

R00A03
Funding for Educational Organizations
Maryland State Department of Education

Operating Budget Data

(\$ in Thousands)

	<u>FY 15 Actual</u>	<u>FY 16 Working</u>	<u>FY 17 Allowance</u>	<u>FY 16-17 Change</u>	<u>% Change Prior Year</u>
General Fund	\$26,078	\$28,133	\$28,295	\$161	0.6%
Adjusted General Fund	\$26,078	\$28,133	\$28,295	\$161	0.6%
Special Fund	5,671	6,040	11,040	5,000	82.8%
Adjusted Special Fund	\$5,671	\$6,040	\$11,040	\$5,000	82.8%
Adjusted Grand Total	\$31,750	\$34,173	\$39,335	\$5,161	15.1%

- The fiscal 2017 adjusted general fund allowance increases by \$161,491 when compared to the fiscal 2016 adjusted working appropriation.
- The Maryland School for the Blind (MSB) receives an increase of \$76,491, in addition to the continuation of the \$1.8 million grant provided in fiscal 2016.
- Young Audiences of Maryland receives \$85,000 for being added as a State Aided Institution (SAI).
- The fiscal 2017 special fund allowance includes \$5 million for Student Assistance Organization (SAO) Business Entity Grants.

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

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Analysis in Brief

Major Trends

Maryland School for the Blind: MSB awarded four certificates and four diplomas in fiscal 2015. MSB has a goal to help students learn independent living skills that allow them to achieve success as graduates or when they return to their local schools. Sixty-six percent of students have shown improvement in their social relationships and functional independence skills, 53% increased their fluency rate, and 76% indicate a self-perceived enhancement of their self-esteem.

Blind Industries and Services of Maryland: The Blind Industries and Services of Maryland (BISM) has far exceeded its goal of providing at least 45,540 hours of training in blindness skills to participants. The 60,054 hours provided in fiscal 2015 was slightly below the previous year's total of 60,406. An intensive program to obtain employment or higher education had 24 participants in fiscal 2015. **The Department of Legislative Services (DLS) recommends that BISM revise its goal for annual hours of training in blindness skills.**

Issues

Funding for the Maryland School for the Blind: MSB serves students from birth to age 21 who are blind or visually impaired, including some with multiple disabilities. MSB educates students whose needs cannot be met in their respective 24 local school systems through community-based outreach and comprehensive on-campus programs on a day or residential basis. Since fiscal 2008, there has been minimal growth in the per pupil foundation, which impacts the mandated funding for MSB through the main formula grant. MSB has expressed concern that its State operating funding does not adequately address the considerable expense of providing the services necessary to meet the needs of its student population, particularly because so many students have multiple disabilities; MSB is projecting a fiscal 2017 shortfall of \$1.4 million, despite the continuation of the \$1.8 million grant first provided in fiscal 2016. **MSB should discuss why the shortfall is \$1.4 million since the \$1.8 million received in fiscal 2016 is ongoing and addressed most of the MSB shortfall estimated for fiscal 2016.** The Maryland State Department of Education (MSDE) and DLS have discovered errors in the methodology used for calculating basic cost and the local share of basic cost, which has an impact on the State and local revenue received by MSB. Resolving the errors in the calculations for the basic cost and the local share of basic cost would provide additional funding for MSB and offset at least part of the identified fiscal 2017 budget shortfall. **MSDE should comment on any updates that it has made to the proposal to correct errors in basic cost and local share of basic cost. MSB should comment on the impact of increased local contributions on its projected shortfall.** MSB also receives funds for billing for medical assistance after checking their students' eligibility against their Eligibility Verification System database. For school year 2016, MSB students were eligible for medical assistance. After submitting medical assistance forms to the State, the State processes the forms with medical assistance. MSB nets 50% of the medical assistance billings, and MSDE retains 50%. **MSDE should comment on how much funding it receives from medical assistance billing and how those funds are directed.**

Grants to State Aided Institutions: The State of Maryland, through MSDE, provides annual grants to nonprofit organizations to provide enriching educational programs that cannot be replicated in the classroom. Collectively, these programs are known as SAIs. Over the past decade, the number of SAIs has increased by 38%, from 29 grant recipients in fiscal 2005 to 40 in fiscal 2016, with a new SAI included in the fiscal 2017 allowance. In many instances, the services provided by the grant recipients fall into duplicative categories. With the exception of three organizations, programs funded through the SAI program have continuously received State funding. In response to a *Joint Chairmen's Report* request, MSDE reviewed the SAI program and reports that it has continued to use accountability metrics (Managing for Results report, midyear progress report, final report, and annual site visits) to monitor each organization's timeliness and ability to meet requirements and responsibilities of receiving such funding. If, after receiving technical assistance, those organizations are unable to meet the requirement, they should be recommended for discontinued funding. **MSDE should comment on the findings from the accountability metrics used to monitor SAIs in the last fiscal year.** The SAI program has never been promoted by MSDE. **MSDE should comment on why it has not promoted the SAI program in the past and the timeline for increasing program transparency.** **DLS recommends that language be added to the budget expressing the intent that the number of SAI programs be limited to 41, and that MSDE develop a process to limit the number of years a program may receive funding as an SAI in order to cycle in new applicants that are diverse in location and offering to receive funding.**

Maryland Education Grant Program: The Governor's fiscal 2017 allowance provides \$5 million in special funds from the Cigarette Restitution Fund to create a grant program for 50% of the contribution made by a business entity or nonprofit organization to an SAO to provide financial assistance to students attending nonpublic schools, provided those schools meet the same eligibility requirements to participate in the Nonpublic Schools Textbook and Technology Grants Program administered by MSDE. The Department of Commerce would administer the grant program. Prior to receiving grants, business entities would be certified as eligible on a first-come, first-served basis. Business entities receiving grants would be required to spend no less than 95% of the funds annually on financial assistance. The \$5 million in special funds the Governor's fiscal 2017 allowance designates for the program represents a significant amount. **MSDE should comment on the process for establishing and implementing this grant program in Maryland.**

Recommended Actions

Funds

1. Add language directing the Maryland State Department of Education to develop a process to place time limits on participation for programs in the State Aided Educational Institution program, and limit the number of programs at 41.

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2.	Reduce funding for Young Audiences of Maryland in line with the funding it received in the Budget Reconciliation and Financing Act of 2015.	\$ 35,000
3.	Add Title 20 language to Aid to Nonpublic Schools Program.	
4.	Reduce funding for the Maryland Nonpublic School Textbook Program in line with fiscal 2015 actual expenditures.	369,000
	Total Reductions	\$ 404,000

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Funding for Educational Organizations
Maryland State Department of Education

Operating Budget Analysis

Program Description

The Maryland State Department of Education (MSDE) provides funding to certain nonprofit organizations that offer educational programs. The nonprofits include the Maryland School for the Blind (MSB), Blind Industries and Services of Maryland (BISM), and other institutions designated as State Aided Institutions (SAI). This part of the MSDE budget also funds the Maryland Nonpublic Student Textbook Program, which provides grants to eligible nonpublic schools for textbook and computer supplies.

The following educational services are provided by the nonprofits:

- **MSB** educates students from birth through age 21 who are blind, severely visually impaired, or visually impaired/multi-disabled.
- **BISM** provides employment, training, and rehabilitation services to blind adults at three locations.

