

R00A02
Aid to Education
Maryland State Department of Education

Operating Budget Data

(\$ in Thousands)

	<u>FY 07</u> <u>Actual</u>	<u>FY 08</u> <u>Working</u>	<u>FY 09</u> <u>Allowance</u>	<u>FY 08-09</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$4,494,556	\$5,193,341	\$5,386,224	\$192,882	3.7%
Special Fund	0	0	923	923	
Federal Fund	665,032	727,501	694,378	-33,124	-4.6%
Reimbursable Fund	<u>428</u>	<u>572</u>	<u>664</u>	<u>92</u>	<u>16.2%</u>
Total Funds	\$5,160,015	\$5,921,415	\$6,082,189	\$160,774	2.7%

- The fiscal 2009 Aid to Education budget increases \$160.8 million, or 2.7%. General funds are the primary cause of these increases, growing by \$193 million, or 3.7%.
- Fiscal 2008 marked the final phase-in of the Bridge to Excellence funding formulas, and fiscal 2009 growth is less than anticipated due to changes in the funding formulas during the 2007 special session.
- Federal fund decreases partially offset the increase in general funds. Federal funds have a net decrease of \$33.1 million, or 4.6%, due primarily to an accounting change relating to Medicaid funds for school-based health services.
- Special funds, which were not used in fiscal 2008, increase by \$922,613, and reimbursable funds increase by \$92,420, or 16.2%.

Analysis in Brief

Major Trends

Student Performance Continues to Improve but Achievement Gaps Persist: For the past five years, the Maryland State Department of Education (MSDE) has been measuring student proficiency in math and reading in grades three through eight using the Maryland School Assessment, in accordance with No Child Left Behind (NCLB) guidelines. Although performance is improving, disparities still exist among grade levels and subgroups. **MSDE should discuss the persistent difference in proficiency rates among grade levels and subgroups.**

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

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Placing Highly Qualified Teachers in Every Classroom Remains a Challenge: NCLB also requires all teachers in core academic subjects to be “highly qualified.” Core academic subjects 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, hold a license to teach in the State, and have obtained full State certification or passed the State teacher licensing examination. While the number of classrooms led by highly qualified teachers is increasing throughout Maryland, those school systems in more economically depressed areas still struggle. **MSDE should discuss the disparity of classrooms taught by highly qualified teachers in low-income and high-income school systems.**

Issues

Local School Systems Report on How Thornton Funds Are Spent: 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. Each year MSDE reports how new funds are being spent. **MSDE should comment on the 2007 master plan updates and spending plans and the trends in school systems’ uses of their education funding. MSDE should also comment on the presence or absence of the potential best practices in the school systems.**

Bridge to Excellence Funding Formulas Changed in the 2007 Special Session, Leading to the Lowest Increase in Education Aid Since Legislation’s Enactment: Changes made through the Budget Reconciliation Act (Chapter 2 of the 2007 special session) will reduce the growth in direct State education aid by eliminating annual inflationary adjustments to the per pupil funding level in fiscal 2009 and 2010. Local school systems will see their lowest increase in State aid since the Bridge to Excellence legislation was enacted. **MSDE should comment on how local school systems are adjusting their master plans to account for lower than expected State aid. MSDE should also comment on the impact of multi-year contracts for wage contracts given the reduction in new funds available to school systems.**

Recommended Actions

	<u>Funds</u>
1. Add budget bill language to require a report on the student selection and enrollment process for the SEED School of Maryland.	
2. Delete funding for the Environmental Education program.	1,700,000
Total Reductions	\$ 1,700,000

Updates

Fiscal 2008 Funding Brings School Systems Closer to Adequacy: One of the contributions of the Commission on Education Finance, Equity, and Excellence (Thornton Commission) was the development of a method for estimating the amount of funds each school would need in order to obtain the resources needed to reasonably expect that students in the system can meet the State's academic performance standards. Fiscal 2008 brings all school systems closer to meeting the adequacy targets.

No Further Action on State Board of Education Takeover of 11 Baltimore City Schools After Moratorium Ends: In March 2006, the State Board of Education (SBE) 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 SBE. In Chapter 59 of 2006, the General Assembly placed a one-year moratorium on State-imposed school restructuring in Baltimore City. The prohibition terminated on May 30, 2007; however, SBE has taken no further action.

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Operating Budget Analysis

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 phased in from fiscal 2003 through 2008. Beginning in fiscal 2009, funding adjustments were to be determined by changes in enrollment and inflation.

The Bridge to Excellence (BTE) in Public Schools Act, commonly referred to as "Thornton," was completely phased in by fiscal 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). One discretionary part of the formulas that was in the original BTE – the Geographic Cost of Education Index (GCEI) – has not been fully funded. 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.

Major Trends

Student Performance Improves but Achievement Gap Persists

Nearly six years after its enactment in January 2002, the federal No Child Left Behind Act (NCLB) continues to challenge schools and school systems across the country and in Maryland. The Act requires states to set standards and measure students' progress toward the achievement of the standards. To reach these goals, the law also requires that all core curriculum classes be taught by highly qualified teachers. Although Maryland's educational policies – including the State funding increases resulting from the BTE legislation and the State Board of Education's (SBE) continual focus on accountability – have put it in a better position than most states to implement NCLB, attainment of the NCLB goals has been elusive.

Achieving Adequate Yearly Progress Under No Child Left Behind

NCLB establishes a goal of having 100% of students reach proficiency in reading and mathematics by the 2013-2014 school year. Each state determines its own proficiency standards and establishes intermediate performance targets for each school year prior to 2014. Students must be assessed annually in grades three through eight and again in high school. 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 Maryland School Assessments (MSA) are used to measure the performance of students in grades three through eight, and the High School Assessments (HSA) are used for high school students. Combining scores on the MSAs with attendance rates and scores on the HSAs with high school graduation rates determines whether each school, school system, and the State as a whole make adequate yearly progress (AYP) toward 100% proficiency. Maryland was one of the first states to have its assessment system fully approved by the U.S. Department of Education (USDE).

2007 Assessment Results Mostly Positive

The 2007 MSA results for grades three through eight are shown in **Exhibit 1**. Since 2004, when testing at all required grade levels was implemented, proficiency rates have consistently increased. However, there were slight declines in the seventh grade reading and third grade math scores between 2006 and 2007. Proficiency rates have historically been higher in the lower grades than the higher grades, and that trend remained true in 2007. Students in several subgroups continue to perform below their peers, but gains have been made in closing the proficiency gap, most notably for special education, LEP, and FRPM students in the lower grades. **MSDE should discuss the persistent difference in proficiency rates among grade levels and subgroups.**

Exhibit 1
Maryland School Assessment Results
Percent of Students Demonstrating Proficiency
2004-2007

<u>Grade</u>	<u>Reading</u>				<u>Math</u>			
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Three	71.3%	76.1%	78.3%	80.5%	72.6%	77.1%	79.1%	78.6%
Four	75.1%	81.2%	81.8%	86.0%	69.6%	76.8%	82.1%	86.0%
Five	68.6%	74.6%	76.6%	76.7%	63.4%	69.5%	73.4%	78.3%
Six	68.3%	70.7%	71.9%	76.5%	50.3%	60.5%	65.6%	71.9%
Seven	67.0%	67.6%	71.1%	70.2%	49.8%	55.7%	60.1%	61.3%
Eight	64.2%	66.7%	67.0%	68.2%	46.1%	52.1%	55.0%	56.7%

Source: Maryland State Department of Education

For high schools, HSA scores in English and algebra are used to determine the achievement of AYP. Between 2006 and 2007, there was over a 10 percentage point increase in students demonstrating proficiency on the English 2 HSA. The algebra results, however, did not show improvement. As shown in **Exhibit 2**, a total of 63.5% of first-time test takers in 2007 demonstrated the necessary proficiency, a slight decline from 66.6% in 2006. Beginning with the class of 2009, HSAs take on new importance because 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 with a Maryland high school diploma. In October 2007, SBE approved an alternative path for students who fail to achieve the minimum HSA score. This will be discussed further in the MSDE – Headquarters analysis.

