should discuss the difference in proficiency rates among grade levels, especially between third grade and eighth grade students, and among subgroups of students.

***Progress in Placing Highly Qualified Teachers, but Short of NCLB Requirements:*** Improvement was made in 2006 in the percentage of classes taught by highly qualified teachers. However, no local education agency (LEA) has placed highly qualified teachers in 100% of core classes, which is required by the end of the 2006-2007 school year. **MSDE should discuss the disparity between the percentage of highly qualified teachers in low-income and high-income schools and strategies directed to improving the percentage of highly qualified teachers in low-income classrooms.**

## Issues

***How Local School Systems Use Education Funds:*** In December 2006, MSDE approved the comprehensive master plan updates, including spending plans, submitted by the State's 24 local school systems. For the first time, MSDE approved the plans for all of the State's school systems. **MSDE should comment on the 2006 master plan updates, spending plans, and the trends in school systems' use of their education funding.**

***State Education Aid Higher Than Anticipated in Fiscal 2008:*** Direct State aid for education, excluding State-aid retirement costs, increases by \$566.7 million in fiscal 2008, a 12.3% increase over fiscal 2007 State aid. The increase is approximately \$100.0 million more than projected a year ago by MSDE and the Department of Legislative Services (DLS). Consequently, LEAs will receive \$100.0 million more in State education aid in fiscal 2008 than they anticipated.

***Budget Amendment Proposes Substantial Increase to Fiscal 2007 Appropriation:*** MSDE submitted a budget amendment received by DLS in December that requested the addition of \$35.1 million to the Aid to Education and MSDE headquarters budgets. **MSDE should discuss why the federal funds were not carried forward immediately at the close of fiscal 2006.**

## Recommended Actions

	<u>Funds</u>
1. Delete funding for the Environmental Education program.	\$ 1,700,000
2. Reduce funding for Quality Teacher Incentives.	1,700,000
3. Delete funding for the Governor's Teacher Excellence Award program.	100,000
4. Add budget bill language to require a report on the distribution of Environmental Education funding.	
<b>Total Reductions</b>	<b>\$ 3,500,000</b>

## **Updates**

***Moratorium on State Takeover of 11 Baltimore City Schools:*** In March 2006, MSDE voted to require significant changes to the governance and structures of seven middle schools in Baltimore City and to have a third party manage four high schools in the city under the direction of the State board. In Chapter 59 of 2006 the General Assembly placed a one-year moratorium on State-imposed school restructuring in Baltimore City. The prohibition terminates on May 30, 2007.

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***Operating Budget Analysis***

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**Program Description**

State and local governments share responsibility for Maryland's public schools. In 2002 the State's Commission on Education Finance, Equity, and Excellence recommended, and the legislature approved, altering and enhancing the distribution of State aid to education. The new distribution system phases in from fiscal 2003 through 2008. Beginning in fiscal 2009, funding adjustments will be determined by changes in enrollment and inflation.

The Bridge to Excellence in Public Schools Act, commonly referred to as "Thornton," requires enhanced funding between fiscal 2003 and 2008. School systems receive a basic per pupil funding amount through the foundation program. Additional funding formulas provide supplemental aid for students with special needs – students with disabilities, students eligible for free and reduced price meals (FRPM), and students with limited English proficiency (LEP). 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 is held accountable for achieving goals and student outcome measurements outlined in its Comprehensive Master Plan, which is updated annually.

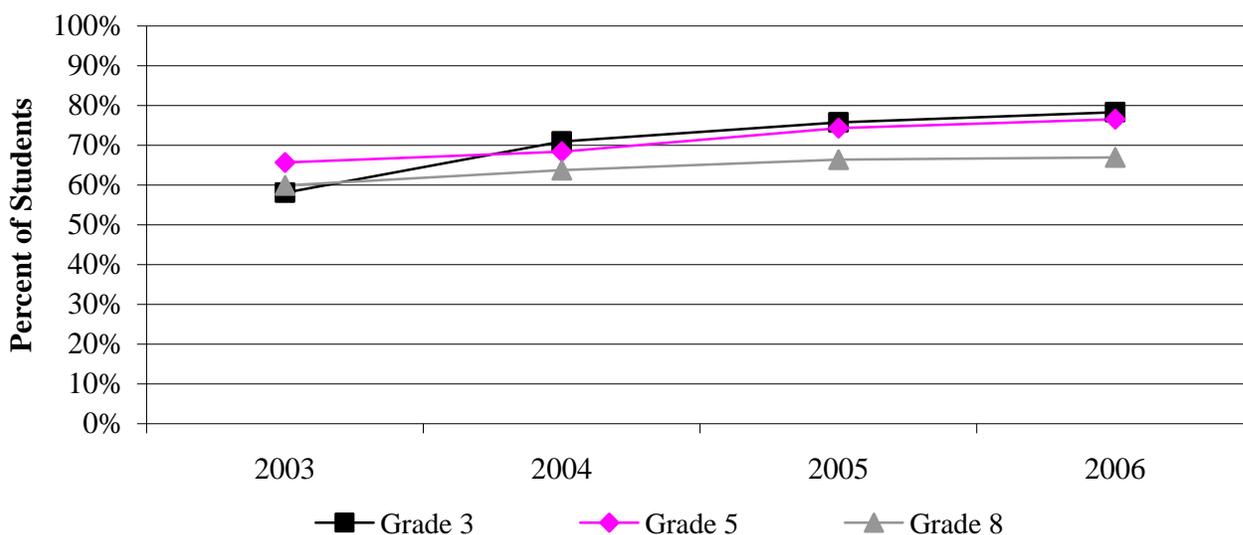
In addition to funding for public education, the Maryland State Department of Education (MSDE) is responsible for the general direction and control of library development in Maryland. The State provides support for the State Library Resource Center and several regional resource centers. State library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

**Performance Analysis: Fourth Year of Measuring Adequate Yearly Progress**

The No Child Left Behind Act (NCLB) established a goal of 100% student proficiency in reading and mathematics by the 2013-2014 school year. The State sets the proficiency standards for students and establishes intermediate performance targets for each school year prior to 2014. Student proficiency is measured annually on the Maryland School Assessments (MSAs) in grades three through eight and also on the end-of-course High School Assessments (HSAs). The performance data must be disaggregated into eight subgroups of students: African American; American Indian; Asian/Pacific Islander; Hispanic; White; special education; FRPM; and LEP. The combination of scores on MSAs with attendance rates and the scores on HSAs with graduation rates determines whether a school, a school system, and the State as a whole make adequate yearly progress (AYP) toward 100% proficiency.

**Exhibit 1** shows the trend of MSA reading results from 2003 to 2006 for grades three, five, and eight. Since the tests began in 2003, reading scores have shown yearly improvement, most markedly for third grade students, whose proficiency rates have jumped 20.2 percentage points to 78.3% in 2006. Although eighth grade students exhibited slightly higher reading proficiency rates than third grade students in 2003, eighth grade students have fallen farther behind younger students each year, lagging behind third grade students by 11.3 percentage points in 2006.

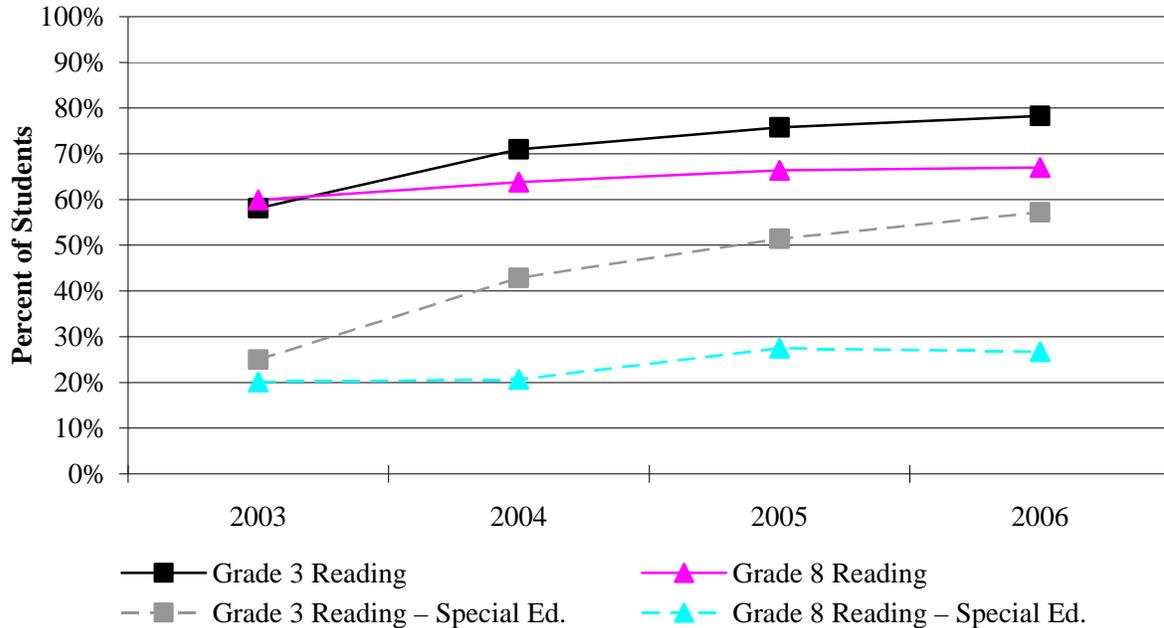
**Exhibit 1**  
**MSA Reading Proficiency Trend**



Source: Maryland State Department of Education

When proficiency rates are disaggregated, several subgroups perform at a lower level than the overall proficiency rate. As an example of the achievement gap that exists for some subgroups, **Exhibit 2** shows the MSA reading results for special education students in grades three and eight. Results for third grade students have risen steadily to 57.2% proficiency in 2006, a 32.2 percentage point gain since 2003. However, in 2006, those results remain 21.2 percentage points below those for other third grade students. While the achievement gap has narrowed for third grade special education students, the gap is widening for eighth grade students, whose 26.7% proficiency rate is 40.3 percentage points below the overall eighth grade rate. Similar trends exist for LEP and FRPM students, with the narrowing of achievement gaps exhibited more at the lower grade levels.