State Aided Institutions Programs

- **Alice Ferguson Foundation** operates an environmental education center on the Potomac River, offering field trips and a summer science camp on a working farm.
- **Alliance of Southern Prince George's Communities, Inc.** partners with community organizations to provide Scholastic Aptitude Test courses, tutoring for students, and parent workshops.
- **American Visionary Art Museum** provides museum tours and library visits to students and teachers, along with Internet programs about self-taught artists.
- **Baltimore Symphony Orchestra/Arts Excel** enhances teaching of the arts through midweek concerts for students and teachers.
- **B&O Railroad Museum, Inc.** offers a program focusing on history, social studies, and sciences as related to railroad technology.

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- **Baltimore Museum of Industry** provides hands-on exhibits enabling students to apply mathematics, science, and technology to work and industry, as well as a training center for technology education teachers.
- **Best Buddies** pairs special and general education students in middle and high schools in order to foster inclusion and build socialization skills.
- **Calvert Marine Museum** is a regionally oriented museum dedicated to the collection, preservation, research, and interpretation of the culture and natural history of Southern Maryland.
- **Chesapeake Bay Foundation** provides an environmental education program encompassing student field experiences at 16 centers and summer in-service courses for teachers.
- **Chesapeake Bay Maritime Museum** offers experiential learning programs about the Chesapeake Bay, including a field trip program for grade 3 students.
- **Citizenship Law-related Education Program** gives students real-world experiences related to the legal system to promote productive citizenship.
- **CollegeBound Foundation** provides college advisors in Baltimore City public high schools to encourage and assist students in continuing their education beyond high school.
- **Dyslexia Tutoring Program, Inc.** offers screening and tutoring services for dyslexic youth and adults who have average or higher basic intelligence and cannot afford private help.
- **Echo Hill Outdoor School** provides instruction in science, ecology, history, and the human environment through student field experiences.
- **Imagination Stage** produces professional theatre productions for children as part of a theatre arts center for young people.
- **The Jewish Museum of Maryland** supports on-site and outreach programs focusing on the history, tradition, and culture of Jewish life in Maryland.
- **Junior Achievement of Central Maryland, Inc.** provides a one-day Exchange City program that simulates owning and operating business enterprises.
- **Living Classrooms Foundation** provides outdoor hands-on experience to at-risk children in mathematics, science, and social studies and runs job-training programs.

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- **Maryland Academy of Sciences** cultivates interest in science through programs for visiting school groups, traveling science programs, and instructional materials for use by teachers.
- **Maryland Historical Society** enriches students' understanding of social studies through on-site and outreach programs.
- **Maryland Humanities Council** promotes humanities programming throughout Maryland.
- **Maryland Leadership Workshops, Inc.** teaches middle and high school students effective leadership skills in a residential summer program setting.
- **Maryland Mathematics, Engineering, and Science Achievement Program** partners with community organizations in providing programs aimed at improving Maryland students' preparation for the study of mathematics-related fields in college.
- **Maryland Zoo in Baltimore** provides a conservation education experience at the zoo or through a mobile outreach program.
- **National Aquarium in Baltimore** supports environmental and science education through on-site programs about aquatic environments.
- **National Great Blacks in Wax Museum** provides exhibit tours and other museum-related activities for students.
- **National Museum of Ceramic Art and Glass** offers an in-school and after-school ceramic art program for middle school students, relating art to other subjects in the curriculum.
- **NorthBay** is an environmental education center on the Elk Neck peninsula that focuses on five-day outdoor learning courses for middle school students.
- **Olney Theatre Center** supports the language arts high school curriculum through professional performances, interactive workshops, and teacher development.
- **Outward Bound** provides high school students a challenging educational experience in an outdoor setting, designed to develop self-esteem, community service involvement, and concern for the environment.
- **Port Discovery Children's Museum** provides hands-on activities for prekindergarten through grade 6 student visitors, as well as lesson plans for teachers.
- **Salisbury Zoological Park** provides programs that enhance the science curriculum and furnishes support material and in-service training for teachers.

- **Sotterley Foundation** provides a history enrichment program focusing on the people and culture surrounding the Tidewater Tobacco Plantation.
- **South Baltimore Learning Center** supports improving adult literacy to individuals in the South Baltimore area through one-on-one tutoring, General Education Diploma classes, and career counseling.
- **State Mentoring Resource Center** connects volunteer adult mentors with disadvantaged school children.
- **Sultana Projects, Inc.** provides educational programs to increase student understanding of history and awareness of the natural environment of the Chesapeake Bay and its watershed.
- **SuperKids Camp** provides an intensive summer reading and enrichment program for grade 3 and grade 4 students in Baltimore City.
- **The Village Learning Place** provides students in the Margaret Brent Elementary School and in the Charles Village Community at large with programs aimed at increasing performance in reading and mathematics.
- **Walters Art Museum** offers educational programs through tours, studio experiences, outreach, and teacher development.
- **Ward Museum of Wildfowl Art** provides environmental education programs focusing on art, history, and science through tours and hands-on activities adaptable to a school setting.
- **Young Audiences of Maryland**, new in fiscal 2017, partners with professional artists from all disciplines and with schools throughout Maryland for hands-on arts learning experiences.

Performance Analysis: Managing for Results

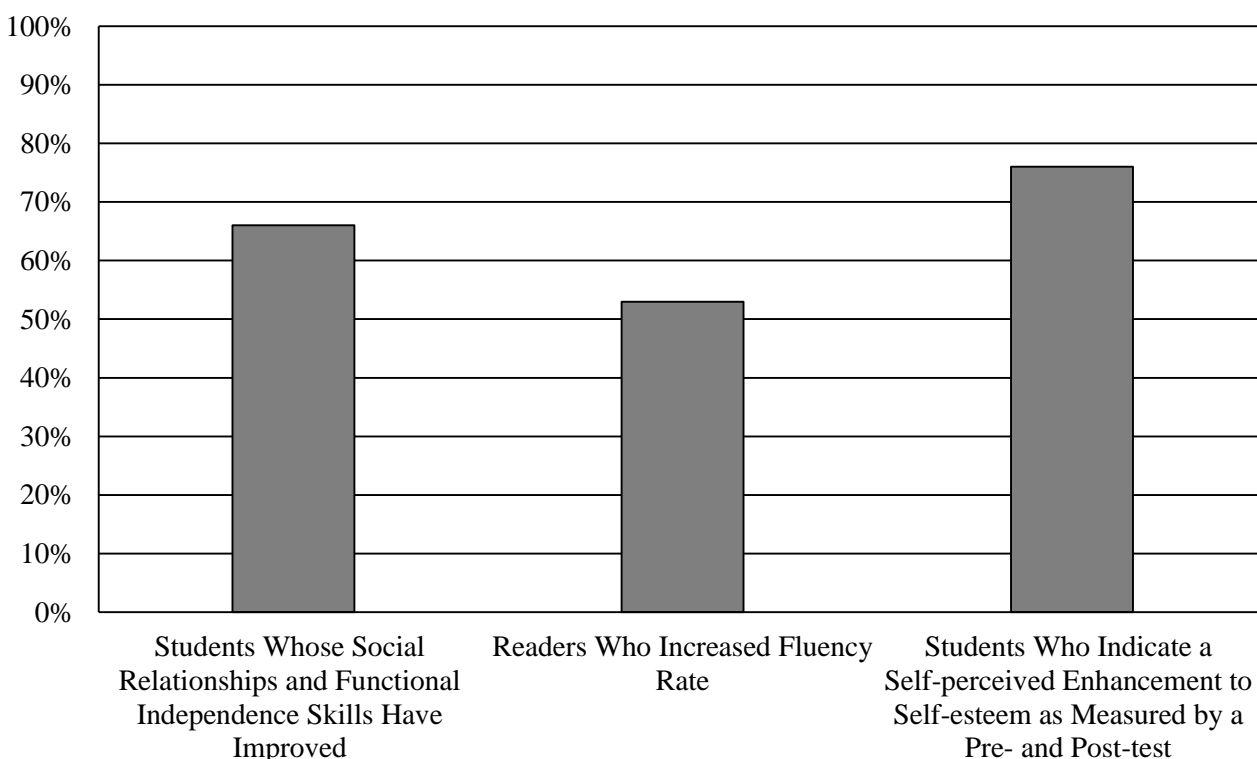
1. Maryland School for the Blind

MSB educates students referred from all 24 local school systems on a day or residential basis according to their Individualized Education Plans (IEP). The program includes the regular education curriculum as well as instruction in Braille, orientation and mobility, and independent living skills. Since fiscal 2008, MSB has averaged 93 students each year in its residential program and 94 students each year in its day program.