Exhibit 2
Percent of Students Passing High School Assessment on the First Try
2004-2007

<u>Year</u>	<u>Algebra</u>	<u>English 2</u>	<u>Biology</u>	<u>Government</u>
2004	58.8%		60.9%	65.9%
2005	53.8%	57.3%	57.6%	66.4%
2006	66.6%	60.1%	97.7%	74.2%
2007	63.5%	70.9%	70.3%	73.5%

Source: Maryland State Department of Education

Inability to Meet AYP and Assignment to School Improvement Status

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. Continued failure to meet AYP targets moves schools and school systems through a progression of steps that ultimately includes corrective action and restructuring. Schools move out of improvement status when they meet AYP targets for two consecutive years.

During the 2006-2007 school year, nearly 80% of Maryland schools met AYP targets. AYP results for 2007 show 233 schools (176 elementary and middle schools and 57 high schools) in improvement status, the same number in improvement last school year. Although the total number of schools in improvement remained constant, the number of elementary and middle schools in improvement status increased from 166 to 176 while the number of high schools in improvement decreased from 67 to 57. Furthermore, the number of schools entering improvement status decreased from 45 in 2006 to 36 in 2007, and 36 schools exited improvement status in 2007.

Exhibit 3 shows the number of schools in improvement in each local school system. Of the 235 schools in improvement, 93 schools are located in Baltimore City and 68 are located in Prince George’s County. These two local school systems account for 69.1% of the schools in improvement in the State. Nearly half of all schools in Baltimore City (47.0%) are in improvement status. Prince George’s County showed some positive gains from the previous school year with 68 schools (31.9%) in improvement, down from 83 schools (44.6%) in 2006. Both of these school systems have been placed in corrective action due to their inability to meet established performance targets. The systems had their corrective action plans approved by SBE in December 2006 as part of the comprehensive master plans that every system must submit. Although they are much smaller school systems, 38.5% of Dorchester County schools and 33.3% of Somerset County schools are in improvement. These systems have not been placed in corrective action.

Exhibit 3
Schools in Improvement Status 2007-2008 School Year

<u>County</u>	<u>Year 1 or Year 2 Improvement</u>	<u>Corrective Action</u>	<u>Restructuring</u>	<u>Total # of Schools in Improvement</u>	<u>Schools in Improvement as Percent of Total Schools</u>
Allegany	1			1	3.6%
Anne Arundel	5	2	1	8	6.6%
Baltimore City	21	6	66	93	47.0%
Baltimore County	9	2	4	14	8.3%
Caroline	1			1	10.0%
Cecil	4			4	13.8%
Dorchester	3	2		5	38.5%
Frederick	1		1	2	3.1%
Harford	2	1	1	4	7.7%
Howard	2			2	2.8%
Kent		2		2	25.0%
Montgomery	21	1	1	23	11.3%
Prince George’s	25	12	31	68	31.9%
St. Mary’s	1		1	2	7.7%
Somerset	3			3	33.3%
Wicomico	2			1	4.0%
Total	101	28	106	235	16.3%

Note: State total number of schools includes 196 schools from 8 school systems – Calvert, Carroll, Charles, Garrett, Queen Anne’s Talbot, Washington, and Worcester – with no schools in improvement.

Source: Maryland State Department of Education

Of the 106 schools in restructuring, the final and most severe phase of school improvement, 66 are located in Baltimore City and 31 are in Prince George’s County. Statewide, 84 of the 235 schools in improvement are elementary schools, 92 are middle schools, and 57 are high schools.

Providing a Highly Qualified Teacher in Every Classroom Remains a Challenge

NCLB also requires all teachers in core academic subjects to be “highly qualified.” Core academic subjects 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, hold a license to teach in the State, have obtained full State certification and passed the State teacher licensing examination. In addition, a teacher must have expertise in each subject the teacher is assigned to teach. Veteran teachers may be deemed “highly qualified” without passing a State licensing exam if they can demonstrate competency in core academic areas.

No state met the goal of providing a highly qualified teacher in every classroom by the end of the 2005-2006 school year, the deadline established by NCLB. In October 2005, in response to concerns expressed by many states about the consequences of missing the deadline, USDE announced a one-year extension for states that demonstrated a “good faith effort” to meet the highly qualified teacher requirement. States requesting an extension submitted revised plans for accomplishing the goal by the end of the 2006-2007 school year, with special attention paid to placing highly qualified teachers in schools with high concentrations of disadvantaged students. In August 2006, USDE granted Maryland a one-year extension, accepting its Revised State Plan as one of nine model plans. In July 2007, USDE pledged not to penalize states financially for not reaching the goal of 100% of classes taught by highly qualified teachers, as long as the states continue to make progress toward attaining this goal.

As shown in **Exhibit 4**, Maryland continues to improve on this NCLB goal, as the percentage of classes not taught by highly qualified instructors declined from 20.6% in 2006 to 17.8% in 2007. In 2007, 11 counties had less than 10.0% of classes not taught by highly qualified teachers: Allegany, Caroline, Carroll, Cecil, Frederick, Garrett, Montgomery, St. Mary’s, Talbot, Washington, and Worcester. In 2006, only four school systems met this threshold.

The counties that struggle the most to achieve AYP are also lagging behind in teacher qualification goals. Baltimore City and Dorchester, Prince George’s, and Somerset counties have the highest percentage of courses not taught by highly qualified teachers. The struggle to find qualified teachers in these school systems, each of which has a high proportion of economically disadvantaged students, is related to the ongoing statewide issue of teacher qualifications in high-poverty schools. Since 2004, when MSDE began monitoring the proportion of classes not taught by highly qualified teachers, the percentage for high-poverty schools has been significantly higher than for low-poverty schools. In 2007, 9.9% of classes in low-poverty schools were not taught by highly qualified teachers, compared to more than one-third of the classes in high-poverty schools. Although the percentage of classes not taught by highly qualified teachers has declined in both high- and low-poverty areas in the last four years, there has been only a minimal reduction in the gap between the two figures. **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 4
Percentage of Classes Not Taught by Highly Qualified Teachers

<u>School System</u>	<u>2006</u>	<u>2007</u>	<u>School System</u>	<u>2006</u>	<u>2007</u>
Allegany	2.8%	2.5%	Harford	10.7%	11.8%
Anne Arundel	15.5%	15.9%	Howard	11.0%	11.6%
Baltimore City	53.2%	47.0%	Kent	17.1%	17.3%
Baltimore County	16.5%	12.5%	Montgomery	14.5%	9.5%
Calvert	13.0%	12.7%	Prince George's	37.9%	33.7%
Caroline	10.5%	5.0%	Queen Anne's	15.3%	16.3%
Carroll	10.8%	9.8%	St. Mary's	6.7%	5.8%
Cecil	10.5%	9.8%	Somerset	31.0%	28.6%
Charles	27.0%	18.3%	Talbot	8.1%	8.8%
Dorchester	33.1%	38.3%	Washington	10.9%	9.8%
Frederick	10.7%	9.6%	Wicomico	25.5%	13.1%
Garrett	6.7%	5.2%	Worcester	10.8%	8.4%
			Statewide Total	20.6%	17.8%

Source: Maryland State Department of Education

Fiscal 2008 Actions

Impact of Cost Containment

Formula funding for specific populations was reduced during the Governor's cost containment reductions. A total of \$2.3 million was cut from the Aid to Education budget including \$800,000 for funding for the Out-of-County Placement program and Schools Near the Boundaries of Two Counties program. Also, \$854,000 was reduced from teacher development initiatives. The remainder reduced the funding for the Students with Disabilities and Compensatory Education formula programs (\$209,275 and \$394,066, respectively). MSDE indicated these cuts would not result in a decrease in services or the number of students served, rather they were the result of revised estimates for the programs' enrollment.