**Exhibit 2  
MSA Reading Proficiency Trend**

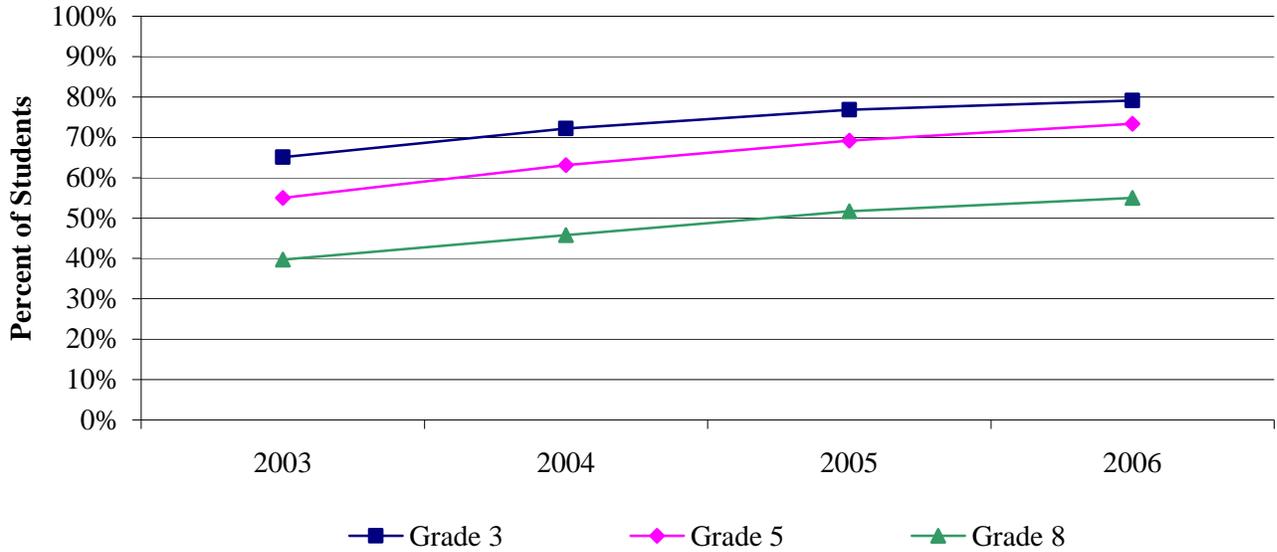


Source: Maryland State Department of Education

**Exhibits 3 and 4** show similar MSA trends for math from 2003 to 2006. As shown in Exhibit 3, overall proficiency rates have improved each year, and third grade students demonstrated the highest math proficiency in 2006, at 79.1%. The difference between third grade and eighth grade performance is greater in math than in reading, with a 24.1 percentage point difference in 2006. Comparing math proficiency rates for FRPM students with overall rates, MSA results show that the achievement gap for eighth grade students has remained steady. Just 31.6% of FRPM students demonstrated math proficiency in 2006, which is 23.4 percentage points below eight grade students overall. However, the achievement gap for third grade students has narrowed since 2003, from close to 20 percentage points in 2003 to approximately 14 percentage points in 2006.

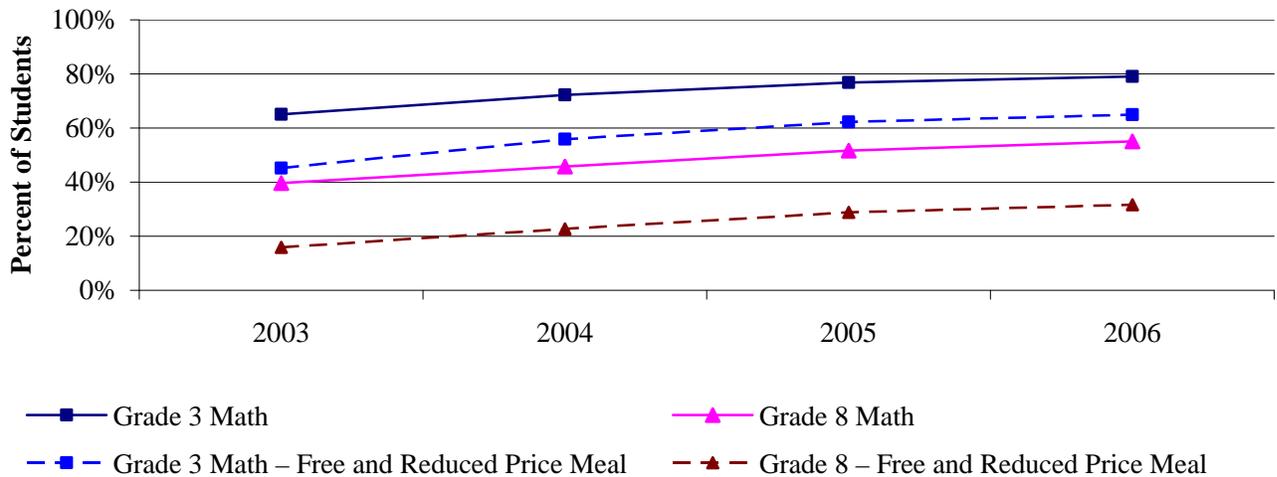
In addition to MSAs, HSA English and algebra tests count toward the achievement of AYP. The English 2 test has been administered for just two years. In 2006, a total of 60.1% of students who took the test demonstrated proficiency, a marginal increase over 2005. The Algebra/Data Analysis test administered in 2006 has replaced the geometry HSA as the measure of high school math performance. A total of 66.6% of students who took the test demonstrated proficiency, up from 53.8% in 2005. Beginning with the class of 2009, Maryland high school students will be required to pass HSAs in English, algebra, biology, and government, or receive a minimum aggregate score on the tests, in order to graduate.

**Exhibit 3  
MSA Math Proficiency Trend**



Source: Maryland State Department of Education

**Exhibit 4  
MSA Math Proficiency Trend**



Source: Maryland State Department of Education

While some achievement gaps have narrowed during the last four years, other trends have proven more difficult to reverse. **MSDE should discuss the difference in proficiency rates among grade levels, especially between third grade and eighth grade students, and among subgroups of students.**

## **2006 AYP Determinations and Schools in Need of Improvement**

MSDE determines annually whether schools and school systems make AYP based on MSA and HSA scores, as well as attendance and graduation rates. If schools fail to achieve AYP for two consecutive years, they are assigned to school improvement status, which includes three categories: schools in improvement; schools in corrective action; and schools in restructuring.<sup>1</sup> Schools move out of improvement status when they meet AYP targets for two consecutive years.

MSDE reported in October 2006, that 312 schools, or 23% of all schools in Maryland did not achieve AYP in 2006, comparable to the number of schools that did not make AYP in 2005. Of the 312 schools, 81 missed AYP solely because the special education subgroup did not make AYP. As **Exhibit 5** shows, MSDE has placed 233 schools in school improvement status in 2006 because they failed to make AYP for two consecutive years. These schools are located in 14 counties across the State and represent 17.3% of the State's schools. Close to 75% of the schools in improvement are located in Baltimore City and Prince George's County, with 46.6% of Baltimore City schools and 44.6% of Prince George's County schools in improvement status. Across the State, a lower percentage of elementary schools are in school improvement (10%) than middle and high schools (29 and 28%, respectively).

Three school systems did not make AYP in 2006. For Wicomico County, 2006 is the first year of not achieving AYP, so improvement status will not apply unless AYP is not reached in 2007. MSDE placed the other two school systems that did not make AYP, Baltimore City and Prince George's County, in corrective action improvement status based on their assessment results. The Baltimore City system remains in corrective action for another year, while addressing six corrective actions that MSDE had previously assigned to the system. Prince George's County enters corrective action for the first time in 2006. Seven school systems that were in their first year of improvement status in 2005 exited in 2006.