One MSB goal is that all students who pursue an education will receive a diploma or certificate and that there will be zero dropouts. MSB has achieved a zero-dropout rate since at least fiscal 2008. The number of certificates awarded in fiscal 2015 decreased to 4 from 13 the previous year; 4 students earned a diploma, an increase from 1 the previous year.

MSB is in the first year of reporting on data for new Managing for Results (MFR) measures that reflect their goal of all students acquiring academic and independent living skills. Included in these measures are the percent of students whose social relationships and functional independence skills have improved (66% in fiscal 2015); the number of students who increased their fluency rate (53%); and the percent of students who indicate a self-perceived enhancement of their self-esteem (76%). These are shown in **Exhibit 1**. As data continues to be collected annually, these measures will be more useful in tracking this goal than previous ones measuring postgraduate outcomes, which varied greatly year to year due to the small number of graduates MSB produces each year.

Exhibit 1
Maryland School for the Blind
New Measures for Acquiring Academic and Independent Living Skills
Fiscal 2015



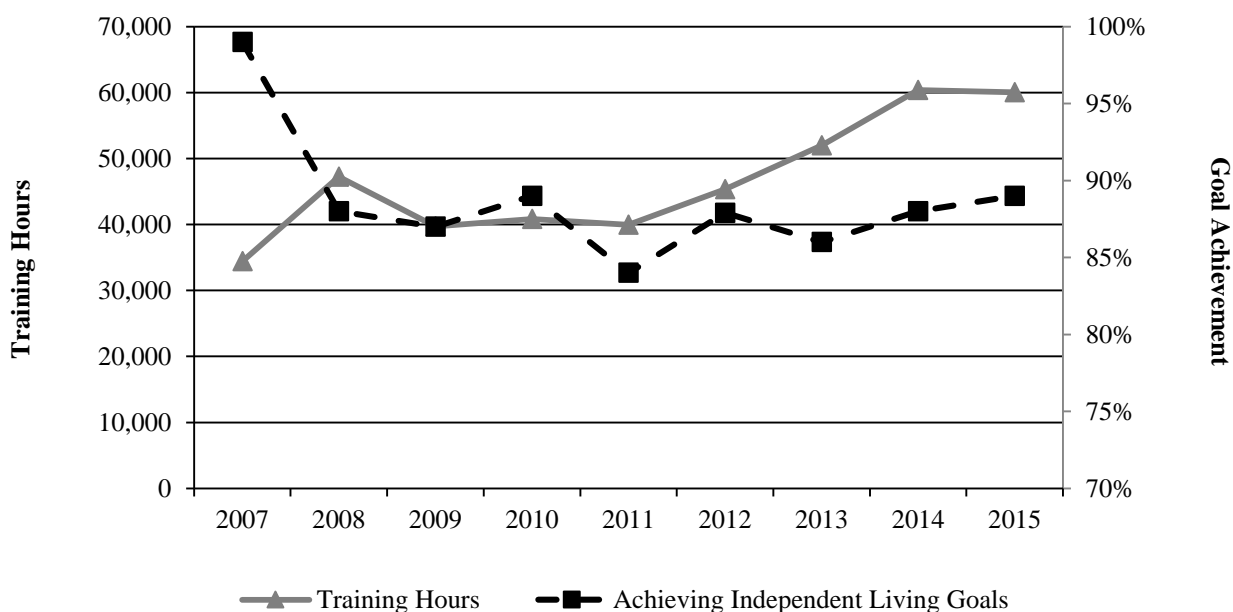
Source: Department of Budget and Management, Fiscal 2017

2. Blind Industries and Services of Maryland

One of the goals of BISM is to help people who are blind or have low vision gain the skills and confidence needed to live independently. A related objective is to provide at least 45,540 hours annually of training in blindness skills, such as Braille reading, cane travel, computer, independent living, career exploration, physical fitness, adjustment to blindness, and community-based training.

As shown in **Exhibit 2**, BISM has essentially met or exceeded the goal of providing at least 45,540 training hours annually since fiscal 2012. Most recently, over 60,000 hours of training in blindness skills were provided in fiscal 2015. Exhibit 2 also shows that the percent of participants achieving independent living goals has fluctuated dramatically since fiscal 2007. In fiscal 2015, 89% of BISM participants were again able to achieve independent living goals, in line with recent trends. Since fiscal 2007, an average of 202 individuals have participated in BISM training each year with an average of 46 participants completing the program. **The Department of Legislative Services (DLS) recommends that BISM revise its goal for annual hours of training in blindness skills.**

Exhibit 2
Blind Industries and Services of Maryland
Achievement of Independent Living
Fiscal 2007-2015

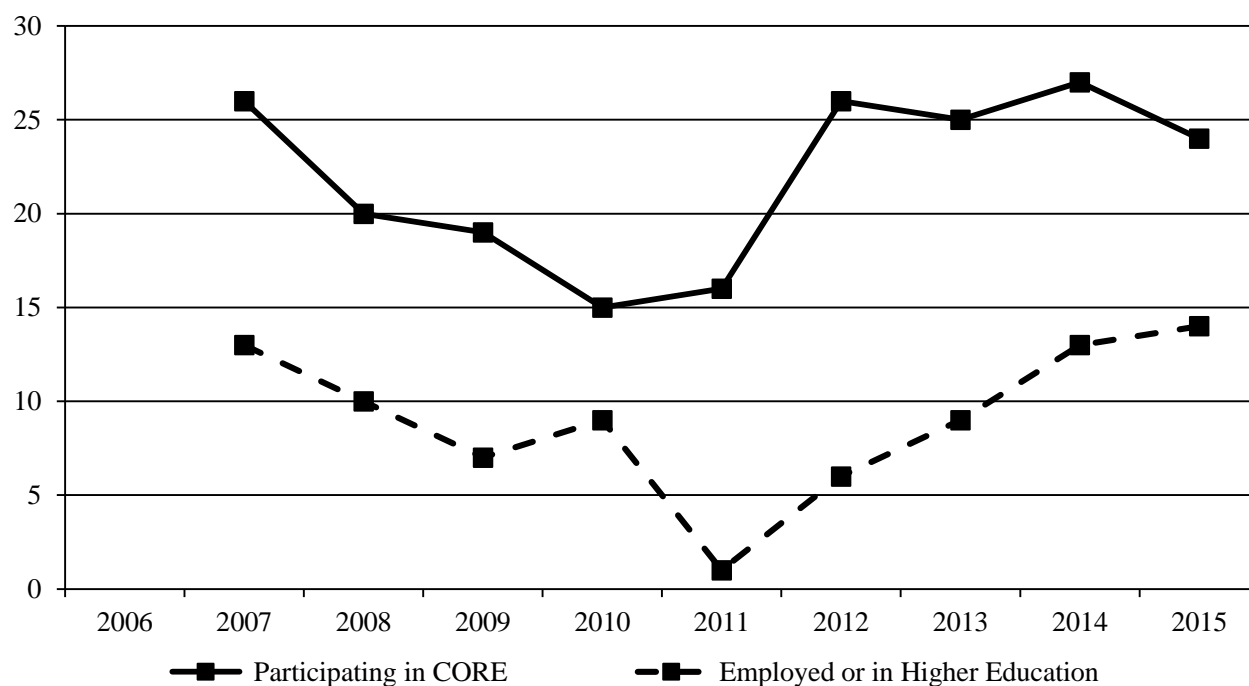


Note: Data for participants achieving independent living goals are from participant surveys.