Governor’s Proposed Budget

Bridge to Excellence Funding Changes

The fiscal 2009 allowance, as shown in **Exhibit 5**, increases by \$161 million, or 2.7%. This represents the lowest increase since the enactment of the BTE in Public Schools legislation in 2002. Fiscal 2008 was the final year of the BTE formulas’ phase-in. Beginning in fiscal 2009, changes in funding would be based on enrollment and inflation. However, due to changes in the formula which calculates the State share of the foundation amount, growth is limited for fiscal 2009 and 2010. Most of the increases occur either in the programs associated with the BTE legislation or in funding for teachers’ and librarians’ retirement.

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

How Much It Grows:	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
2008 Working Appropriation	\$5,193,341	\$0	\$727,501	\$572	\$5,921,415
2009 Governor’s Allowance	<u>5,386,224</u>	<u>923</u>	<u>694,378</u>	<u>664</u>	<u>6,082,189</u>
Amount Change	\$192,882	\$923	-\$33,124	\$92	\$160,774
Percent Change	3.7%		-4.6%	16.2%	2.7%

Where It Goes:

Bridge to Excellence Funding Changes

State share of the per pupil foundation amount	-\$25,903
60% phase in of the Geographic Cost of Education Index	75,757
Supplemental grants (Chapter 2 of the 2007 special session).....	34,356
Limited English Proficiency	17,859
Compensatory Education	15,112
Transportation Funding	6,055
Special Education Formula.....	-6,782
Guaranteed Tax Base.....	11,147

Other General Fund Changes

Teacher and librarian retirement.....	56,758
Library Aid (Local Libraries, Enoch Pratt, and Regional Resource Centers)	4,078
Nonpublic Placement Program	2,441
SEED School implementation for at risk youth.....	2,000
Teacher development.....	404

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Where It Goes:

Federal Fund Changes

Medical Assistance Program/Accounting Change.....	-73,631
Funding for Educationally Deprived Children	33,024
Food Services Program.....	7,935
English Language Acquisition: State Formula Grant Program	1,964
Math Now	-2,000
Special Education Grants to States	-2,300
Charter Schools.....	2,116
Improving Teacher Quality State Grants	-629

Special Fund Changes

SEED School Funds	673
Teacher Development.....	250

Other Changes..... 91

Total **\$160,774**

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

- ***Foundation Formula (\$26 Million Decrease):*** The foundation formula ensures a minimum funding level per pupil and requires local education agencies (LEA) 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. Changes made through the Budget Reconciliation Act (BRA) (Chapter 2 of the 2007 special session) reduced the increase in direct State education aid by eliminating annual inflationary adjustments to the per pupil funding level in fiscal 2009 and 2010. Total enrollment decreased 8,004 students from 2006 to 2007. Therefore, the State share of the per pupil foundation amount decreased in fiscal 2009, by \$26 million, representing the largest single decrease in general funds from fiscal 2008 to 2009.

- ***Supplemental Grants – Chapter 2 of the 2007 Special Session (\$34 Million Increase):*** To mitigate the impact of the two-year inflation freeze in the per pupil foundation, the BRA established supplemental grants that will ensure at least a 1% annual increase in State funding for each local school system in accordance with a formula codified in the legislation. To determine if a school system is eligible for the supplemental grants, the amount of direct State aid, 50% of the State payment for teachers’ retirement, and 50% of the GCEI funding received by the LEA is compared to State aid from the prior fiscal year. Five school systems qualified for supplemental grants – Garrett, Kent, Montgomery, and Prince George’s counties along with Baltimore City. These grants total \$34 million in general funds. This is larger than expected due to higher than estimated wealth in certain jurisdictions.

- **GCEI Phase-in (\$76 Million Increase):** The GCEI is a discretionary formula that accounts for differences in the costs of educational resources among the local school systems. The formula has never been funded; however, the Governor has included 60% of the full formula in the fiscal 2009 allowance. **Exhibit 6** shows the 13 school systems that receive GCEI funding. Funding the GCEI is the largest increase in general funds.

Exhibit 6
Geographic Cost of Education Index Allocation
Fiscal 2009

<u>Local School System</u>	<u>GCEI Funding</u>
Anne Arundel	\$5,176,879
Baltimore City	13,030,493
Baltimore	3,213,827
Calvert	1,429,764
Carroll	1,573,824
Charles	2,075,937
Frederick	3,797,185
Howard	2,923,994
Kent	86,433
Montgomery	18,372,221
Prince George's	23,618,601
Queen Anne's	329,133
St. Mary's	128,708
Total	\$75,756,999

Source: Department of Budget and Management

- **Limited English Proficiency (\$18 Million Increase):** The LEP formula targets additional funds on the basis of 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 flat per pupil foundation amount also restrained the growth in the LEP grant. The \$18 million increase is based on an increase of 4,716 LEP students.
- **Compensatory Education (\$15.1 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 97.0% of the per pupil foundation amount. The State share of the formula costs 50.0%. Funds are distributed to each LEA based on the enrollment of students eligible for FRPM in the school system. The \$15.1 million increase represents a 1.7% increase from fiscal 2008.

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- ***Special Education Formula (\$6.8 Million Decrease):*** 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 of formula costs is 50%. The State share decreased by \$7 million, a change based on 2,824 fewer students from fiscal 2008.
- ***Guaranteed Tax Base (\$11.1 Million Increase):*** BTE 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 2009, 11 school systems qualify for the grant, for an \$11.1 million increase, or 14.1%, over fiscal 2008. The school systems that qualify are the same as fiscal 2008.
- ***Transportation Funding (\$6 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, \$1,000 per student requiring special transportation enrolled in the school system the prior fiscal year. The increase in transportation funding, including transportation of disabled students is \$6 million, or 2.8%, from fiscal 2008.

Other General Fund Changes

- ***Teachers' and Librarians' Retirement (\$56.7 Million Increase):*** The State pays 100% of the employers' share of retirement costs for most 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 is due primarily to a 8.8% increase in the salary base for LEAs.
- ***Public Library Aid (\$4.1 Million Increase):*** Chapter 481 of 2005 provides funding increases for public libraries based on an increase in the formula's per capita funding level, which grows from \$14 in fiscal 2008 to \$15 in fiscal 2009. This increases total State aid for public libraries by \$3.1 million, or 9.1%. 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 \$7.50 per resident in fiscal 2009, bringing total funds for regional resource centers to \$6.8 million, a \$969,754, or 16.6% increase. Budget bill language proposed by the Administration reduces the appropriation for public libraries by \$2.5 million and the State library network by \$907,673 contingent on enactment of authorizing legislation. The Budget Reconciliation and Financing Act (BRFA) of 2008, postpones additional aid enhancements until fiscal 2010 and completes phased-in enhancements in 2011.
- ***SEED School for Disadvantaged Youth (\$2 Million Increase):*** The SEED School of Maryland is a new residential education boarding program for at-risk students which will open in August 2008 (fiscal 2009) with a maximum of 80 sixth graders. Section 8-710 of the Education Article requires the Governor to provide at least \$2 million to the school for the

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program to serve up to 80 children and an additional \$250,000 for each additional 10 students beginning in fiscal 2009. The SEED School application process was approved by SBE on December 11, 2007. The school has received 175 requests for applications.