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<sup>1</sup> MSDE exempts some schools from the general rules for entering school improvement status. For example, school improvement status does not apply to Maryland School for the Deaf, Maryland School for the Blind, nonpublic placement schools, and correctional education programs.

**Exhibit 5**  
**Schools Identified for Improvement**  
**2006-2007 School Year**

<b>County</b>	<b><u>School Improvement (Year 1 and Year 2)</u></b>	<b><u>Corrective Action</u></b>	<b><u>Restructuring</u></b>	<b><u>Total Schools in Improvement</u></b>	<b><u>Total Schools</u></b>	<b><u>Percent of Total Schools in Improvement</u></b>
Allegany	1			1	22	4.5%
Anne Arundel	8	1		9	118	7.6%
Baltimore City	17	15	58	90	193	46.6%
Baltimore County	7	5	1	13	158	8.2%
Calvert					23	
Caroline	1			1	9	11.1%
Carroll					41	
Cecil					28	
Charles					32	
Dorchester	4	1		5	11	45.5%
Frederick			1	1	59	1.7%
Garrett					15	
Harford	2	2		4	51	7.8%
Howard					69	
Kent	2			2	8	25.0%
Montgomery	17	1		18	195	9.2%
Prince George's	39	30	13	82	184	44.6%
Queen Anne's					13	
St. Mary's	2	1		3	23	13.0%
Somerset	2			2	9	22.2%
Talbot					8	
Washington					41	
Wicomico	2			2	24	8.3%
Worcester					13	
<b>Total</b>	<b>104</b>	<b>56</b>	<b>73</b>	<b>233</b>	<b>1,347</b>	<b>17.3%</b>

Source: Maryland State Department of Education

## **Providing Highly Qualified Teachers in Every Classroom**

No state met the goal of providing a highly qualified teacher in every classroom by the end of the 2005-2006 school year, the original deadline established by NCLB. In July 2006, the U.S. Department of Education required that Maryland, along with all other states, submit a plan detailing the actions the state and local education agencies (LEAs) would take to reach the highly qualified teacher goal in 2006-2007 and beyond. NCLB requires that teachers be highly qualified in core academic subjects, which include English, reading or language arts, mathematics, science, foreign languages, civics and government, economics, arts, history, and geography. To meet the highly qualified standard, a teacher must have at least a bachelor's degree, must hold a license to teach in the State, and must have obtained full State certification and have passed the State teacher licensing examination. In addition, a teacher must demonstrate content knowledge in each subject that the teacher is assigned to teach.

**Exhibit 6** shows that as of June 2006, no school system met the 100% highly qualified teacher goal. Statewide, 20.6% of classes were not taught by highly qualified teachers. Improvement was made in all but two school systems in the State, and four counties, Allegany, Garrett, St. Mary's, and Talbot, had less than 10% of their classes not taught by highly qualified teachers. However, more than half of the classes in Baltimore City (53.2%), more than a third in Prince George's County (37.9%), and roughly one-third of the classes in Dorchester (33.1%) and Somerset (31%) counties were not taught by highly qualified teachers.

**Exhibit 6**  
**Classes Not Taught by Highly Qualified Teachers 2006**

Allegany	2.8%
Anne Arundel	15.5%
Baltimore City	53.2%
Baltimore County	16.5%
Calvert	13.0%
Caroline	10.5%
Carroll	10.8%
Cecil	10.5%
Charles	27.0%
Dorchester	33.1%
Frederick	10.7%
Garrett	6.7%
Harford	10.7%
Howard	11.0%
Kent	17.1%
Montgomery	14.5%
Prince George's	37.9%
Queen Anne's	15.3%
St. Mary's	6.7%
Somerset	31.0%
Talbot	8.1%
Washington	10.9%
Wicomico	25.5%
Worcester	10.8%
<b>Statewide</b>	<b>20.6%</b>

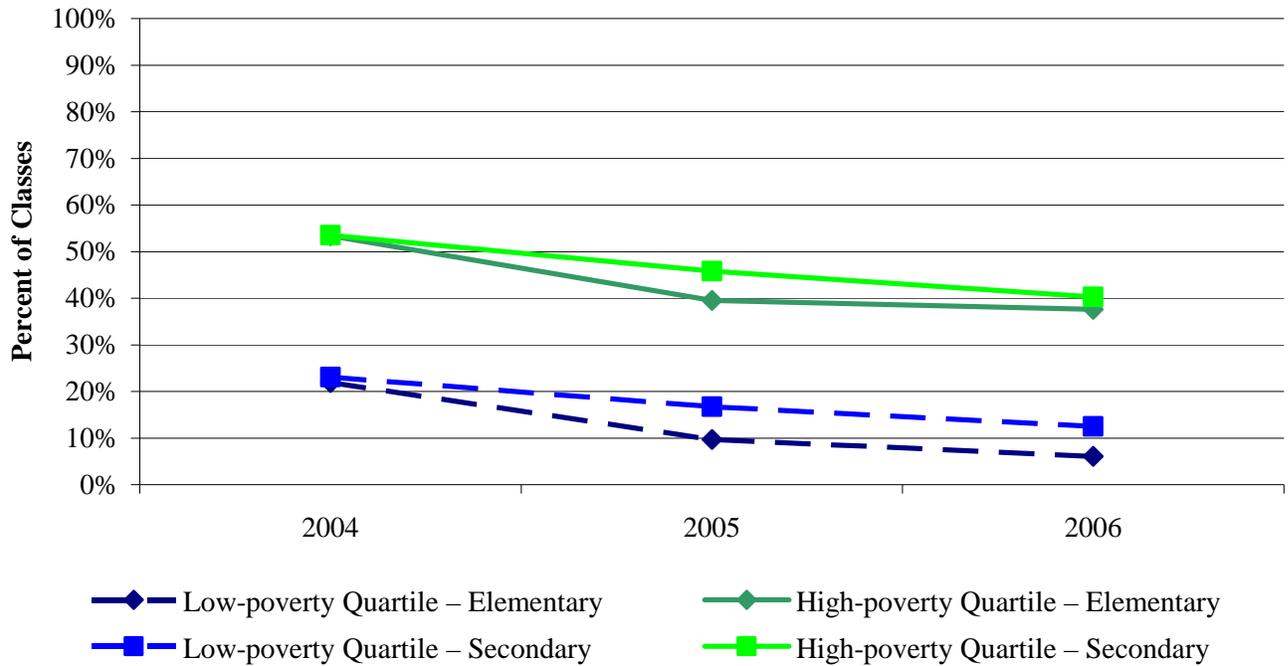
Source: Maryland State Department of Education

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Although the percentage of classrooms without highly qualified teachers has declined since 2004, a gap persists between the number of highly qualified teachers in high-poverty and low-poverty classrooms, as shown in **Exhibit 7**. At both the elementary and secondary levels, a significantly higher proportion of classes in high-poverty areas are not taught by highly qualified teachers. The biggest gap exists in elementary schools, where 37.6% of classes in high-poverty areas are not taught by highly qualified teachers, contrasting with just 6.1% of low-poverty classes.

**MSDE should discuss the disparity between the percentage of highly qualified teachers in low-income and high-income schools, and strategies directed to improving the percentage of highly qualified teachers in low-income classrooms.**

**Exhibit 7**  
**Classes Not Taught by Highly Qualified Teachers**  
**2004-2006 Trend**



Source: Maryland State Department of Education

## Governor’s Proposed Budget

General funds in the fiscal 2008 allowance increase by \$689.3 million, or 15.3% over the fiscal 2007 working appropriation. A significant portion of the increase is attributable directly to the final year of the phase-in of the Bridge to Excellence funding formulas. Collectively, the increase in Bridge to Excellence programs accounts for \$558.0 million of the change. Also contributing \$122.6 million to the increase are teachers’ and librarians’ retirement costs, which include \$78.1 million resulting from an enhancement required by Chapter 110 of 2006. The general fund increase is offset by a federal fund decline of \$49.0 million, for an overall 12.1% increase in the allowance. **Exhibit 8** shows the components of the growth in fiscal 2008.