Source: Governor's Budget Books, Fiscal 2009-2016; Department of Budget and Management, Fiscal 2017

Another BISM goal is to help people who are blind or low vision to become successful in a career path commensurate with their skills, abilities, and interests. A related objective is for BISM to help participants of the Comprehensive Orientation, Rehabilitation, and Empowerment (CORE) program to obtain employment or higher education. This program is intensive, and residential housing is available for some participants. **Exhibit 3** shows the number of CORE participants as well as those who completed the CORE program and are employed or pursuing higher education. Since fiscal 2011, both numbers have shown overall increases. Most recently, the CORE program had 24 participants, and 14 of those individuals went on to gain employment or pursue higher education in fiscal 2015.

Exhibit 3
Blind Industries and Services of Maryland
Employment and Higher Education
Fiscal 2006-2015



CORE: Comprehensive Orientation, Rehabilitation, and Empowerment

Source: Governor's Budget Books, Fiscal 2009-2016; Department of Budget and Management, Fiscal 2017

Proposed Budget

The fiscal 2017 allowance for the Funding for Educational Organizations program is approximately \$39.3 million, nearly a \$5.2 million increase over the 2016 working appropriation. **Exhibit 4** shows appropriations by major program. **Exhibit 5** provides detail on changes from fiscal 2016 to 2017.

Exhibit 4
Funding for Educational Organizations
Fiscal 2014-2017
(\$ in Thousands)

	<u>Actual</u> <u>2014</u>	<u>Actual</u> <u>2015</u>	<u>Working</u> <u>Approp.</u> <u>2016</u>	<u>Allowance</u> <u>2017</u>
Maryland School for the Blind	\$19,299	\$19,366	\$21,421	\$21,497
Blind Industries and Services of Maryland	531	531	531	531
State Aided Educational Institutions	6,131	6,181	6,181	6,266
Nonpublic School Textbook and Technology Grants	5,710	5,671	6,040	6,040
Student Assistance Organization Business Entity				
Grants	0	0	0	5,000
Total	\$31,672	\$31,749	\$34,173	\$39,335

Source: Governor's Budget, Fiscal 2017

Exhibit 5
Proposed Budget
MSDE – Funding for Educational Organizations
(\$ in Thousands)

How Much It Grows:	<u>General Fund</u>	<u>Special Fund</u>	<u>Total</u>
Fiscal 2015 Actual	\$26,078	\$5,671	\$31,750
Fiscal 2016 Working Appropriation	28,133	6,040	34,173
Fiscal 2017 Allowance	<u>28,295</u>	<u>11,040</u>	<u>39,335</u>
Fiscal 2016-2017 Amount Change	\$161	\$5,000	\$5,161
Fiscal 2016-2017 Percent Change	0.6%	82.8%	15.1%

Where It Goes:

General Fund Changes

Young Audiences of Maryland included as State Aided Educational Institution	\$85
Maryland School for the Blind per pupil enrollment adjustment.....	76

Special Fund Changes

Student Assistance Organization Business Entity Grants	5,000
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Total	\$5,161
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Note: Numbers may not sum to total due to rounding.

Maryland School for the Blind

The fiscal 2017 allowance provides MSB with a grant of approximately \$21.5 million in general funds, an increase of \$76,491 when compared to the working appropriation. The formula for MSB is based on enrollment and growth in State per pupil foundation funding provided to local school systems. According to the Department of Budget and Management, enrollment in fiscal 2017 is estimated to be 210 students, an increase of 6 over the previous year. The MSB formula has an adjustment that reflects the four-year moving average of student enrollment, which softens the effect of enrollment increases and decreases. For fiscal 2017, the per pupil foundation amount increased to \$6,964 based on an inflationary increase of 0.15%.

The \$1.8 million restricted in the fiscal 2016 budget bill for MSB was not included in the formula calculation of the fiscal 2017 allowance, as it was not technically in the legislative appropriation used for the calculation. It was instead added to the allowance after the inflationary

increase. The \$1.8 million in enhancement funding has been included in the fiscal 2017 allowance and will be included going forward.

Nonpublic School Textbook Program

Fiscal 2017 funding from the Cigarette Restitution Fund for the Nonpublic School Textbook and Technology Grants Program is level funded at \$6 million. This program supports the purchase of textbooks and computer hardware and software for eligible nonpublic schools. In fiscal 2015, 347 schools placed orders as part of the program. Approximately \$369,000 in unexpended funds were cancelled at the close of fiscal 2015. This was after approximately \$330,000 was cancelled at the close of fiscal 2014, making this the second year that the program has come up short of spending all if its funding at a similar amount. **DLS recommends reducing the fiscal 2017 appropriation to be in line with fiscal 2015 actual expenditures.**

State Aided Institutions

Fiscal 2017 funding for SAIs increases to \$6.3 million due to the addition of Young Audiences of Maryland, which receives \$85,000. Though the fiscal 2017 allowance is the first inclusion for Young Audiences of Maryland to receive funding as an SAI, Young Audiences of Maryland did receive \$50,000 in grant funding for fiscal 2016 under the Budget Reconciliation and Financing Act of 2015, transferred from the Special Fund for the Preservation of Cultural Arts in Maryland. **Exhibit 6** highlights all the program and funding amounts for fiscal 2016 and 2017.

Exhibit 6 State Aided Institutions General Fund Allocation Fiscal 2016 and 2017

	<u>2016 Working</u>	<u>2017 Allowance</u>
Alice Ferguson Foundation	\$79,378	\$79,378
Alliance of Southern P.G. Communities, Inc.	31,752	31,752
American Visionary Art Museum	15,040	15,040
Baltimore Symphony Orchestra/Arts Excel	63,503	63,503
B&O Railroad Museum, Inc.	60,161	60,161
Baltimore Museum of Industry	80,214	80,214
Best Buddies International (MD Program)	158,756	158,756
Calvert Marine Museum	50,000	50,000
Chesapeake Bay Foundation	416,945	416,945
Chesapeake Bay Maritime Museum	20,053	20,053
Citizenship Law-Related Education Program	29,244	29,244

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	<u>2016</u> <u>Working</u>	<u>2017</u> <u>Allowance</u>
College Bound Foundation	35,930	35,930
Dyslexia Tutoring Program, Inc.	35,930	35,930
Echo Hill Outdoor School	53,476	53,476
Imagination Stage	238,136	238,136
Junior Achievement of Central Maryland, Inc.	40,106	40,106
Living Classrooms Foundation	304,145	304,145
Maryland Academy of Sciences	873,169	873,169
Maryland Historical Society	119,484	119,484
Maryland Humanities Council	41,777	41,777
Maryland Math, Engineering, and Science Achievement Program	76,035	76,035
Maryland Leadership Workshops, Inc.	43,450	43,450
Maryland Zoo in Baltimore	812,171	812,171
National Aquarium in Baltimore	474,601	474,601
National Great Blacks in Wax Museum	40,106	40,106
National Museum of Ceramic Art and Glass	20,053	20,053
Northbay	927,558	927,558
Olney Theatre Center	139,539	139,539
Outward Bound	127,006	127,006
Port Discovery Children's Museum	111,130	111,130
Salisbury Zoological Park	17,546	17,546
Sotterly Foundation	12,533	12,533
South Baltimore Learning Center	40,106	40,106
State Mentoring Resource Center	76,036	76,036
Sultana Projects, Inc.	20,053	20,053
SuperKids Camp	391,043	391,043
The Jewish Museum of Maryland	12,533	12,533
The Village Learning Place	43,450	43,450
Walters Art Museum	15,875	15,875
Ward Museum of Wildfowl Art	33,423	33,423
Young Audiences of Maryland		85,000
Total	\$6,181,446	\$6,266,446

Source: Governor's Budget Books, Fiscal 2017

Further discussion of the SAI funding is located in the SAI budget issue of this analysis.