- ***Nonpublic Placement (\$2.4 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 \$2.4 million increase represents a 2% increase over fiscal 2008 funding.
- ***Teacher Development (\$404,000 Increase):*** The funds are used to recruit and retain quality teachers and increase staff development in each of the LEAs. The funds include monies for Quality Teacher Incentives, the Governor’s Award for Teacher Excellence, and to provide the fees for the National Board Certification for qualified teachers.

Federal Fund Changes

- ***Medical Assistance Program (\$74 Million Decrease):*** Changes in federal regulations aimed at tightening “pass through” claims required identification of the State share of costs within the State Medicaid agency. As a result, the Medical Care program in the Department of Health and Mental Hygiene (DHMH) began paying providers directly and charging the cost directly to Medicaid. MSDE will charge the local school systems for the administration of the program, and the federal funds will pass through DHMH rather than MSDE. Therefore, this decrease represents an accounting change rather than a decrease in services.
- ***Funding for Educationally Deprived Children (\$33 Million Increase):*** Fund increases include \$32 million in Title I grants to LEAs to provide schoolwide Title I programs for schools with a 40% poverty rate or higher, or targeted assistance to provide extra support for students who are failing or likely to fail meeting benchmarks in State assessments. Also included in this increase is \$1 million in funds for the Even Start program which provides early education and adult literacy programs for impoverished families.
- ***Food Services Programs (\$7.9 Million Increase):*** Funds are available to provide food and nutritional programs to needy children and families. The largest increases in the food services programs occur in the School Breakfast program (\$1.2 million), the National School Lunch program (\$5.0 million), and the Child and Adult Care Food program (\$1.5 million).
- ***English Language Acquisition (\$2 Million Increase):*** The program provides funds for LEAs to continue language programs. The program is administered on a formula basis to states and LEAs.
- ***Science and Mathematics Education Initiative (\$2 Million Decrease):*** The decrease occurs due to the elimination of \$2 million in funds for the Math Now program, which were anticipated in fiscal 2008 but never materialized. There is no actual decrease in funding for the program.

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- ***Special Education Grants to States (Individuals with Disabilities Education Act) (\$2.3 Million Decrease):*** MSDE is expecting a lower estimate on the grant awarded in fiscal 2009.
- ***Charter Schools Grants (\$2.1 Million Increase):*** Federal funds available for charter schools increased by \$2.1 million.
- ***Improving Teacher Quality State Grants (\$629,368 Decrease):*** Funds provided to improve teacher and principal quality as defined by NCLB. MSDE estimates lower expected grant revenue in fiscal 2009.

Special Fund Changes

- ***SEED School Funds (\$672,613 Increase):*** These special funds represent the projected amount the SEED School will receive from the home school system of students attending the SEED program.
- ***Teacher Development (\$250,000 Increase):*** Local share of funds for the National Board for Professional Teaching Standards (NBPTS), which were previously budgeted in the Headquarters budget, will be used for qualified NBPTS candidates seeking certification.

Programs Unchanged

- ***Environmental Education:*** The allowance includes \$1.7 million in funding for the Environmental Education program at NorthBay, which continues funding at the fiscal 2008 level.
- ***Science and Mathematics Education Initiative:*** It includes summer sessions for teachers and an equipment incentive fund to strengthen science and math education.

Issues

1. Local School Systems Report on How Thornton Funds Are Spent

The BTE 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 BTE Act and increases in local support for the school systems.

In December 2007, MSDE submitted the most recent report, which includes fiscal 2008 master plan updates and spending plans for all 24 local school systems. **Exhibit 7** shows that, from fiscal 2007 to 2008, the school systems had a combined \$833,649,803 in new revenues. This is the largest increase to date and represents the final phase-in of the BTE funding formulas. In addition to the \$834 million increase, \$105.7 million in redirected funds were available due in large part to various declines in payments made by the school systems, totaling \$939.4 million in new available funds in fiscal 2008. Although amounts vary, the average new funds per pupil across the State is \$1,046.

The planned use of additional available funds is compiled in **Exhibit 8**. The exhibit categorizes the new expenditures into four broad categories: current services cost increases; salary and benefits enhancements; cost increases related to the BTE 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. Statewide the amount used to maintain current services is \$90,239,307, or 9.5%, although percentages vary from 0.2% and 0.3% in Baltimore City and Prince George's County to 39.5% in Queen Anne's County.
- **Employee Salary and Benefit Increases:** More than half of total new funds in fiscal 2008, \$547.5 million, or 58.3%, 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 range from a low of 28.8% in Somerset County to a high of 83.4% in Montgomery 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.

Exhibit 7
Funds Available to Support Cost Increases, Enhancements, and New Initiatives
Fiscal 2008

<u>School System</u>	<u>Additional Revenues</u>	<u>Redirected Funds</u>	<u>New Funds Available</u>	<u>New Funds Per Pupil</u>
Allegany	\$13,954,160	\$0	\$13,954,160	\$1,551
Anne Arundel	56,894,950	0	56,894,950	792
Baltimore City	77,111,000	14,809,000	91,920,000	1,184
Baltimore	77,602,265	7,599,591	85,201,856	847
Calvert	14,432,618	0	14,432,618	848
Caroline	5,249,020	295,456	5,544,476	1,036
Carroll	20,753,632	3,435,400	24,189,032	864
Cecil	11,656,000	0	11,656,000	739
Charles	25,433,236	3,338,164	28,771,400	1,112
Dorchester	4,323,400	0	4,323,400	974
Frederick	54,167,087	606,723	54,773,810	1,384
Garrett	2,243,558	0	2,243,558	510
Harford	31,092,023	678,589	31,770,612	830
Howard	61,780,540	588,330	62,368,870	1,284
Kent	1,865,964	0	1,865,964	866
Montgomery	130,867,876	9,349,326	140,217,202	1,041
Prince George's	161,810,000	64,765,913	226,575,913	1,840
Queen Anne's	7,580,746	0	7,580,746	1,013
St. Mary's	19,604,146	0	19,604,146	1,216
Somerset	3,071,382	0	3,071,382	1,123
Talbot	2,552,307	0	2,552,307	603
Washington	26,681,317	0	26,681,317	1,259
Wicomico	16,661,041	0	16,661,041	1,157
Worcester	6,261,535	246,752	6,508,287	1,020
Total	\$833,649,803	\$105,713,244	\$939,363,047	\$1,046