**Exhibit 8**  
**Governor’s Proposed Budget**  
**MSDE – Aid to Education**  
**(\$ in Thousands)**

<b>How Much It Grows:</b>	<b>General Fund</b>	<b>Federal Fund</b>	<b>Reimb. Fund</b>	<b>Total</b>
2007 Working Appropriation	\$4,498,157	\$777,185	\$619	\$5,275,960
2008 Governor’s Allowance	<u>5,187,424</u>	<u>728,170</u>	<u>572</u>	<u>5,916,166</u>
Amount Change	\$689,267	-\$49,015	-\$47	\$640,206
Percent Change	15.3%	-6.3%	-7.5%	12.1%

**Where It Goes:**

**Bridge to Excellence General Fund Changes**

Foundation.....	\$288,816
Compensatory education .....	175,753
Special education.....	40,081
Limited English proficiency .....	37,338
Guaranteed tax base.....	18,358
Transportation.....	16,947
Expiration of Extended Elementary Education program.....	-19,263

**Other General Fund Changes**

Teacher and librarian retirement contributions.....	122,580
Nonpublic placements .....	8,677
Public library and State network aid.....	3,952
Adult education – Literacy Works grants.....	1,500
National board teacher certification pilot program.....	320
Principal development grants .....	64
Challenge grants .....	-3,789
Formula for Children in Out-of-County Living Arrangements .....	-2,068

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Where It Goes:

**Federal Fund Changes**

Food Services programs .....	12,186
Special education grants, including preschool grants .....	-15,458
Reading First grants .....	-9,943
Title I grants to local education agencies .....	-9,236
Twenty-first Century Community Learning Centers .....	-7,703
Comprehensive School Reform Demonstration .....	-3,710
Technology Literacy Challenge Fund grants .....	-3,118
Even Start grants .....	-2,585
Library Services program .....	-2,099
Hurricane Katrina grants .....	-1,916
Charter school grants .....	-1,298
Miscellaneous federal grant programs .....	-4,134

**Reimbursable Fund Changes**

Department of Health and Mental Hygiene funds for sexual abuse prevention program .....	-47
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**Total** **\$640,205**

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

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**Bridge to Excellence Funding Formula Changes**

- **Foundation Formula (\$288.8 Million Increase):** The foundation formula ensures a minimum funding level per pupil and requires LEAs to provide a local match. The formula is calculated based on a per pupil amount and student enrollment. Less wealthy school systems, as measured by assessable base and net taxable income, receive more aid per pupil than wealthier school systems. Foundation aid is the largest formula increase in the allowance, at \$288.8 million, or 11.6% over the fiscal 2007 working appropriation. The growth is attributable to a 12.3% jump to \$6,694 in the per pupil funding amount in fiscal 2008. Student enrollment figures used for the foundation formula decrease by 4,055 students.
- **Compensatory Education (\$175.8 Million Increase):** The compensatory education formula provides additional funding based on the number of students eligible for FRPM. The formula is calculated using the number of eligible students and 97% of the per pupil foundation amount. The State share of formula costs increases from 46 to 50% in fiscal 2008. The increase in the per pupil amount and the State share result in a \$175.8 million, or 24.2% increase over the fiscal 2007 working appropriation. No funding is included in the allowance for the Extended Elementary Education Program, which expired in fiscal 2007. The significant increase in funding distributed through the compensatory education and other formulas may be used to support pre-kindergarten programs.

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- ***Special Education (\$40.1 Million Increase):*** The special education formula provides additional aid based on the number of students with disabilities. The formula is calculated using the special education enrollment and 74% of the per pupil foundation amount. The State share increases from 46 to 50% in fiscal 2008. The increases in the State share and the per pupil foundation amount result in a \$40.1 million, or 17.3% increase in aid for students with disabilities.
- ***Limited English Proficiency (\$37.3 Million Increase):*** The LEP formula targets additional funds to students for whom English is a second language. The formula is calculated based on the enrollment of LEP students and 99% of the per pupil foundation amount. The \$37.3 million, or 42.0% increase in fiscal 2008 is driven by the increased 50% State share of the per pupil foundation amount and anticipated growth in LEP enrollment of approximately 13.5%.
- ***Guaranteed Tax Base (\$18.4 Million Increase):*** Bridge to Excellence provides additional funding to LEAs with less than 80% of statewide wealth per pupil and with a contribution of more than the minimum required local share under the foundation program in the prior fiscal year. In fiscal 2008, 11 LEAs qualify for the grants, resulting in an \$18.4 million, or 30.3% increase. Driving the increase is the formula phase-in from 75 to 100% in fiscal 2008.
- ***Transportation (\$16.9 Million Increase):*** The State provides grants to assist jurisdictions with the cost of transporting students to school. The grant includes a separate component for the transportation of disabled students. The increase reflects enrollment increases, an inflationary adjustment due to the rise in fuel costs, and the continued phase-in of the per pupil funding amount for disabled students from \$900 in fiscal 2007 to \$1,000 in fiscal 2008. This combination of factors results in a \$16.9 million, or 8.4% increase in transportation funding.

### **Other General Fund Changes**

- ***Teachers' and Librarians' Retirement (\$122.6 Million Increase):*** The State pays 100% of the employers' 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 LEAs. The increase reflects changes in payroll costs for LEAs and the retirement enhancement enacted by Chapter 110 of 2006, resulting in a 26.9% increase in fiscal 2008.
- ***Nonpublic Placements (\$8.7 Million Increase):*** The State funds a share of the cost of placing students with special needs in nonpublic school facilities. The costs vary depending on the number of students and the cost of the services provided for students placed in the program. The \$8.7 million increase represents a 7.4% increase over fiscal 2007 funding.

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- ***Public Library Aid (\$3.9 Million Increase):*** Chapter 481 of 2005 provides funding increases for public libraries beginning in fiscal 2007 based on an increase in the formula's per capita funding level, which grows from \$13 in fiscal 2007 to \$14 in fiscal 2008. Funding for the State Library Network also increases, with the three regional resource centers receiving a phased-in per capita increase similar to that for public libraries, at \$6.50 per resident in fiscal 2008. The total increase in library funding includes \$2.9 million for public libraries and \$1.0 million for the State Library Network, which includes the Enoch Pratt Library and metropolitan cooperative service programs, as well as regional resource centers.
- ***Adult Education (\$1.5 Million Increase):*** The allowance contains a \$1.5 million increase for Literacy Works grants in the Adult Education program. Chapter 380 of 2006 mandates the funding in fiscal 2008.
- ***Teacher Certification Pilot Program (\$320,000):*** Chapter 439 of 2006 established a National Board Certified Teacher Pilot program, which is designed for schools that have been identified for school improvement, corrective action, or restructuring. The funding supports professional development grants to five schools for teachers who have agreed to pursue national accreditation and to teach at the schools for at least three years.
- ***Principal Development Grants (\$64,000 Increase):*** Chapter 408 of 2005 established the Principal Fellowship and Leadership Development program, which provides incentives for distinguished principals to work in low-performing schools. The funding increases from \$96,000 to \$160,000 in fiscal 2008.
- ***Challenge Grants (\$3.8 Million Decrease):*** The allowance does not fund Challenge grants, which were required in fiscal 2007 by the Budget Reconciliation and Financing Act of 2005. The legislation originally establishing the program terminates at the end of fiscal 2007.
- ***Formula Programs for Specific Populations (\$2.1 Million Decrease):*** Funding for children in out-of-county placements is \$2.1 million less in the allowance than in fiscal 2007.

### **Federal Fund Changes**

- ***Food Services Program (\$12.2 Million Increase):*** The largest increase in food services programs occurs in the National School Lunch program (\$7.8 million), followed by the School Breakfast program (\$2.2 million).
- ***Special Education Grants (\$15.5 Million Decrease):*** Federal special education grants decrease by \$15.5 million, which includes a \$590,000 drop in grants for preschool students with disabilities. However, MSDE overbudgeted this program in fiscal 2007. Overall, fiscal 2008 funding for the program is comparable to the fiscal 2007 funding level.

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- ***Reading First Grants (\$9.9 Million Decrease):*** Although the allowance reflects a sizeable decrease in Reading First grants, fiscal 2008 federal funding overall for the program is comparable to the fiscal 2007 funding level. The working appropriation includes funds carried over from fiscal 2006.
- ***Twenty-first Century Community Learning Centers (\$7.7 Million Decrease):*** The fiscal 2008 funding level is expected to be comparable to fiscal 2007. The working appropriation includes funds carried over from fiscal 2006, resulting from a shortage of eligible applicants for grants.
- ***Charter School Grants (\$1.3 Million Decrease):*** Federal funding for charter schools decreases by \$1.3 million in fiscal 2008.

### **Geographic Cost of Education Index**

The fiscal 2008 allowance does not fund the Geographic Cost of Education Index (GCEI) in the Bridge to Excellence Act, which would have added \$94.7 million to the allowance. The GCEI formula adjusts the funding provided to LEAs to account for differences in the cost of education resources among jurisdictions. For LEAs with a higher cost-of-living or higher energy costs, for example, an upward adjustment would be made to funding, according to the GCEI formula. However, the formula is not mandated, unlike the other funding formulas in the Bridge to Excellence Act. Although the GCEI formula was scheduled to begin phasing in with funding in fiscal 2006, it was not funded in fiscal 2006 or 2007. HB 139, an Administration bill, has been introduced in the 2007 session. The bill would change the GCEI to a mandated formula which would phase in from fiscal 2009 to 2011.

### **Environmental Education**

The allowance includes \$1.7 million in funding for the Environmental Education program at NorthBay, which continues funding at the fiscal 2007 level. The fiscal 2007 budget bill restricted \$1.5 million in funding for NorthBay until MSDE submitted a report to the budget committees on the distribution of its funding. MSDE submitted its report in November 2006, and the funds have been released.