Issues

1. Funding for the Maryland School for the Blind

MSB serves students from birth to age 21 who are blind or visually impaired, including some with multiple disabilities. MSB educates students whose needs cannot be met in their respective 24 local school systems through community-based outreach and comprehensive on-campus programs on a day or residential basis. Each student has a mandated IEP tailored to his or her needs. The MSB program includes general education subjects and, in addition, special instruction in the disability-specific areas of the expanded CORE curriculum that includes Braille, orientation and mobility, career education, and independent living skills. Exit goals for students, depending on their abilities, are to earn either a high school diploma or a certificate of attendance at graduation or, prior to graduation, return to their local school systems with increased skill levels essential for successful reintegration and academic achievement.

MSB receives the majority of its funding through a State formula grant that is based on enrollment and growth in State per pupil funding. MSB also receives additional State funding through the Enhanced Services grant, which provides supplemental funding for blind students with additional disabilities who are at-risk for out-of-state placement. It is worth noting that the money MSB receives from the State through Enhanced Services grants funding is located outside of the Funding for Educational Organizations budget. Although there has been minimal fluctuations in the MSB total enrollment, the percent of the population receiving funding through the Enhanced Services grant has increased from 22% to 37% of the population between fiscal 2008 and 2015. In fiscal 2015, the most recent year of audited actual financial data, funding from State sources accounted for 84% of MSB revenues. The Enhanced Services grant funding accounted for 17% of total State funding to MSB, totaling over \$4.2 million.

Since fiscal 2008, there has been minimal growth in the per pupil foundation, which impacts the mandated funding for MSB through the main formula grant. As a point of comparison, MSB received \$17.9 million through the main formula grant in fiscal 2008. In essence, MSB State support, exclusive of the Enhanced Services grant and the \$2.8 million in ongoing enhancement funding (including \$1.0 million added to MSB in fiscal 2014 and \$1.8 million in fiscal 2016), has only increased by \$0.8 million since fiscal 2008 through foundation funding. (This does not include \$0.8 million that MSB received in special funds in fiscal 2015.) In fiscal 2016, MSB anticipated a budget shortfall of \$2.0 million and received a \$1.8 million enhancement grant in the fiscal 2016 budget. MSB receives \$21.5 million in the fiscal 2017 allowance, which includes continuation of the \$1.8 million enhancement provided in the fiscal 2016 budget bill. MSB indicates that the fiscal 2017 shortfall is estimated to be \$1.4 million. **MSB should discuss why the shortfall is \$1.4 million since the \$1.8 million received in fiscal 2016 is ongoing and addressed most of the MSB shortfall estimated for fiscal 2016.**

Due to inclusion of the \$1.8 million enhancement in the MSB main formula grant in fiscal 2017, as well as possible implementation of updates to the State's preK-12 formula funding as informed by the ongoing adequacy study, it is expected that MSB formula funding will begin to see increases.

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Increases in the MSB main formula grant are based on growth in the foundation formula used to fund public primary and secondary education. The per pupil foundation amount was frozen or capped at 1% from fiscal 2009 to 2015 as part of cost containment due to the Great Recession, and since then inflation has been very low. The State is conducting a study of the adequacy of preK-12 funding as a follow up to the study that led to the Bridge to Excellence in Public Education Act of 2002. The final report is due by December 1, 2016. The study will likely recommend additional resources for public education, which could also affect MSB funding.

MSB has expressed concern that its State operating funding does not adequately address the considerable expense of providing the services necessary to meet the needs of its student population, particularly because so many students have multiple disabilities. MSB is particularly concerned with the increased cost of providing residential services. The average cost per student in the residential program has increased by more than \$14,000 between fiscal 2008 and 2015. This reflects a 10% increase over an eight-year period, when funding from the main formula grant only increased by 8%.

MSB is expected to cover costs for both day and residential students with the base State grant it receives plus funds from local school systems and other sources. In the past few years, MSB has reduced some costs internally by employing fewer staff, revising employee pension plans, and implementing other cost containment measures; however, the gap between revenues and expenditures has persisted. **Exhibit 7** provides detail on MSB use of its endowment to support operating expenses.

Exhibit 7
History of Maryland School for the Blind Income and Endowment Draws
Fiscal 2005-2016

<u>Fiscal Year</u>	<u>Endowment Draw for Operations</u>	<u>Endowment Draw for Capital</u>	<u>Total Endowment (As of Previous Year-end)</u>	<u>Percentage Drawn from Endowment</u>
Actual 2005	\$1,147,008	*	\$20,900,515	5.49%
Actual 2006	1,095,204	*	20,872,018	5.25%
Actual 2007	1,732,594	*	21,868,682	7.92%
Actual 2008	1,237,092	*	23,057,308	5.37%
Actual 2009	1,308,591	*	22,600,805	5.79%
Actual 2010	912,520	*	20,865,075	4.37%
Actual 2011	427,467	*	21,976,048	1.95%
Actual 2012	0	*	27,043,529	0.00%
Actual 2013	116,327	\$763,673	27,098,914	3.25%
Actual 2014	243,770	1,883,990	29,646,049	7.18%
Actual 2015	191,600	2,000,000	33,064,314	6.63%
Budget 2016	0	1,247,404	32,470,011	3.84%

* Endowment draws were not broken down in this time period.

Source: Maryland School for the Blind

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From fiscal 2005 through 2009, the MSB endowment draw to support operating expenses totaled at least 5% of its endowment. Since fiscal 2009, however, the need to draw from the endowment declined, which MSB attributes to the previously mentioned internal cost containment measures adopted by MSB. In fiscal 2012, MSB did not require use of its endowment to subsidize operations at all. Since fiscal 2013, however, as MSB has undertaken significant capital investments, the endowment draw has increased. Although the use of the endowment for operating expenses has been 1% or less in the past four years, including no endowment funds being budgeted for operating expenses in fiscal 2016, if the MSB use of its endowment toward capital costs that are ineligible for State funding are accounted for, the total draw is above 5%. It is worth noting since fiscal 2005, even though \$14.3 million has been drawn from the endowment, the fund has grown by approximately \$11.6 million in the same time period.

In addition to the revenue received from the State, MSB receives tuition from local school systems. A student's home local education agency (LEA) pays the local share of the basic cost as tuition. The basic cost means the average amount spent by the county from county, State, and federal sources for the public education of a nonhandicapped child. Basic cost does not include amounts specifically allocated and spent for identifiable compensatory programs for disadvantaged children.