Source: Maryland State Department of Education

**Exhibit 8
New Spending by Local School System – Budgeted Fiscal 2008**

<u>School System</u>	<u>Maintain Current Services</u>		<u>Salary and Benefit Increases</u>		<u>State Pre-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	\$3,671,293	26.3%	\$5,450,753	39.1%	\$66,750	0.5%	\$4,765,364	34.2%	\$0	0.0%
Anne Arundel	6,518,200	11.5%	32,101,500	56.4%	5,048,100	8.9%	12,476,700	21.9%	750,450	1.3%
Baltimore City	140,000	0.2%	47,715,000	51.9%	1,800,000	2.0%	42,265,000	46.0%	0	0.0%
Baltimore County	9,545,990	11.2%	61,651,436	72.4%	1,745,628	2.0%	12,258,802	14.4%	0	0.0%
Calvert	1,204,348	8.3%	8,610,927	59.7%	18,815	0.1%	4,598,528	31.9%	0	0.0%
Caroline	698,300	12.6%	3,237,896	58.4%	97,600	1.8%	1,510,680	27.2%	0	0.0%
Carroll	2,740,047	11.3%	18,719,320	77.4%	2,429,735	10.0%	229,359	0.9%	70,571	0.3%
Cecil	738,109	6.3%	8,923,300	76.6%	46,044	0.4%	1,948,547	16.7%	0	0.0%
Charles	3,448,000	12.0%	17,075,000	59.3%	855,000	3.0%	7,393,400	25.7%	0	0.0%
Dorchester	654,761	15.1%	2,311,653	53.5%	0	0.0%	1,330,523	30.8%	26,463	0.6%
Frederick	2,941,038	4.3%	41,549,432	76.7%	219,499	0.4%	10,063,841	18.6%	0	0.0%
Garrett	175,201	7.8%	1,867,109	83.2%	0	0.0%	201,248	9.0%	0	0.0%
Harford	9,682,904	30.5%	17,203,317	54.1%	0	0.0%	4,884,391	15.4%	0	0.0%
Howard	16,217,600	26.0%	38,238,670	61.3%	0	0.0%	7,912,600	12.7%	0	0.0%
Kent	422,086	22.6%	805,552	43.2%	0	0.0%	638,326	34.2%	0	0.0%
Montgomery	7,555,845	5.4%	116,995,165	83.4%	0	0.0%	14,846,038	10.6%	820,154	0.6%
Prince George's	724,760	0.3%	81,079,316	35.8%	0	0.0%	144,771,837	63.9%	0	0.0%
Queen Anne's	2,996,687	39.5%	3,260,862	43.0%	0	0.0%	752,440	9.9%	570,757	7.5%
Somerset	1,009,448	32.9%	885,063	28.8%	0	0.0%	1,176,871	38.3%	0	0.0%
St. Mary's	3,443,147	17.6%	13,474,035	68.7%	439,538	2.2%	1,876,198	9.6%	371,228	1.9%
Talbot	516,430	20.2%	1,470,636	57.6%	0	0.0%	565,241	22.1%	0	0.0%
Washington	8,745,342	32.8%	12,303,851	46.1%	388,264	1.5%	5,243,861	19.7%	0	0.0%
Wicomico	4,662,510	28.0%	8,578,830	51.5%	0	0.0%	3,103,691	18.6%	316,010	1.9%
Worcester	1,787,261	27.5%	3,941,642	60.6%	171,295	2.6%	608,089	9.3%	0	0.0%
Total	\$90,239,307	9.5%	\$547,450,265	58.3%	\$13,326,268	1.4%	\$285,421,575	30.4%	\$2,925,633	0.3%
Total New Spending	\$939,363,047									

Source: Maryland State Department of Education

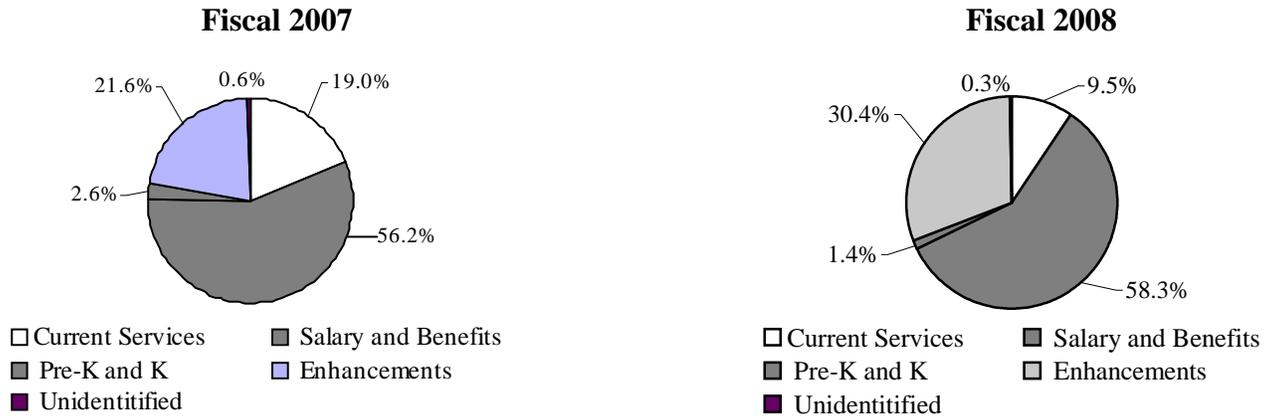
- **Kindergarten and Pre-kindergarten Mandates:** The BTE Act requires each school system to provide full-day kindergarten for all students and pre-kindergarten for all economically disadvantaged four-year-old children by the 2007-2008 school year. In fiscal 2008, \$13.3 million, or 1.4%, of new school system funds was identified to support these mandates, and the percentage was as high as 10.0% in Carroll County. Most counties have already implemented the required early education programs and budgeted little or no new funds to meet the mandates.
- **Enhancements and Initiatives:** Finally, \$285.4 million (30.4% 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. The highest percentages of new available funds used for this purpose is in Baltimore City (46.0%) and Prince George’s County (63.9%). Both of these school systems are in systemwide restructuring. **MSDE should comment on whether the high percentage of new funds directed toward enhancements and initiatives is due to the Baltimore City and Prince George’s County school systems’ restructuring status and what new initiatives have been put into place in these school systems.**

Reflecting a BTE goal, some of the school systems that have traditionally had greater needs have the highest percentages of new funding budgeted for enhancements, as is the case with Prince George’s County and Baltimore City. In contrast, Queen Anne’s County budgeted 39.5% to maintain current services. Each school system is able to direct the funds where it believes it will most benefit their particular student population and needs.

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 \$2.9 million or less than 1% of the total funding increases. **Exhibit 9** compares the findings from the fiscal 2008 analysis to the fiscal 2007 findings. The exhibit shows that the way the new funds were allocated among the four spending categories changed very little from fiscal 2007 to 2008, except additional funds are targeted toward enhancements.

BTE requires that further evaluation of LEA spending of State education aid be conducted by an independent evaluator. MGT of America, Inc. completed the second year of a three-year evaluation and submitted an interim report to the General Assembly in January 2008. MGT identified seven potential best practices including recruiting and retaining qualified staff, data utilization and analysis, researched-based programs, differentiated instruction, graduation enchantment, academic intervention and acceleration, and professional development.

**Exhibit 9
Use of New Funds
Fiscal 2007-2008**



Source: Maryland State Department of Education

MSDE should comment on the 2007 master plan updates and spending plans and the trends in school systems’ uses of their education funding. MSDE should also comment on the presence or absence of the potential best practices in the school systems.

2. Bridge to Excellence Funding Formulas Changed in the 2007 Special Session, Leading to the Lowest Increase in Education Aid Since Legislation’s Enactment

Changes made through the BRA (Chapter 2 of the 2007 special session) will reduce the increase in direct State education aid by eliminating annual inflationary adjustments to the per pupil funding level in fiscal 2009 and 2010. To mitigate the impact of the two-year inflation freeze, the BRA established supplemental grants that will ensure at least a 1% annual increase in State funding for each local school system in accordance with a formula codified in the legislation. Additionally, the Administration committed to an accelerated phase-in of the GCEI, a discretionary component of the BTE funding structure that has never been funded.