To ensure an equitable distribution of funding to LEAs, the report requested information about the distribution of fiscal 2006 State funding, the amount of local funding, and projected distribution of funding in fiscal 2007. In fiscal 2006, NorthBay distributed a total of \$200,000 in State funding to Baltimore City. In fiscal 2007, NorthBay intends to distribute \$1.7 million in State funding to six LEAs. As part of its report, MSDE required NorthBay to file an application for funding as a State-aided educational organization. The Department of Legislative Services (DLS) recommended to the budget committees that NorthBay apply for funding as a State-aided educational organization, rather than continue to receive funding as a distinct MSDE program.

## *Issues*

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### **1. How Local School Systems Use Education Funds**

The Bridge to Excellence Act requires local school systems to develop and submit five-year comprehensive master plans and annual updates to MSDE for review beginning in 2003. Each master plan and the subsequent update must include a budget aligned to the school system's goals and objectives, a requirement that was further specified in the Education Fiscal Accountability and Oversight Act of 2004. The comparison of stated priority programs and budgeted expenditures is intended to focus analysis on material changes in funding from one fiscal year to the next and ensure that money is being spent to implement strategies articulated in the comprehensive master plans. The State superintendent is required to report on the alignment of school system budgets and the use of funding increases that have been made possible by the Bridge to Excellence Act and increases in local support for the school systems.

On December 30, 2006, MSDE submitted the most recent report, which includes fiscal 2007 master plan updates and spending plans for all 24 local school systems. For the first time, MSDE approved the submissions of all local school systems. **Exhibit 9** shows that, from fiscal 2006 to 2007, the school systems had a combined \$731.8 million in additional revenues, an 8.2% increase over reported fiscal 2006 revenues of \$8.9 billion, and \$31.3 million available in unclassified redirected funds. (Most of the redirected funds are due to the elimination of the deficit in Baltimore City, which allows the city school system to spend \$23 million in fiscal 2007 that was used to eliminate the deficit in fiscal 2006). Together, the additional revenue and redirected funds allow school systems to support \$763.1 million in cost increases and new initiatives for the 2006-2007 school year. Although the values vary across the State, the additional funds equate to an additional \$924 per pupil statewide.

**Exhibit 9**  
**Funds Available to Support Cost Increases, Enhancements, and New Initiatives**  
**Fiscal 2007**

(\$ in Thousands)

<u>School System</u>	<u>Additional Revenue</u>	<u>Redirected Funds</u>	<u>New Funds Available</u>	<u>New Funds Per Pupil</u>
Allegany	\$9,278	\$0	\$9,278	\$1,021
Anne Arundel	63,328	0	63,328	882
Baltimore City	72,778	23,353	96,131	1,190
Baltimore	77,004	0	77,004	756
Calvert	9,621	475	10,096	590
Caroline	5,536	0	5,536	1,043
Carroll	19,986	0	19,986	705
Cecil	12,533	0	12,533	787
Charles	26,159	0	26,159	1,013
Dorchester	2,694	0	2,694	602
Frederick	34,218	0	34,218	867
Garrett	2,606	0	2,606	575
Harford	34,520	0	34,520	893
Howard	49,922	0	49,922	1,037
Kent	1,081	0	1,081	486
Montgomery	136,574	6,288	142,863	1,060
Prince George's	116,583	0	116,583	929
Queen Anne's	5,068	0	5,068	679
St. Mary's	8,498	0	8,498	534
Somerset	4,515	0	4,515	1,629
Talbot	1,922	0	1,922	455
Washington	16,612	0	16,612	788
Wicomico	13,694	1,207	14,901	1,036
Worcester	7,033	0	7,033	1,084
<b>Total</b>	<b>\$731,763</b>	<b>\$31,323</b>	<b>\$763,087</b>	<b>\$924</b>

Note: Increases exclude State-paid teachers' retirement.

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

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The planned use of additional available funds is compiled in **Exhibit 10**. The exhibit categorizes the new expenditures into four broad categories: current services cost increases; salary and benefits enhancements; cost increases related to the Bridge to Excellence pre-kindergarten and full-day kindergarten mandates; and program enhancements and new initiatives. Budgeted expenditure increases within each of these categories are shown in the exhibit and discussed below.

- ***Current Services Increases:*** This category includes added funding to cover increases in utility costs, student transportation expenses, and school maintenance costs, as well as new personnel needed to accommodate growth in student enrollment and added costs needed to maintain existing educational programs. In fiscal 2007, \$145.5 million, or 19.1% of total new funds, have been budgeted to support current services. Among the 24 school systems, current services increases range from a low of just 2.1% of new spending in Prince George's County, where cost savings in several areas were enumerated in the master plan, to 45.8% of new spending in Talbot County, which had a small per pupil increase relative to the other school systems. The \$145.5 million budgeted to maintain current services represents an increase of 1.6% over total fiscal 2006 revenues, and may reflect a reasonable estimate of the minimum revenue increase needed to maintain current services before considering salary and benefit enhancements for school system employees.
- ***Employee Salary and Benefit Increases:*** More than half of total new funds in fiscal 2007, \$428.5 million, or 56.2%, are being spent to pay for salary and benefit increases for school system employees. The increases are the result of negotiated agreements between the local boards of education and local employee organizations. As a percent of the total revenue increases, spending for salary and benefit increases ranged from a low of 32.7% in Baltimore City to a high of 84.2% in Dorchester County. The increases do not include enhancements to the teachers' retirement system enacted by Chapter 110 of 2006, which are paid by the State on behalf of the local school boards and do not pass through local school system budgets.
- ***Kindergarten and Pre-kindergarten Mandates:*** The Bridge to Excellence Act requires each school system to provide full-day kindergarten for all students and pre-kindergarten for all economically disadvantaged four-year-old children by the 2007-2008 school year. In fiscal 2007, \$19.8 million, or 2.6% of new school system funds, was identified to support these mandates, and the percentage was as high as 13.9% in Carroll County. Several counties, many of which have already implemented the required early education programs, budgeted no new funds to meet the mandates.
- ***Enhancements and Initiatives:*** Finally, \$164.5 million (21.6% of available new funding) was budgeted for upgrades to existing services and enrichments to academic programming. The enhancements include new personnel to lower class sizes or address student academic needs or behavioral issues; expansion of after school or summer school programs; improvements to special education and LEP programs; upgrades to professional development opportunities; new and expanded dropout programs, gifted and talented services, and parent and community outreach programs; the purchase of new textbooks, computers, and automated external defibrillators; and any other new initiative or identifiable augmentation to existing services.

**Exhibit 10**  
**New Spending by Local School System – Budgeted Fiscal 2007**  
(\$ in Thousands)

<u>School System</u>	<u>Maintain Current Services</u>		<u>Salary and Benefit Increases</u>		<u>State Pre-K and K Mandates</u>		<u>Enhancements and Initiatives</u>		<u>Unidentified Increases</u>	
	<u>\$ Increase</u>	<u>% of Total</u>	<u>\$ Increase</u>	<u>% of Total</u>	<u>\$ Increase</u>	<u>% of Total</u>	<u>\$ Increase</u>	<u>% of Total</u>	<u>\$ Increase</u>	<u>% of Total</u>
Allegany	\$2,064	22.2%	\$5,724	61.7%	\$0	0.0%	\$1,489	16.1%	\$0	0.0%
Anne Arundel	8,231	13.0%	32,700	51.6%	3,747	5.9%	15,275	24.1%	3,376	5.3%
Baltimore City	17,509	18.2%	31,432	32.7%	0	0.0%	47,190	49.1%	0	0.0%
Baltimore	20,179	26.2%	52,202	67.8%	714	0.9%	3,909	5.1%	0	0.0%
Calvert	1,588	15.7%	7,435	73.6%	912	9.0%	161	1.6%	0	0.0%
Caroline	2,007	36.2%	2,440	44.1%	18	0.3%	1,062	19.2%	9	0.2%
Carroll	2,202	11.0%	9,702	48.5%	2,772	13.9%	5,310	26.6%	0	0.0%
Cecil	3,148	25.1%	5,264	42.0%	649	5.2%	3,472	27.7%	0	0.0%
Charles	7,437	28.4%	14,809	56.6%	896	3.4%	3,016	11.5%	0	0.0%
Dorchester	161	6.0%	2,269	84.2%	0	0.0%	261	9.7%	3	0.1%
Frederick	7,208	21.1%	24,485	71.6%	0	0.0%	1,742	5.1%	783	2.3%
Garrett	323	12.4%	1,962	75.3%	0	0.0%	320	12.3%	0	0.0%
Harford	6,803	19.7%	23,957	69.4%	1,402	4.1%	2,185	6.3%	173	0.5%
Howard	12,395	24.8%	34,400	68.9%	0	0.0%	3,127	6.3%	0	0.0%
Kent	462	42.7%	553	51.2%	0	0.0%	66	6.1%	0	0.0%
Montgomery	37,487	26.2%	87,975	61.6%	3,038	2.1%	14,362	10.1%	0	0.0%
Prince George's	2,495	2.1%	62,637	53.7%	4,272	3.7%	47,179	40.5%	0	0.0%
Queen Anne's	1,147	22.6%	3,336	65.8%	288	5.7%	-74	-1.5%	372	7.3%
St. Mary's	1,132	13.3%	6,276	73.9%	357	4.2%	687	8.1%	46	0.5%
Somerset	842	18.7%	1,569	34.7%	0	0.0%	2,104	46.6%	0	0.0%
Talbot	880	45.8%	794	41.3%	0	0.0%	249	12.9%	0	0.0%
Washington	6,020	36.2%	5,992	36.1%	512	3.1%	4,088	24.6%	0	0.0%