MSDE and DLS discovered errors in the methodology used for calculating basic cost and the local share of basic cost during the 2014 session. More detail on the specific issues with calculations is provided in the MSDE Aid to Education analysis; however, these errors do have an impact on the amount of revenue received from LEAs for students who receive education services from MSB. The impact of the miscalculations to basic cost and the local share of basic cost have resulted in some of the per student costs being understated in some counties and overstated for others. A significant portion of the MSB population comes from Baltimore City. The errors in the local share of basic cost calculation have resulted in Baltimore City's local share of basic cost totaling zero or being reflected as negative for a number of years. The ultimate impact to MSB is that MSB has likely not been receiving its appropriate share of revenues from LEAs.

Language in the fiscal 2016 budget bill required MSDE to report on the errors in calculating basic cost and local share of basic cost for nonpublic placements and propose solutions, while providing estimates of the fiscal impact of with correcting the errors, including the amount of additional revenue to be provided to MSB. Details on the MSDE proposal, which MSDE has implemented in fiscal 2016, and accompanying recommendations from DLS can be found in the Aid to Education analysis. Under the MSDE proposed changes, MSB would have received nearly \$81,000 in additional contributions from LEAs per year between fiscal 2012 and 2015. The per year contribution amounts for the MSDE proposal can be found in **Exhibit 8**.

Exhibit 8
Comparison of Local Contributions to the Maryland School for the Blind Using
Current and Proposed Methodologies
Fiscal 2012-2015

<u>Year</u>	<u>Current Methodology</u>	<u>Proposed Methodology</u>	<u>Change in Local Contribution</u>
2012	\$720,777	\$729,059	\$8,283
2013	676,175	690,731	14,556
2014	591,269	669,944	78,675
2015*	514,545	763,120	221,575

* Rates were frozen in fiscal 2015 at the fiscal 2014 level to allow time for a review of the methodology. This fiscal 2015 figure compares the calculations under the current and proposed methodologies, not the actual rates used in fiscal 2015. The fiscal 2015 figures are estimates using placement counts as on June 2, 2015.

Source: Maryland State Department of Education

In fiscal 2016, MSB will receive additional revenue from local contributions due to the proposed methodology, increasing funding by \$229,000 over the actual amount it received from local contributions in fiscal 2015. New methodology for calculating basic costs and local share of basic cost could offset at least part of the identified fiscal 2017 budget shortfall, currently estimated at \$1.4 million by MSB. MSDE notified LEAs of preliminary new basic cost rates for fiscal 2016, but the impact on the MSB budget is not yet known. It is difficult to determine at this time how much additional revenue will be provided to MSB and whether additional State support is warranted. **MSDE should comment on any updates it has made to the proposal to correct errors in basic cost and local share of basic cost. MSB should comment on the impact of increased local contributions on its projected shortfall.**

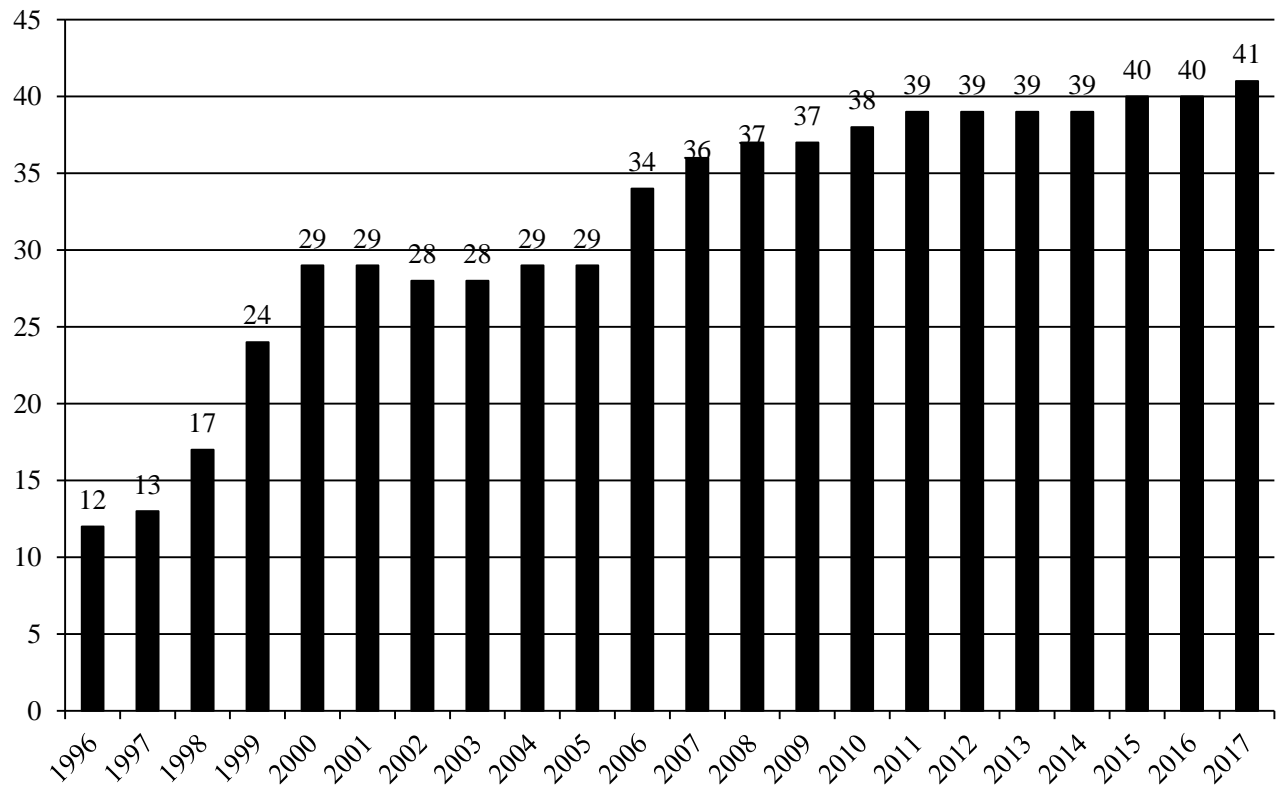
MSB also receives funds for billing for medical assistance (Medicaid) after checking its students' eligibility against their Eligibility Verification System database. For school year 2016, 115 MSB students were eligible for Medicaid. After submitting Medicaid forms to the State, the State processes the forms with Medicaid. MSB nets 50% of the Medicaid billings, and MSDE retains 50%. **MSDE should comment on how much funding it receives from MSB medical assistance billing and how those funds are directed.**

2. Grants to State Aided Institutions

The State of Maryland, through MSDE, provides annual grants to nonprofit organizations to provide enriching educational programs that cannot be replicated in the classroom. Collectively, these programs are known as SAIs. Over the past decade, the number of SAIs has increased by 38%, from 29 grant recipients in fiscal 2005 to 40 in fiscal 2016, with a new SAI included in the fiscal 2017

allowance. In many instances, the services provided by the grant recipients fall into duplicative categories. The increase in SAI count since the beginning of the program is shown in **Exhibit 9**, while the total appropriations for SAIs over that same period is shown in **Exhibit 10**.