The leveling off of education aid in fiscal 2009, after four consecutive years of record increases, is not unexpected. Fiscal 2008 is the final year of the BTE phase-in schedule, and the Act boosted spending significantly from fiscal 2003 to 2008 through annual enhancements to the major State aid formulas. Beginning in fiscal 2009, increases in BTE aid were to be determined solely by the Act’s phase-in period. Initial education aid estimates for fiscal 2009 projected an increase of

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approximately \$327.0 million, less than half of the fiscal 2008 increase of \$688.6 million but not significantly different from the annual increases in fiscal 2005 and 2006. However, ongoing budget problems led to efforts during the special session to constrain the growth in spending for education and other State programs. **MSDE should comment on how local school systems are adjusting their master plans to account for lower than expected State aid.**

In the past, local school systems have used increased funds provided by BTE enhancements to fund increases in teacher salaries. As shown on Exhibit 9, in both fiscal 2007 and fiscal 2008, schools systems have used over 55% of new funds for salary and benefit increases. Many school systems enter into multi-year contracts with the teachers unions. With the reduction in new funds available in fiscal 2009 there will be limited new funds available to the LEAs. **Exhibit 10** shows the increase in direct State Aid for Education from fiscal 2008 to 2009. **MSDE should comment on the impact of multi-year wage contracts given the reduction in new funds available to the school systems.**

Exhibit 10
Direct State Aid for Education
Fiscal 2008 and 2009

<u>School System</u>	<u>2008</u>	<u>2009</u>	<u>\$ Change</u>	<u>% Change</u>
Allegany	\$82,238,106	\$86,361,442	\$4,123,336	5.0%
Anne Arundel	264,195,751	279,809,373	15,613,622	5.9%
Baltimore City	825,577,436	838,227,458	12,650,022	1.5%
Baltimore	505,079,940	517,077,152	11,997,212	2.4%
Calvert	83,595,157	86,373,595	2,778,438	3.3%
Caroline	41,697,922	42,931,672	1,233,750	3.0%
Carroll	140,288,615	143,545,913	3,257,298	2.3%
Cecil	96,671,645	98,436,077	1,764,433	1.8%
Charles	144,798,295	150,822,388	6,024,093	4.2%
Dorchester	29,829,539	30,534,479	704,940	2.4%
Frederick	196,623,221	204,957,994	8,334,773	4.2%
Garrett	25,202,707	25,343,341	140,634	0.6%
Harford	207,177,550	210,432,107	3,254,557	1.6%
Howard	183,061,736	196,553,688	13,491,952	7.4%
Kent	10,190,639	10,283,576	92,937	0.9%
Montgomery	395,931,916	405,573,988	9,642,071	2.4%
Prince George's	900,391,631	917,804,712	17,413,082	1.9%
Queen Anne's	29,474,022	30,568,935	1,094,913	3.7%

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<u>School System</u>	<u>2008</u>	<u>2009</u>	<u>\$ Change</u>	<u>% Change</u>
St. Mary's	88,916,263	94,584,730	5,668,468	6.4%
Somerset	23,348,586	26,406,015	3,057,429	13.1%
Talbot	10,215,085	10,425,919	210,834	2.1%
Washington	134,860,496	140,322,020	5,461,524	4.0%
Wicomico	103,877,885	110,034,131	6,156,246	5.9%
Worcester	16,873,377	17,073,411	200,034	1.2%
Unallocated	38,708,193	34,387,485	-4,320,708	-11.2%
Total	\$4,578,825,713	\$4,708,871,600	\$130,045,887	2.8%

Note: Excludes funding for public libraries.

Source: Department of Legislative Services

Recommended Actions

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

Provided that \$2,000,000 of the appropriation may not be expended until the Maryland State Department of Education (MSDE) submits a report to the budget committees, no later than October 1, 2008, on the student selection and enrollment process of the SEED School of Maryland. The report shall include a description of the process for informing eligible students about the school, the total number of applications, the number of students enrolled, and a description of the selection process. The budget committees shall have 45 days from the date of receipt of the report to review and comment.

Explanation: A report must be provided by MSDE on the selection and enrollment process for the SEED School of Maryland to ensure students from across the State are informed of the availability of the school. The budget committees shall have 45 days from the receipt of the report to review and comment.

Information Request	Authors	Due Date
A report on the selection and enrollment process for the SEED School of Maryland	MSDE The SEED School of Maryland	October 1, 2008

	<u>Amount Reduction</u>	
2. 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 as local school systems are required to use these funds at the NorthBay program. Deleting this funding would allow local education agencies to use a portion of the additional State funds they are receiving in fiscal 2009 to send their students to the NorthBay program or other environmental education programs as they see fit.	1,700,000	GF

Total General Fund Reductions	\$ 1,700,000
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Updates

1. Fiscal 2008 Funding Brings School Systems Closer to Adequacy

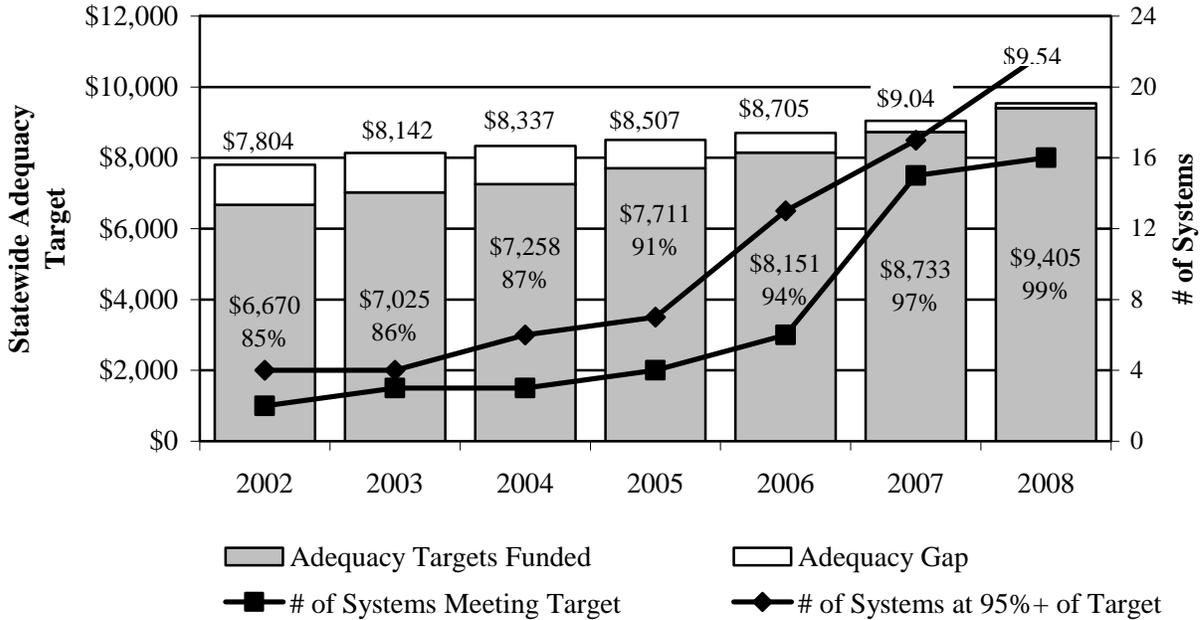
One of the contributions of the Commission on Education Finance, Equity, and Excellence (Thornton Commission) was the development of a method for estimating the amount of funds each school would need in order to obtain the resources needed to reasonably expect that students in the system can meet the State’s academic performance standards. The estimated “adequate funding” level for each local school system consists of a basic cost per pupil plus additional costs for each student with disabilities, economically disadvantaged student, and LEP students enrolled in the system. The sum of the costs is then multiplied by the system’s GCEI value, which estimates the cost of educational resources in the system relative to the State as a whole. As a result of differences in enrollments, student populations, and educational resource costs, the funding targets are different for each school system.

For a number of years, the General Assembly has been tracking the State’s progress toward meeting the calculated funding targets to assess the impact of funding provided through the BTE in Public Schools Act of 2002. In fiscal 2002, total needs were estimated at \$7.8 billion, and the statewide “adequacy gap” was \$1.1 billion. In addition, only two local school systems had actually met their funding targets, with two other school systems exceeding 95% of the calculated targets. In fiscal 2008, the statewide adequacy gap has been reduced to \$135.5 million, even as the statewide target has climbed to \$9.4 billion due to inflation and changes in student demographics. Although eight school systems fell short of their funding targets in fiscal 2008, only two were below 95% of their calculated targets. Statewide progress toward closing adequacy gaps is displayed graphically in **Exhibit 11**. The chart shows that the State has made significant progress in narrowing the adequacy gap even as the cost of adequacy increased by more than \$1.7 billion.