<u>School System</u>	<u>Maintain Current Services</u>		<u>Salary and Benefit Increases</u>		<u>State Pre-K and K Mandates</u>		<u>Enhancements and Initiatives</u>		<u>Unidentified Increases</u>	
	<u>\$ Increase</u>	<u>% of Total</u>	<u>\$ Increase</u>	<u>% of Total</u>	<u>\$ Increase</u>	<u>% of Total</u>	<u>\$ Increase</u>	<u>% of Total</u>	<u>\$ Increase</u>	<u>% of Total</u>
Wicomico	2,380	16.0%	6,689	44.9%	0	0.0%	5,832	39.1%	0	0.0%
Worcester	1,439	20.5%	3,928	55.8%	225	3.2%	1,441	20.5%	0	0.0%
<b>Total</b>	<b>\$145,539</b>	<b>19.1%</b>	<b>\$428,530</b>	<b>56.2%</b>	<b>\$19,802</b>	<b>2.6%</b>	<b>\$164,454</b>	<b>21.6%</b>	<b>\$4,762</b>	<b>0.6%</b>

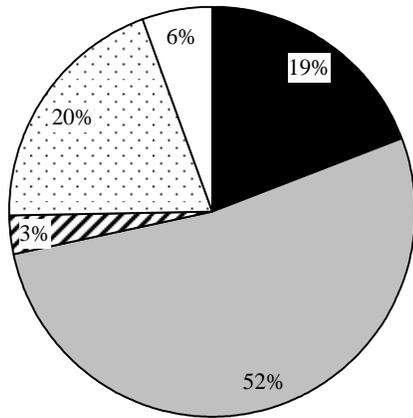
Source: Maryland State Department of Education

Reflecting a Bridge to Excellence goal, some of the school systems that have traditionally had greater needs have the highest percentages of new funding budgeted for enhancements. Nearly half of Baltimore City’s new funds (49.1%) are budgeted for school system improvements, as are 46.6% of new funds in Somerset County, 40.5% of new funds in Prince George’s County, and 39.1% of new funds in Wicomico County. In contrast, Queen Anne’s County budgeted for a net decrease in enhancements (for example, four learning support specialist positions were eliminated in the fiscal 2007 budget) to pay for additional kindergarten and pre-kindergarten programs and cost increases elsewhere in the budget.

Some school systems also had a small percentage of new revenue for which no spending category could be identified. In total, these funds made up \$4.8 million or less than 1% of the total funding increases. **Exhibit 11** compares the findings from the 2007 analysis to the fiscal 2006 findings (which did not include Baltimore City and Prince George’s County because they did not have approved comprehensive master plans). The exhibit shows that the way the new funds were allocated among the four spending categories changed very little from fiscal 2006 to 2007.

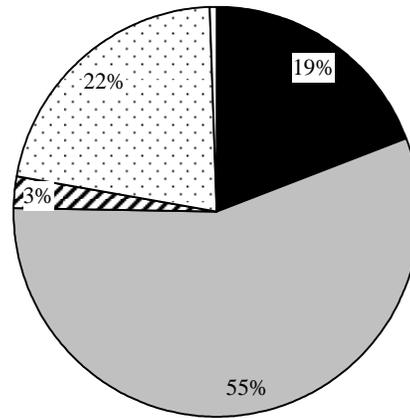
**Exhibit 11**  
**Use of New Funds by Local School Systems**  
**Fiscal 2006-2007**

**Fiscal 2006\***



Total New Funds = \$509.5 Million

**Fiscal 2007**



Total New Funds = \$763.1 Million

**Spending Categories**



\*Fiscal 2006 excludes new funds for Baltimore City and Prince George’s County school systems because their comprehensive master plans were not approved in time for inclusion in the annual Maryland State Department of Education report.

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

Bridge to Excellence requires that further evaluation of LEA spending of State education aid be conducted by an independent evaluator. MGT of America, Inc., completed the first year of a three-year evaluation and submitted an interim report to the General Assembly in December 2006. Preliminary observations in the report include the improvement in student achievement at the elementary school level since the implementation of Bridge to Excellence, the use of the majority of increased funding on salaries, and wide variation in local and federal funding levels among LEAs. MGT plans to refine these and other preliminary findings through site visits and to identify best practices during the next two years of the study.

**MSDE should comment on the 2006 master plan updates and spending plans and the trends in school systems' use of their education funding.**

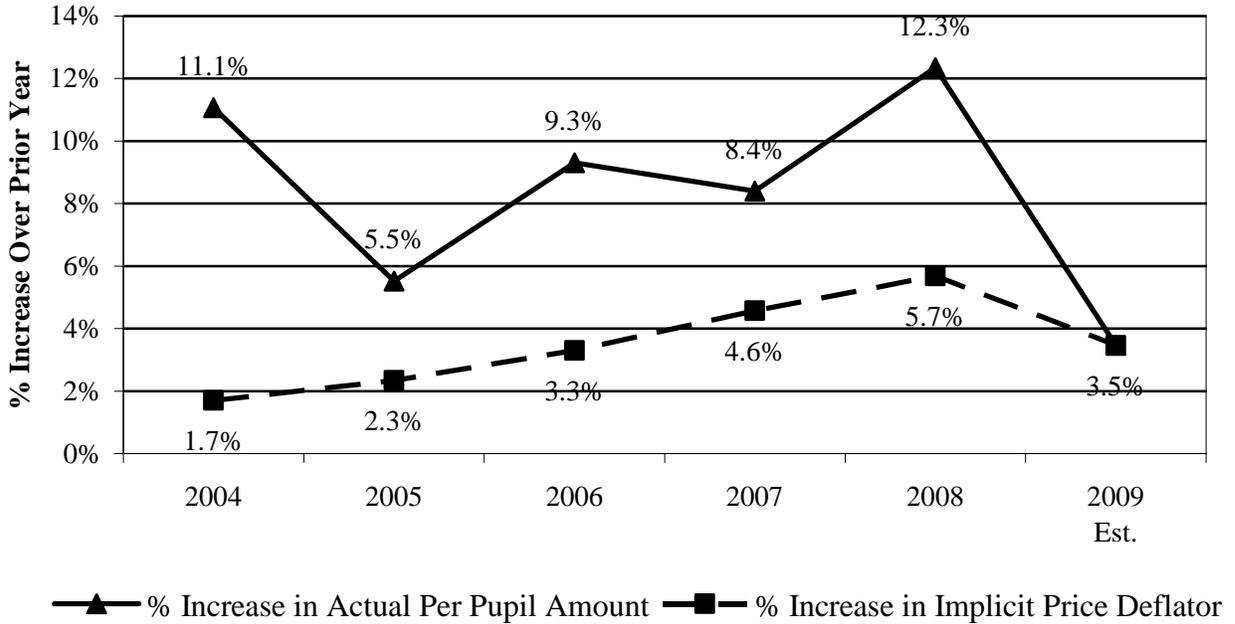
## **2. State Education Aid Higher Than Anticipated in Fiscal 2008**

Direct State aid for education, excluding State-paid retirement costs, increases by \$566.7 million in fiscal 2008, a 12.3% increase over fiscal 2007 funding. The large increase is due to the final year of the Bridge to Excellence phase-in and growth in the implicit price deflator, an inflation measure published by the federal Bureau of Economic Analysis and used in the State aid formulas. Inflation in the implicit price deflator was nearly two times the level projected a year ago, and the difference between the projected and actual inflation rates results in an additional \$103.0 million for LEAs in fiscal 2008.

**Exhibit 12** shows that the annual change in the implicit price deflator, as used to calculate the target funding level, has increased each year of Bridge to Excellence implementation, from less than 2.0% in fiscal 2004 to nearly 6.0% in fiscal 2008. At the same time, the actual per pupil funding level used in the formulas has been phasing up each year in order to reach the target funding level by fiscal 2008. Both inflation and the phase-in schedule impact the annual per pupil amount. In fiscal 2008, the combination of higher inflation and the phase-in to 100.0% of the target funding level will increase the per pupil amount by more than \$700 to nearly \$6,700. This represents 12.3% growth, the largest one-year increase experienced during the five-year Bridge to Excellence implementation process.

Exhibit 12 also illustrates the convergence of changes in the implicit price deflator and the per pupil funding level in fiscal 2009, when the implicit price deflator is projected to increase by 3.5%. In fiscal 2009, and subsequent years, increases in the per pupil amount will be determined exclusively by inflation since the phase-in to the target per pupil amount will be complete.