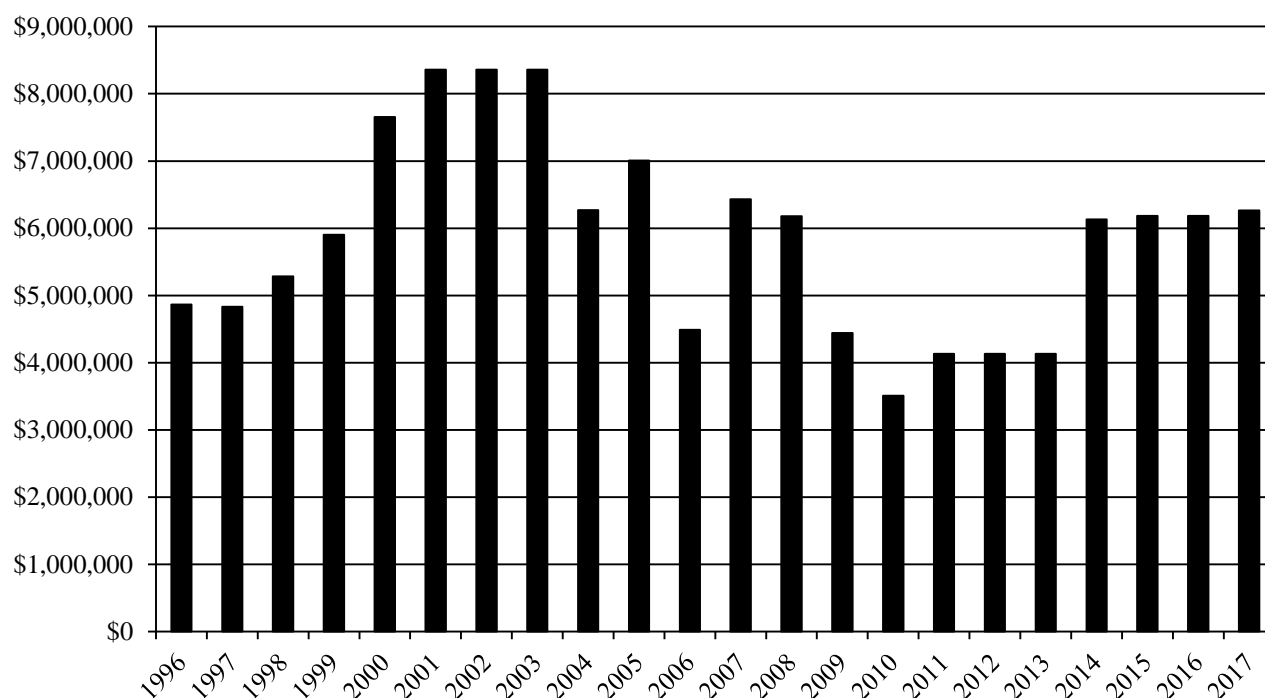
Exhibit 9
State Aided Institution Count
Fiscal 1996-2017



Note: Fiscal 2017 reflects the fiscal 2017 allowance, which includes funding for Young Audiences of Maryland.

Source: Maryland State Department of Education

Exhibit 10
State Aided Institution Appropriations
Fiscal 1996-2017



Note: Fiscal 2017 reflects the fiscal 2017 allowance, which includes funding for Young Audiences of Maryland.

Source: Maryland State Department of Education

In reference to these issues, the budget committees included narrative in the fiscal 2016 *Joint Chairmen's Report* (JCR) requesting MSDE to identify the percentage of each current recipient's budget that is funded through the SAI grant award, evaluate the current process for selecting SAI grant recipients and allocating grant resources, and evaluate the potential for consolidating the number of grant recipients or rotating recipients from year to year.

A review of the budget information through fiscal 2016 provided in the MSDE report shows that overall, 28 (70%) of the programs have SAI funding comprising 5% or less of the organization's total operating budget. Only nine (23%) of the organizations have double-digit percentages.

The MSDE report primarily advocated for the current methodology for selecting and providing funds to SAIs to remain intact in order to allow SAIs to best serve student populations. The following details the MSDE response to the JCR.

Consolidating or Rotating Grant Recipients

As independently operating nonprofit organizations, the consolidation or sharing of funds between SAIs would be difficult to execute. DLS does not recommend implementing such a policy as a cost-saving measure.

When surveyed by MSDE, SAIs reported that the annual funding they receive from the State is necessary to maintain the educational offerings to local school districts, even with State funding making up a modest portion of total funding for many SAIs. It was reported that without the annual funding, programs would no longer be able to offer free or reduced fees for schools. This could particularly limit access to these programs for Title 1 schools. MSDE reports that SAIs receiving funds on a rotational basis would have long-term effects on par with budget cuts and cost containment, leading to increased fees and staff reductions at SAIs.

With the exception of three organizations, programs funded through the SAI program have continuously received State funding. MSDE has continued to use accountability metrics (MFR report, midyear progress report, final report, and annual site visits) to monitor each organization's timeliness and ability to meet requirements and responsibilities of receiving such funding. If, after receiving technical assistance, those organizations are unable to meet the requirement, they should be recommended for discontinued funding. **MSDE should comment to the budget committees on the findings from the accountability metrics used to monitor SAIs in the last fiscal year.**

The SAI Application Process

As it currently stands, the SAI application process maintains the mechanism necessary to manage smart growth within the program. All applications that meet the eligibility criteria and can adequately show alignment with the department's educational priorities with viable learning experiences for students are forwarded to the Governor for consideration. MSDE should, however, continue to consider the geographic proximity of programs offering duplicative experiences in its evaluations. Services should continue to be offered to all Maryland students with focus on organizations serving multiple jurisdictions.

Program Transparency

The SAI program has never been promoted by MSDE. Organizations only become aware of this opportunity from other participating organizations or MSDE staff, and the only advertisement of the availability of these funds has traditionally been by word of mouth. MSDE has recognized this program should be more widely known and intends to place information about the SAI program on the department's website, displaying program information and application details. **MSDE should comment on why it has not promoted the SAI program in the past and the timeline for increasing program transparency.**

Recommendations

Due to the growth in the number of SAI programs, it is prudent to put in place restrictions to make sure the program does not grow excessively, especially as the program begins to be promoted in a more transparent fashion. **DLS recommends that language be added to the budget expressing the intent that the number of SAI programs be limited to 41, and that MSDE develop a process to limit the number of years a program may receive funding as an SAI in order to cycle in new applicants that are diverse in location and offerings to receive funding.**

3. Maryland Education Grant Program

Background

The Governor's fiscal 2017 allowance provides \$5 million in special funds from the Cigarette Restitution Fund to create a grant program for 50% of the contribution made by a business entity or nonprofit organization to a student assistance organization (SAO) to provide financial assistance to students attending nonpublic schools, provided those schools meet the same eligibility requirements to participate in the Nonpublic Schools Textbook and Technology Grants Program administered by MSDE. The Department of Commerce would administer the grant program. Prior to receiving grants, business entities would be certified as eligible on a first-come, first-served basis. Business entities receiving grants would be required to spend no less than 95% of the funds annually on financial assistance.

The Department of Commerce would designate qualified education expenses for which SAOs may provide financial assistance to students attending nonpublic schools. Assistance would be provided to students attending at least four different eligible nonpublic schools. Priority would be given to students who are eligible to receive free and reduced-priced meals, followed by other students based on financial need. SAOs would be required to partake in a reporting process to guarantee compliance.

Experience in Other States

According to the National Conference of State Legislatures, 16 states have established a tuition tax credit program as of January 2016. These programs, also known as scholarship tax credit programs, allow individuals and corporations to allocate a portion of state taxes to private nonprofit school tuition organizations that issue scholarships to eligible students. The scholarship allows a student to choose among a list of private schools, and sometimes public schools outside of the district, approved by the school tuition organization. The scholarship is used to pay tuition, fees, and other related expenses.

Of Maryland's surrounding states, Virginia and Pennsylvania offer similar tax credit programs. The Pennsylvania Opportunity Scholarship Tax Credit Program provides tax credits to eligible businesses contributing to Opportunity Scholarship Organizations. These organizations use these contributions to provide tuition assistance to eligible students residing within underperforming school districts to attend another public school outside of the district or an eligible nonpublic school. Tax

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credits are equal to 75% of the contribution up to a maximum of \$750,000 per tax year; this amount can be increased to 90% if a business agrees to provide the same amount for two consecutive tax years. The program provided a maximum of \$50 million in tax credits in fiscal 2014. Scholarship organizations can provide tuition assistance to K-12 students or preK students.