To evaluate individual school systems more closely, a comparison of the fiscal 2002 and 2008 adequacy analyses is shown in **Exhibit 12**. The exhibit shows that substantial progress has been made in each local school system over the span of BTE implementation. Despite the improvement, eight local school systems remain below their calculated funding targets in fiscal 2008. Two contributing factors help to explain why these school systems have fallen short of the targets.

- **Local Funding for Education:** In Maryland, funding public schools is a responsibility of both the State and the local governments. The State aid formulas are designed to provide approximately half of the total funds needed to support education. Individual school systems get more or less than 50.0% of their funding from the State, depending on the local jurisdiction’s capacity to raise revenue for education. A measure of local education effort can be calculated by dividing a jurisdiction’s local school appropriation by the jurisdiction’s total wealth. In 2008, the (unweighted) average local education effort level in Maryland’s 24 localities is 1.4% of local wealth. Of the eight school systems that fail to reach their adequacy targets in fiscal 2008, seven had local effort levels below the statewide average. With average effort in each of these seven school systems, adequacy gaps could be eliminated in two school systems, and the statewide adequacy gap could be reduced by \$43.8 million.

Exhibit 11
Statewide Adequacy Attainment
Fiscal 2002-2008
(\$ in Millions)



Sources: Maryland State Department of Education; local board of education budgets; Department of Legislative Services

- GCEI:** The GCEI is used to calculate the funding targets for individual school systems even though school systems are not receiving GCEI formula funding in fiscal 2008 to help pay for the higher needs. Full State funding for the GCEI formula in fiscal 2008 would have reduced adequacy gaps in Baltimore City and Prince George’s County by a total of \$62.7 million but would not have affected the other six school systems that are short of their funding targets. The proposed fiscal 2009 State budget begins a two-year phase-in of the GCEI with an investment of \$75.8 million in the program.

Even with improved local effort and full funding for the GCEI formula, some school systems would still fall short of their adequacy targets due to a variety of additional factors, such as disparities in federal aid amounts, the amount of local funding devoted to student transportation rather than instruction, and other issues in the State aid structure. However, analyses from previous years have demonstrated that students in school systems funded at 95% of their adequacy targets often perform as well as students in systems that exceeded the targets, indicating that funding alone does not determine success.

Exhibit 12
Adequacy Progress from Fiscal 2002-2008
(\$ in Millions)

School System	Fiscal 2002 Adequacy Target	Adjusted Revenue*	Adequacy Gap	% of Target Funded**	Fiscal 2008 Adequacy Target	Adjusted Revenue*	Adequacy Gap	% of Target Funded**
Allegany	\$98.8	\$78.3	\$20.5	79.2%	\$108.8	\$118.5	\$0.0	108.9%
Anne Arundel	610.0	563.8	46.2	92.4%	749.5	817.1	0.0	109.0%
Baltimore City	1,164.7	871.8	293.0	74.8%	1,202.3	1,162.2	40.1	96.7%
Baltimore	926.4	859.0	67.4	92.7%	1,160.7	1,204.5	0.0	103.8%
Calvert	129.1	117.7	11.4	91.2%	166.8	188.2	0.0	112.8%
Caroline	53.3	36.4	16.9	68.4%	64.2	56.4	7.8	87.9%
Carroll	211.5	191.0	20.5	90.3%	265.5	298.9	0.0	112.6%
Cecil	133.3	109.7	23.6	82.3%	167.7	170.9	0.0	101.9%
Charles	196.0	164.8	31.2	84.1%	259.0	286.4	0.0	110.6%
Dorchester	46.6	36.2	10.4	77.7%	54.0	49.8	4.2	92.3%
Frederick	296.2	262.1	34.1	88.5%	403.8	442.5	0.0	109.6%
Garrett	44.5	36.3	8.2	81.6%	50.0	49.3	0.7	98.5%
Harford	315.5	264.8	50.7	83.9%	389.3	419.1	0.0	107.7%
Howard	349.8	376.3	0.0	107.6%	463.1	632.4	0.0	136.6%
Kent	25.1	24.2	0.9	96.4%	26.5	28.0	0.0	105.7%
Montgomery	1,216.1	1,288.8	0.0	106.0%	1,566.5	1,924.3	0.0	122.8%
Prince George's	1,377.3	968.4	408.9	70.3%	1,637.5	1,566.8	70.7	95.7%
Queen Anne's	57.4	52.4	5.0	91.2%	74.3	77.3	0.0	104.0%
St. Mary's	126.5	107.8	18.7	85.2%	172.0	172.9	0.0	100.5%
Somerset	29.7	24.8	4.9	83.5%	36.0	36.1	0.0	100.2%
Talbot	38.2	32.8	5.4	85.7%	44.7	44.4	0.3	99.3%
Washington	172.1	143.3	28.8	83.2%	239.8	233.0	6.8	97.2%
Wicomico	127.6	101.3	26.3	79.4%	169.9	165.0	4.9	97.1%
Worcester	58.7	57.1	1.6	97.3%	68.7	88.5	0.0	128.8%
State Total	\$7,804.4	\$6,768.9	\$1,134.6	85.5%	\$9,540.6	\$10,232.4	\$135.5	98.6%

*Excludes budgeted expenditures for student transportation.

**State total percentage excludes funding that exceeds adequacy targets.

Sources: Maryland State Department of Education; local board of education budgets; Department of Legislative Services

2. No Further Action on State Board of Education Takeover on 11 Baltimore City Schools After Moratorium Ends

In March 2006, SBE 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 SBE. The takeovers were proposed by SBE in accordance with State regulations and the federal NCLB provisions and were believed to be the first attempt at a State takeover under NCLB. SBE 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, the General Assembly passed House Bill 1215 (Chapter 59 of 2006) that placed a one-year moratorium on State-imposed school restructuring in Baltimore City. Specifically, SBE and the State Superintendent of Schools were 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 terminated May 30, 2007. SBE has taken no further action on these schools.

Current and Prior Year Budgets

Current and Prior Year Budgets MSDE – 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 2007					
Legislative Appropriation	\$4,498,257	\$0	\$749,845	\$572	\$5,248,674
Deficiency Appropriation	0	0	1,557	0	1,557
Budget Amendments	-1,423	0	15,297	47	13,921
Reversions and Cancellations	-2,278	0	-101,667	-191	-104,136
Actual Expenditures	\$4,494,556	\$0	\$665,032	\$428	\$5,160,015
Fiscal 2008					
Legislative Appropriation	\$5,195,599	\$0	\$728,170	\$572	\$5,924,341
Cost Containment	-2,257	0	0	0	-2,257
Budget Amendments	0	0	-669	0	-669
Working Appropriation	\$5,193,341	\$0	\$727,501	\$572	\$5,921,415

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

Fiscal 2007

Actual expenditures decreased by \$88.7 million. This was due to large sums of reversions and cancellations totaling \$104.1 million. The legislative appropriation was increased through budget amendments by \$13.9 million.

General fund actual expenditures decreased through budget amendments by \$1.4 million. The largest share of this was a \$1.3 million transfer to the Funding for Educational Organizations budget for the Maryland Zoo in Baltimore. There was also a \$100,000 transfer to the Division of Instruction in the Headquarters budget.

General fund reversions totaled \$2.3 million. The majority is attributed to balances in the special education nonpublic placement program and the out of county living arrangements program (\$1.6 million and \$769,643, respectively). The special education nonpublic placement program is mandated in statute (Education Article Section 8 415), and cost is based on enrollment and cost of services required by each student. The out of county living arrangements program is an entitlement, and cost is based on the number of qualified students.