**Exhibit 12  
Annual Increases in Per Pupil Amount and Inflation  
Fiscal 2004-2009**



	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Est. 2009</u>
Annual Per Pupil Amount	\$4,766	\$5,029	\$5,497	\$5,959	\$6,694	6,926

Source: Department of Legislative Services

### **3. Budget Amendment Proposes Substantial Increase to Fiscal 2007 Appropriation**

In a budget amendment received by DLS in December 2006, MSDE proposed to increase fiscal 2007 federal funding by \$23.8 million in the Aid to Education budget and by \$11.3 million in the MSDE Headquarters budget. The total of \$35.1 million represents funds carried over from fiscal 2006, rather than new grants that MSDE received after the close of fiscal 2006. Contrary to language in the fiscal 2007 budget bill, the funds were included in the working appropriation before the amendment was reviewed by the budget committees and signed by the Governor. These funds should have been submitted to the General Assembly as a fiscal 2007 deficiency appropriation. **MSDE should discuss why the federal funds were not carried forward immediately at the close of fiscal 2006.**

## ***Recommended Actions***

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	<b><u>Amount Reduction</u></b>	
1. Delete funding for the Environmental Education program. This program is one of the discretionary programs that the Bridge to Excellence in Public Schools Act folded into a more streamlined school finance structure until separate funding was reintroduced in fiscal 2006. NorthBay receives all of the Environmental Education program's funding. To replace this funding, local education agencies may choose whether to spend a portion of the \$566.7 million in additional State aid they will receive in fiscal 2008 to send their students to this environmental education program or other environmental education offerings.	\$ 1,700,000	GF
2. Reduce funding for Quality Teacher Incentive grants. In fiscal 2006, \$1.7 million reverted to the general fund in this program because an insufficient number of teachers qualified for the available grants. Funding should be reduced to more closely reflect the pool of eligible teachers who may qualify for grants.	1,700,000	GF
3. Delete funding for the Governor's Teacher Excellence Award program. While recognizing exemplary teachers is commendable, the allowance contains \$320,000 in funding for the new National Board Certification Teacher pilot, which directs teacher development funds to low-performing schools. Targeting teacher incentive funds to schools that have the greatest need for skilled teachers is a better use of State funds than the existing teacher award program.	100,000	GF
4. Add the following language to the general fund appropriation:		
<p><u>Provided that \$1,700,000 of the appropriation may not be expended until the Maryland State Department of Education submits a report to the budget committees on how the funding provided to NorthBay will be allocated to ensure an equitable distribution among local school systems to students interested in participating. The report shall include funds provided in</u></p>		

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fiscal 2007 and 2008, including the amount of funding provided by each local school system. The budget committees shall have 45 days to review and comment on the report before the release of funds.

**Explanation:** A report must be provided by the Maryland State Department of Education on the allocation of funding to local school systems for program fees for students who otherwise would be unable to participate. The report should detail the funding provided by local school systems. The budget committees shall have 45 days from receipt of the report to review and comment.

<b>Information Request</b>	<b>Author</b>	<b>Due Date</b>
Distribution of funds to local school systems for student participation and funds provided by local school systems	MSDE	45 days prior to release of funds
<b>Total General Fund Reductions</b>		<b>\$ 3,500,000</b>

## *Updates*

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### **1. Moratorium on State Takeover of 11 Baltimore City Schools**

In March 2006, the Maryland State Board of Education (State board) voted to require significant changes to the governance and structures of seven middle schools in Baltimore City and to have a third party manage four high schools in the city under the direction of the State board. The takeovers were proposed by the State board in accordance with State regulations and the federal NCLB provisions and were believed to be the first attempt at a State takeover under NCLB. The State board proposed the takeovers because State regulations and NCLB require increasingly severe interventions for schools and school systems that do not meet State academic standards. For several consecutive years, the seven middle schools and four high schools posted very low test scores.

Partly out of concern with the process that had been followed with the proposed takeover and the lack of communication between MSDE and the Baltimore City Public School System (BCPSS), the General Assembly passed House Bill 1215 (Chapter 59) in the 2006 session that places a one-year moratorium on State-imposed school restructuring in Baltimore City. Specifically, the State board and the State Superintendent of Schools are prohibited from imposing a major restructuring of the governance structure of a Baltimore City public school or removing a public school from the direct control of the Baltimore City Board of School Commissioners. The prohibition terminates May 30, 2007.

#### **State Board Directives to BCPSS and Implementation by BCPSS**

While the State takeover was the subject of the statutory moratorium, the March 2006 State board action also included several directives to BCPSS that were not governed by the moratorium; therefore, BCPSS was required to comply with the directives. BCPSS requested certain modifications to the initial requirements and the State board and BCPSS subsequently agreed upon a modified set of directives.

The directives fell into two categories: Master Plan and Corrective Action. The State board directed BCPSS to submit a new Master Plan for school years 2006-2007 and 2007-2008 by October 16, 2006. BCPSS met the deadline for submission, and the State board voted on and approved the Master Plan at its December 2006 meeting. The directives also included five areas of Corrective Action. **Exhibit 13** details the required corrective actions and BCPSS efforts to implement the actions.

Additionally, BCPSS has taken other steps to address the needs of the 11 targeted schools, including:

- new principals in four of the middle schools and three of the high schools;
- detailed restructuring plans for the four high schools that were submitted to the interim chief executive officer of BCPSS by November 10, 2006;

**Exhibit 13**

**Corrective Action Mandated by the State Board and Implementation by BCPSS**

**Corrective Action**

**BCPSS Implementation**

***I. Instruction***

Adopt new middle and high school curricula in specified subjects

Adopted curricula from Anne Arundel, Cecil, and Carroll counties

Hire an independent evaluator to monitor the implementation of the Master Plan

BCPSS presented its procurement plan for hiring an independent evaluator to the State board at the December 2006 meeting

***II. Leadership***

Evaluate and, as necessary, replace area academic officers (AAOs) relevant to the failure to make adequate yearly progress

Four AAOs were replaced, four AAOs were retained, one new AAO position was created to oversee the area with 12 of the lowest performing elementary schools

AAOs to work with MSDE to customize leadership program

BCPSS is working with MSDE

***III. School Safety***

Develop training for school staff to improve school safety

Working with Johns Hopkins to develop a comprehensive safety plan

Identify students who exhibit chronic, severe, and escalating misbehavior and implement case management

Case management process is being formalized through training and monitoring

***IV. Low Performing Schools Management Structure***

Hire two full-time specialists in school improvement

MSDE deferred to BCPSS on this issue; BCPSS had already hired a Director of School Improvement and has established the Office of School Improvement

***V. High School Graduation and Student Support***

Develop student support plans for students at-risk of failing High School Assessments

Selected individual learning plans for grades 7, 9, and 10 and Student Support Deans placed in 28 schools

Source: Maryland State Department of Education and Baltimore City Public Schools

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- quarterly assessments of student learning in reading/language arts and mathematics to track middle school student progress;
- quarterly assessments of student learning in High School Assessment areas;
- additional teachers to support students struggling in reading/language arts, mathematics, or English;
- additional guidance counselors targeted to seventh grade at-risk students in each school;
- Saturday school tutorial services for students at risk in middle schools;
- an expansion of the FUTURES mentoring program (drop-out intervention) in each high school; and
- “wrap around” city services provided at each school such as health suites; asthma intervention; school based mental health; regularly scheduled visits to schools by the Department of Social Services eligibility team to allow families to sign up for medical assistance and food stamps; and human services workers assigned to each school to allow families to sign up for energy assistance, emergency housing, and child care assistance.

## *Current and Prior Year Budgets*

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### Current and Prior Year Budget Aid to Education (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
<b>Fiscal 2006</b>					
Legislative Appropriation	\$4,042,084	\$0	\$743,266	\$392	\$4,785,742
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	-7,546	45	34,625	0	27,124
Reversions and Cancellations	-6,282	0	-42,420	-44	-48,746
<b>Actual Expenditures</b>	<b>\$4,028,256</b>	<b>\$45</b>	<b>\$735,470</b>	<b>\$348</b>	<b>\$4,764,120</b>
<b>Fiscal 2007</b>					
Legislative Appropriation	\$4,498,257	\$0	\$749,845	\$572	\$5,248,674
Budget Amendments	-100	0	27,340	47	27,287
<b>Working Appropriation</b>	<b>\$4,498,157</b>	<b>\$0</b>	<b>\$777,185</b>	<b>\$619</b>	<b>\$5,275,961</b>

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

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## **Fiscal 2006**

Actual expenditures in fiscal 2006 were \$21.6 million less than the legislative appropriation. An increase of \$27.1 million through budget amendments was offset by reversions and cancellations totaling \$48.7 million, primarily consisting of federal fund cancellations.