The Virginia Education Improvement Scholarships Tax Credits Program provides tax credits for persons or businesses who donate to approved scholarship foundations that provide scholarships to eligible students attending certain nonpublic schools. The tax credit is equal to 65% of the donation. A total of \$25 million in tax credits may be issued in each fiscal year.

Legislation to establish a tax credit program for nonpublic schools in Maryland has been introduced in the past, most recently in the 2012, 2014, and 2015 sessions. It has often been referred to as the Building Opportunities for All Students and Teachers (BOAST) in Maryland Tax Credit.

The \$5 million in special funds the Governor's fiscal 2017 allowance designates for the grant program represents a significant amount. **MSDE should comment on the process for establishing and implementing this grant program in Maryland.**

Recommended Actions

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

, provided that the \$200,000 of the general fund appropriation for grants to State Aided Institutions (SAI) may not be expended until the Maryland State Department of Education provides a report that details its methodology for accomplishing the following:

- (1) establishing a process to promote the availability of funds for potential entities to provide statewide services through grants through the SAI program; and
- (2) providing criteria under which SAIs will be limited to receiving funds for a set number of years, in order to allow new entities to participate in the program;

The report shall be submitted no later than December 1, 2016, and the budget committees shall have 45 days to review and comment. Funds restricted pending receipt of a report may not be transferred by budget amendment or otherwise to any other purpose and shall revert to the General Fund if the report is not submitted to the budget committees.

Further provided that it is the intent of the General Assembly that the number of SAIs be limited to no more than 41 in any fiscal year.

Further provided that it is the intent of the General Assembly that the State Board of Education make its recommendations for which organizations should receive funding as SAIs at a public meeting.

Explanation: Due to the growth in the number of SAI programs, it is prudent to put in place restrictions. As it is the intent of the Maryland State Department of Education (MSDE) to promote the SAI program in a more transparent fashion, a cap to allow funding for a maximum of 41 institutions per fiscal year would limit growth in the program. With that cap, a process limiting the number of years that an institution may receive funding would cycle out organizations that have received funding for new organizations that accomplish the MSDE goal of providing educational experiences that are diverse in locational and in educational offerings through the program.

Information Request	Author	Due Date
Report on process to promote the SAI program and provide time limits for SAI funding	MSDE	December 1, 2016

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	<u>Amount Reduction</u>	
2. Reduce general funds for the State Aided Educational Institutions program to reduce funding for Young Audiences of Maryland to \$50,000, matching the funding it received in the fiscal 2016 budget, as all other institutions are level funded in fiscal 2017.	\$ 35,000	GF
3. Add the following language to the special fund appropriation:		

Further provided that a nonpublic school participating in the Aid to Non-Public Schools Program R00A03.04 shall certify compliance with Title 20, Subtitle 6 of the State Government Article. A nonpublic school participating in the program may not discriminate in student admissions on the basis of race, color, national origin, or sexual orientation. Nothing herein shall require any school or institution to adopt any rule, regulation, or policy that conflicts with its religious or moral teachings. The sole legal remedy for violation of these provisions is ineligibility for participating in the Aid to Non-Public Schools Program.

Explanation: This action requires a nonpublic school participating in the Aid to Nonpublic Schools Program to certify compliance with Title 20, Subtitle 6 of the State Government Article that they may not discriminate in student admissions on the basis of race, color, national origin, or sexual orientation, less they become ineligible for participating in the Aid to Nonpublic Schools Program. Similar language was included in the fiscal 2016 budget.

	<u>Amount Reduction</u>	
4. Reduce Cigarette Restitution Funding for the Maryland Nonpublic School Textbook Program in line with 2015 actual expenditures.	369,000	SF
Total Reductions	\$ 404,000	
Total General Fund Reductions	\$ 35,000	
Total Special Fund Reductions	\$ 369,000	

Current and Prior Year Budgets

Current and Prior Year Budgets MSDE – Funding for Educational Organizations (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2015					
Legislative Appropriation	\$26,078	\$6,040	\$0	\$0	\$32,118
Deficiency Appropriation	0	0	0	0	0
Cost Containment	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Reversions and Cancellations	0	-369	0	0	-369
Actual Expenditures	\$26,078	\$5,671	\$0	\$0	\$31,750
Fiscal 2016					
Legislative Appropriation	\$26,333	\$6,040	\$0	\$0	\$32,373
Budget Amendments	1,800	0	0	0	1,800
Working Appropriation	\$28,133	\$6,040	\$0	\$0	\$34,173

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. Numbers may not sum to total due to rounding.

Fiscal 2015

The fiscal 2015 budget closed at \$31.8 million in total funding for educational organizations. This reflects a decrease of \$369,000 of cancelled special funds, due to the appropriation for the Nonpublic Textbook Program being higher than needed to fund all eligible schools that applied.

Fiscal 2016

The fiscal 2016 general fund working appropriation is approximately \$28.1 million, reflecting an increase of \$1.8 million over the legislative appropriation to provide additional program support for MSB, in accord with Section 48 of the fiscal 2016 budget bill.

Object/Fund Difference Report
MSDE – Funding for Educational Organizations

<u>Object/Fund</u>	<u>FY 15 Actual</u>	<u>FY 16 Working Appropriation</u>	<u>FY 17 Allowance</u>	<u>FY 16 - FY 17 Amount Change</u>	<u>Percent Change</u>
Objects					
08 Contractual Services	\$ 5,671,101	\$ 0	\$ 0	\$ 0	0.0%
12 Grants, Subsidies, and Contributions	26,078,406	34,173,328	39,334,819	5,161,491	15.1%
Total Objects	\$ 31,749,507	\$ 34,173,328	\$ 39,334,819	\$ 5,161,491	15.1%
Funds					
01 General Fund	\$ 26,078,406	\$ 28,133,328	\$ 28,294,819	\$ 161,491	0.6%
03 Special Fund	5,671,101	6,040,000	11,040,000	5,000,000	82.8%
Total Funds	\$ 31,749,507	\$ 34,173,328	\$ 39,334,819	\$ 5,161,491	15.1%

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

Fiscal Summary
MSDE – Funding for Educational Organizations

<u>Program/Unit</u>	<u>FY 15 Actual</u>	<u>FY 16 Wrk Approp</u>	<u>FY 17 Allowance</u>	<u>Change</u>	<u>FY 16 - FY 17 % Change</u>
01 Maryland School for the Blind	\$ 19,365,845	\$ 21,420,767	\$ 21,497,258	\$ 76,491	0.4%
02 Blind Industries and Services of Maryland	531,115	531,115	531,115	0	0%
03 Other Institutions	6,181,446	6,181,446	6,266,446	85,000	1.4%
04 Aid to Nonpublic Schools	5,671,101	6,040,000	6,040,000	0	0%
05 Student Assistance Organization Business Entity Grants	0	0	5,000,000	5,000,000	0%
Total Expenditures	\$ 31,749,507	\$ 34,173,328	\$ 39,334,819	\$ 5,161,491	15.1%
General Fund	\$ 26,078,406	\$ 28,133,328	\$ 28,294,819	\$ 161,491	0.6%
Special Fund	5,671,101	6,040,000	11,040,000	5,000,000	82.8%
Total Appropriations	\$ 31,749,507	\$ 34,173,328	\$ 39,334,819	\$ 5,161,491	15.1%

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.