Federal funds increased by \$16.9 million. Two deficiency appropriations, \$1.2 million for the innovative programs division and \$340,272 for the science mathematics education initiative, account for \$1.6 million of this increase. The remainder can be attributed almost entirely to a net \$15.3 million in budget amendments which allowed for fund carryover from prior year balances. Notable amendments for funds from prior year balances included:

- \$9.0 million in fiscal 2006 Reading First Grants for school systems to fund reading programs for students in kindergarten through the third grade;
- \$7.4 million in fiscal 2006 funds from the 21st Century Community Learning Centers program;
- \$2.1 million in funds through the Library Services and Technology Act;
- \$1.9 million in the remainder of Hurricane Education Recovery-Emergency Impact Aid for Displaced Students Program; and
- \$1.1 million in fiscal 2006 funds through the Adult Continuing Education program.

New grants included \$1.2 million in GEAR-UP funding and \$340,272 in increased funds through the Mathematics and Science Partnerships Program. Budget amendment transfers from Aid to Education to various divisions in MSDE Headquarters reduced the appropriation by \$14.1 million. These transfers included:

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- \$7.6 million from the Students with Disabilities program to cover grants for special education children;
- \$3.6 million to the Division of Student, Family and School Support; and,
- \$2.6 million from Educationally Deprived Children programs to cover Title I grants provided to local education agencies through MSDE Headquarters.

Federal fund cancellations further reduced actual expenditures by \$101.7 million. MSDE indicated that \$70 million of this was attributed to a change in the distribution of medical assistance funds for school-based health services which were expended by DHMH in an accounting change. Most federal fund awards have to be used with 27 months of award date, as stipulated by the Tydings Amendment. Notable federal fund cancellations include:

- \$71.1 million in carryover from grants targeting students with disabilities;
- \$13.3 million in carryover from grants targeting children at risk, mostly NCLB Title IV, and 21st Century Learning Centers;
- \$8.7 million in Innovative Education Programs, including Charter School Implementation, GEAR-UP funds, and Reading First funds;
- \$3.5 million in funds for public libraries; and
- \$2.7 million in school technology carryover.

Reimbursable funds increased by \$46,509 through budget amendments from the Department of Health and Mental Hygiene's Sexual Assault and Sexual Abuse Funds. However, actual expenditures of reimbursable funds decreased by a net \$144,060 due to \$190,569 in cancellations.

Fiscal 2008

The general fund appropriation decreased \$2.3 million through the Governor's cost containment measures. The largest reductions included the Formula Program for Specific Populations and the Teacher Development program (\$800,000 and 854,000, respectively).

Federal funds decreased by \$668,750 due to a transfer to the Major Information Technology budget in MSDE Headquarters to cover the development costs of a new data collection system for the School and Community Nutrition Support Program.

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

<u>Object/Fund</u>	<u>FY07 Actual</u>	<u>FY08 Working Appropriation</u>	<u>FY09 Allowance</u>	<u>FY08-FY09 Amount Change</u>	<u>Percent Change</u>
Objects					
02 Technical and Spec. Fees	\$ 293,209	\$ 0	\$ 0	\$ 0	0.0%
03 Communication	547	0	0	0	0.0%
04 Travel	16,152	0	0	0	0.0%
08 Contractual Services	1,150,220	0	0	0	0.0%
09 Supplies and Materials	-1,331	0	0	0	0.0%
11 Equipment – Additional	-106	0	0	0	0.0%
12 Grants, Subsidies, and Contributions	5,158,556,727	5,921,414,916	6,082,188,697	160,773,781	2.7%
Total Objects	\$ 5,160,015,418	\$ 5,921,414,916	\$ 6,082,188,697	\$ 160,773,781	2.7%
Funds					
01 General Fund	\$ 4,494,555,838	\$ 5,193,341,455	\$ 5,386,223,785	\$ 192,882,330	3.7%
03 Special Fund	0	0	922,613	922,613	N/A
05 Federal Fund	665,031,640	727,501,461	694,377,879	-33,123,582	-4.6%
09 Reimbursable Fund	427,940	572,000	664,420	92,420	16.2%
Total Funds	\$ 5,160,015,418	\$ 5,921,414,916	\$ 6,082,188,697	\$ 160,773,781	2.7%

Note: The fiscal 2008 appropriation does not include deficiencies.

**Fiscal Summary
MSDE – Aid to Education**

<u>Program/Unit</u>	<u>FY07 Actual</u>	<u>FY08 Wrk Approp</u>	<u>FY09 Allowance</u>	<u>Change</u>	<u>FY08-FY09 % Change</u>
01 State Share of Basic Current Expenses with GCEI and SGS	\$ 2,493,198,205	\$ 2,782,717,320	\$ 2,866,927,814	\$ 84,210,494	3.0%
02 Compensatory Education	745,915,149	902,134,366	917,246,199	15,111,833	1.7%
03 Aid for Local Employees Fringe Benefits	455,413,913	577,898,967	634,656,926	56,757,959	9.8%
04 Children at Risk	14,902,300	18,248,590	20,799,030	2,550,440	14.0%
05 Formula Programs for Specific Populations	5,838,030	5,200,000	5,200,000	0	0%
07 Students with Disabilities	354,114,041	411,017,903	406,677,383	-4,340,520	-1.1%
08 Assist State Educating Students with Disabilities IDEA	205,858,000	268,736,250	192,820,000	-75,916,250	-28.2%
09 Gifted and Talented	1,399,417	1,569,335	1,600,272	30,937	2.0%
10 Environmental Education	1,699,865	1,700,000	1,700,000	0	0%
12 Educationally Deprived Children Title I	181,161,529	171,901,092	204,925,100	33,024,008	19.2%
13 Innovative Programs	28,013,892	24,225,848	26,574,854	2,349,006	9.7%
14 Adult Continuing Education	14,099,373	14,424,330	14,424,132	1,802	0%
15 Language Assistance	7,065,364	6,738,175	8,701,803	1,963,628	29.1%
18 Career and Technology Education	16,473,916	15,841,967	15,920,269	78,302	0.5%
24 Limited English Proficient	88,829,756	126,174,693	144,033,602	17,858,909	14.2%
25 Guaranteed Tax Base	60,498,363	78,889,864	90,036,406	11,146,542	14.1%
27 Food Services Program	163,899,628	176,086,128	184,021,046	7,934,918	4.5%
31 Public Libraries	33,587,514	36,036,822	39,007,372	2,970,550	8.2%
32 State Library Network	15,219,970	16,262,596	17,260,727	998,131	6.1%
39 Transportation	202,062,318	219,023,786	225,078,410	6,054,624	2.8%
52 Science and Mathematics Education Initiative	4,267,637	6,349,142	4,451,037	-1,898,105	-29.9%
53 School Technology	3,783,742	3,369,803	3,631,744	261,941	7.8%
54 School Quality, Accountability and Recognition of	15,568,419	11,939,345	11,539,345	-400,000	-3.4%
55 Teacher Development	47,145,077	44,928,594	44,953,226	24,632	0.1%
Total Expenditures	\$ 5,160,015,418	\$ 5,921,414,916	\$ 6,082,188,697	\$ 160,773,781	2.7%
General Fund	\$ 4,494,555,838	\$ 5,193,341,455	\$ 5,386,223,785	\$ 192,882,330	3.7%
Special Fund	0	0	922,613	922,613	N/A
Federal Fund	665,031,640	727,501,461	694,377,879	-33,123,582	-4.6%
Total Appropriations	\$ 5,159,587,478	\$ 5,920,842,916	\$ 6,081,524,277	\$ 160,681,361	2.7%
Reimbursable Fund	\$ 427,940	\$ 572,000	\$ 664,420	\$ 92,420	16.2%
Total Funds	\$ 5,160,015,418	\$ 5,921,414,916	\$ 6,082,188,697	\$ 160,773,781	2.7%

Note: The fiscal 2008 appropriation does not include deficiencies.