Although budget amendments increased the appropriation overall, general fund amendments reduced expenditures by \$7.5 million. Much of the reduction was driven by the redistribution of an excess appropriation of \$7.8 million in Compensatory Education formula funding. While approximately \$3.7 million of the excess was reallocated to other programs in the Aid to Education budget (\$2.5 million for School Improvement grants; \$1.0 million for Adult Education; and \$217,000 to the Infants and Toddlers program), \$4.0 million was reallocated to programs outside the Aid to Education budget. MSDE's Division of Early Childhood Development received the largest portion, \$2.8 million. Another significant general fund reduction occurred with the transfer of \$3.5 million to three Regional Institutes for Children and Adolescents (RICAs), consistent with the removal of RICAs from the nonpublic placement formula in the 2005 Budget Reconciliation and Finance Act.

Federal fund budget amendments increased the appropriation by \$34.6 million, primarily due to the carryover of prior year grant balances, including the following:

- \$10.5 million in Reading First grants, resulting from a lack of qualified grant applicants;
- \$7.8 million in 21<sup>st</sup> Century Living Classroom grants due to a shortage of eligible sub-grantees;
- \$2.7 million in Even Start grants for family literacy projects;
- \$1.7 million in public library aid received under the Library Services and Technology Act;
- \$1.5 million in Adult Education grants;
- \$1.5 million in Mathematics and Science Partnerships program funding;
- \$1.5 million in funding under the Comprehensive School Reform Demonstration program, which provides financial incentives to schools for improving student achievement;
- \$1.5 million in Vocational Education State grants; and
- \$1.2 million in Troops to Teachers and Title II Improving Teacher Quality grants for professional development and teacher recruitment.

In fiscal 2006, MSDE received a new federal grant of \$2.3 million under the Hurricane Education Recovery Program to assist students and educational institutions displaced by hurricanes in 2005.

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Special fund amendments increased the budget by \$44,667 from a prior year balance in the Bill and Melinda Gates Foundation for leadership and technology training.

Fiscal 2006 expenditures were reduced by \$6.3 million in general fund reversions, mostly in formula-funded programs. The largest reversions occurred in the following programs: Children in Out-of-County Living Arrangements (\$1.7 million); Students with Disabilities (\$1.2 million); and Limited English Proficiency (\$1.0 million.) In addition, \$1.7 million in Teacher Quality Grants reverted due to less than the eligible number of teachers qualifying for available grants.

Federal fund cancellations totaled \$42.4 million, most of which resulted from multi-year grant funding carried over into the following fiscal year and grants that were budgeted, but never received due to program reductions or terminations at the federal level. Major cancellations, with funds available for carryover unless noted otherwise, include:

- \$9.1 million in Reading First grants;
- \$7.6 million in 21<sup>st</sup> Century Community Learning Center grants due to grant applications totaling less than the appropriation;
- \$3.0 million in the Comprehensive School Reform program, cancelled at the federal level;
- \$2.3 million in the Technology Literacy Challenge Fund, cancelled at the federal level;
- \$2.2 million in the Charter Schools initiative, as a result of LEA's establishing charter schools at a lower rate than projected;
- \$2.2 million in the Even Start program, reduced at the federal level;
- \$1.3 million in Gaining Early Awareness and Readiness for Undergraduate Programs;
- \$1.5 million in Library Services and Technology funding; and
- \$1.3 million in Title I funding due to federal reductions in the Neglected and Delinquent Children and Migrant Education programs.

### **Fiscal 2007**

The legislative appropriation has increased by \$27.3 million through budget amendments, almost entirely in federal funds.

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

<u>Object/Fund</u>	<u>FY06 Actual</u>	<u>FY07 Working Appropriation</u>	<u>FY08 Allowance</u>	<u>FY07-FY08 Amount Change</u>	<u>Percent Change</u>
<b>Objects</b>					
02 Technical and Spec Fees	\$ 192,377	\$ 0	\$ 0	\$ 0	0.0%
04 Travel	9,587	0	0	0	0.0%
08 Contractual Services	1,275,717	0	0	0	0.0%
09 Supplies and Materials	236	0	0	0	0.0%
10 Equip – Replacement	-540	0	0	0	0.0%
11 Equip – Additional	30,136	0	0	0	0.0%
12 Grants, Subsidies, and Contributions	4,762,611,758	5,275,960,442	5,916,166,365	640,205,923	12.1%
<b>Total Objects</b>	<b>\$ 4,764,119,271</b>	<b>\$ 5,275,960,442</b>	<b>\$ 5,916,166,365</b>	<b>\$ 640,205,923</b>	<b>12.1%</b>
<b>Funds</b>					
01 General Fund	\$ 4,028,256,805	\$ 4,498,156,773	\$ 5,187,424,154	\$ 689,267,381	15.3%
03 Special Fund	44,667	0	0	0	0.0%
05 Federal Fund	735,470,281	777,185,160	728,170,211	-49,014,949	-6.3%
09 Reimbursable Fund	347,518	618,509	572,000	-46,509	-7.5%
<b>Total Funds</b>	<b>\$ 4,764,119,271</b>	<b>\$ 5,275,960,442</b>	<b>\$ 5,916,166,365</b>	<b>\$ 640,205,923</b>	<b>12.1%</b>

Note: The fiscal 2007 appropriation does not include deficiencies, and the fiscal 2008 allowance does not reflect contingent reductions.

**Fiscal Summary  
MSDE – Aid to Education**

<u>Program/Unit</u>	<u>FY06 Actual</u>	<u>FY07 Wrk Approp</u>	<u>FY08 Allowance</u>	<u>Change</u>	<u>FY07-FY08 % Change</u>
01 State Share of Basic Current Expenses	\$ 2,308,283,487	\$ 2,493,221,111	\$ 2,782,037,499	\$ 288,816,388	11.6%
02 Compensatory Education	616,176,916	745,915,149	902,405,478	156,490,329	21.0%
03 Aid for Local Employees Fringe Benefits	415,309,380	455,318,501	577,898,967	122,580,466	26.9%
04 Children at Risk	20,687,433	28,437,594	18,248,590	-10,189,004	-35.8%
05 Formula Programs for Specific Populations	5,897,885	8,068,673	6,000,000	-2,068,673	-25.6%
07 Students with Disabilities	302,915,140	354,131,994	402,890,168	48,758,174	13.8%
08 Assist State Educating Students with Disabilities	278,599,017	284,862,665	269,405,000	-15,457,665	-5.5%
09 Gifted and Talented	1,551,595	1,579,260	1,569,335	-9,925	-0.6%
10 Environmental Education	208,000	1,751,000	1,700,000	-51,000	-2.9%
12 Educationally Deprived Children	177,011,152	187,621,636	171,901,092	-15,720,544	-8.4%
13 Innovative Programs	20,451,269	36,376,030	24,225,848	-12,150,182	-33.4%
14 Adult Continuing Education	12,215,440	14,074,375	14,424,330	349,955	2.5%
15 Language Assistance	6,321,465	7,841,801	6,738,175	-1,103,626	-14.1%
18 Career and Technology Education	17,638,302	16,474,709	15,841,967	-632,742	-3.8%
20 Baltimore City Partnership Funding	14,093,016	0	0	0	0%
24 Limited English Proficient	66,775,148	88,834,043	126,172,174	37,338,131	42.0%
25 Guaranteed Tax Base	38,743,204	60,498,363	78,856,442	18,358,079	30.3%
27 Food Services Program	160,573,270	163,899,651	176,086,128	12,186,477	7.4%
31 Public Libraries	30,131,329	35,225,970	36,036,822	810,852	2.3%
32 State Library Network	14,227,758	15,219,970	16,262,596	1,042,626	6.9%
39 Transportation	187,113,209	202,077,578	219,024,870	16,947,292	8.4%
52 Science and Mathematics Education Initiative	3,244,496	5,039,795	6,349,142	1,309,347	26.0%
53 School Technology	6,190,707	6,487,977	3,369,803	-3,118,174	-48.1%
54 School Quality, Accountability and Recognition of	13,868,315	15,664,274	11,939,345	-3,724,929	-23.8%
55 Teacher Development	45,892,338	47,338,323	46,782,594	-555,729	-1.2%
<b>Total Expenditures</b>	<b>\$ 4,764,119,271</b>	<b>\$ 5,275,960,442</b>	<b>\$ 5,916,166,365</b>	<b>\$ 640,205,923</b>	<b>12.1%</b>
General Fund	\$ 4,028,256,805	\$ 4,498,156,773	\$ 5,187,424,154	\$ 689,267,381	15.3%
Special Fund	44,667	0	0	0	0.0%
Federal Fund	735,470,281	777,185,160	728,170,211	-49,014,949	-6.3%
<b>Total Appropriations</b>	<b>\$ 4,763,771,753</b>	<b>\$ 5,275,341,933</b>	<b>\$ 5,915,594,365</b>	<b>\$ 640,252,432</b>	<b>12.1%</b>
Reimbursable Fund	\$ 347,518	\$ 618,509	\$ 572,000	-\$ 46,509	-7.5%
<b>Total Funds</b>	<b>\$ 4,764,119,271</b>	<b>\$ 5,275,960,442</b>	<b>\$ 5,916,166,365</b>	<b>\$ 640,205,923</b>	<b>12.1%</b>

Note: The fiscal 2007 appropriation does not include deficiencies, and the fiscal 2008 allowance does not reflect contingent reductions.