

Department of Legislative Services
 Maryland General Assembly
 2004 Session

FISCAL AND POLICY NOTE

Senate Bill 526 (Senator Kelley, *et al.*)
 Budget and Taxation

Education - Distressed Schools - Performance Incentive Grants

This bill repeals the Quality Teacher Incentive bonuses and implements a program of performance incentive grants for schools in need of improvement, schools in corrective action, and schools in restructuring that make statistically significant progress towards achieving adequate yearly progress for three consecutive years. The grants are \$15,000 per school per year. The Governor must include funding for the performance incentive grants in the annual State budget.

Fiscal Summary

State Effect: General fund expenditures would decrease by an estimated \$6.5 million in FY 2005 and by an estimated \$4.6 million annually thereafter due to the combined impact of eliminating Quality Teacher Incentives and implementing performance incentive grants. Revenues would not be affected.

(\$ in millions)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	(6.5)	(4.6)	(4.6)	(4.6)	(4.6)
Net Effect	\$6.5	\$4.6	\$4.6	\$4.6	\$4.6

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: State aid to local school systems would decrease by an estimated \$6.5 million in FY 2005 and by an estimated \$4.6 million annually thereafter. The funding reduction is due to the elimination of Quality Teacher Incentive stipends and bonuses and the implementation of performance incentive grants in their place.

Small Business Effect: None.

Analysis

Current Law: The State offers three Quality Teacher Incentive bonuses to classroom teachers who qualify for the awards. First, a teacher who holds certification from the National Board for Professional Teaching Standards may receive an annual stipend from the State equal to the local board of education's grant for national certification, up to a maximum of \$2,000. Second, a newly-hired teacher who graduated from college with a 3.5 grade point average or better is eligible for a \$1,000 signing bonus. Third, a teacher who holds an advanced professional certificate and works in a reconstitution school, a reconstitution-eligible school, or a challenge school receives a stipend of \$2,000 for each year of satisfactory work performance. Discretionary School Performance Recognition Awards, which have been granted to high-performing schools for a number of years, are being phased out in fiscal 2004 and are eliminated in the proposed fiscal 2005 State budget.

Background: Stipends and bonuses for classroom teachers were established under the Teacher Quality Incentive Act of 1999 (Chapter 600). In the 2002-2003 school year, 203 teachers who are certified by the National Board for Professional Teaching Standards received stipends totaling \$378,819, and 2,825 teachers holding advanced professional certificates and teaching in challenge schools and reconstituted schools received stipends totaling \$5.7 million. In addition, 567 newly-hired teachers received the \$1,000 signing bonus. The proposed fiscal 2005 State budget includes \$7.55 million for the incentives. **Exhibit 1** shows the distribution of teachers qualifying for stipends and bonuses among the State's local school systems.

The federal No Child Left Behind Act (NCLB) requires schools to test all students annually in grades three through eight and at set points after eighth grade. Schools must make adequate yearly progress (AYP) towards proficiency for all students, as measured by the required assessments. A school that fails to make AYP for two consecutive years is designated as a school in need of improvement (year one) and is required to offer school choice options to students. After a third year of failing to meet AYP, a school enters year two of school improvement and must offer supplemental educational services to students. If the school continues to fall short of expectations, it is placed under corrective action or is eventually restructured. A school may exit one of these designations if it meets its AYP goals for two consecutive years.

The Maryland State Department of Education (MSDE) began measuring AYP last year as required by the federal law. However, 140 schools have been assigned a school improvement status based in part on the accountability system that was in place prior NCLB. The number of schools in each school improvement status is shown in **Exhibit 2**.

Exhibit 1
Classroom Teachers Awarded Teacher Quality Incentives
2002-2003 School Year

<u>County</u>	<u>National Board Certification</u>	<u>Advanced Professional Certification</u>	<u>Signing Bonus</u>
Allegany	10	27	5
Anne Arundel	3	326	45
Baltimore City	4	1,067	37
Baltimore	25	281	159
Calvert	3	0	18
Caroline	0	209	6
Carroll	1	0	13
Cecil	5	0	13
Charles	9	28	25
Dorchester	1	53	5
Frederick	6	0	42
Garrett	2	0	1
Harford	6	0	20
Howard	19	0	36
Kent	0	0	0
Montgomery	78	391	78
Prince George's	14	385	39
Queen Anne's	8	0	0
St. Mary's	2	0	8
Somerset	0	0	3
Talbot	1	0	0
Washington	4	58	5
Wicomico	0	0	9
Worcester	<u>2</u>	<u>0</u>	<u>0</u>
Total	203	2,825	567

Exhibit 2
Number of Schools in a School Improvement Status
2003-2004 School Year

<u>County</u>	<u>In Need of Improvement</u>		<u>Corrective</u> <u>Action</u>	<u>Restructuring</u>	<u>Total</u>
	<u>Year 1</u>	<u>Year 2</u>			
Allegany	1	1	0	0	2
Anne Arundel	3	2	1	0	6
Baltimore City	2	4	14	62	82
Recon. Schools*	0	0	0	3	3
Baltimore	0	1	1	0	2
Calvert	1	0	0	0	1
Frederick	0	2	0	0	2
Harford	1	1	0	0	2
Howard	6	0	0	0	6
Montgomery	2	8	0	0	10
Prince George's	1	6	3	9	19
St. Mary's	1	1	0	0	2
Talbot	0	1	0	0	1
Washington	<u>1</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>2</u>
State	19	28	19	74	140

* Three Baltimore City elementary schools have been reconstituted and are no longer operated by the public school system.

Source: Maryland State Department of Education

State Revenues: MSDE advises that implementing performance incentive grants as proposed in the bill could place federal funding under NCLB in jeopardy. The Department of Legislative Services advises that, although the bill may necessitate some changes to MSDE's NCLB implementation agreement with the U.S. Department of Education, it is unlikely that the bill would affect federal funding. Federal NCLB aid is estimated at \$284 million for fiscal 2005.

State Expenditures: General fund expenditures would decrease by an estimated \$6.5 million in fiscal 2005 due to the replacement of Quality Teacher Incentive bonuses with school performance incentive grants. After fiscal 2005, the amount of the decrease is estimated at \$4.6 million annually. These estimates are based on the following information and assumptions.

- The are 140 schools on school improvement status this year. Next year would presumably be their third opportunity to make “statistically significant progress” towards making AYP. Assuming half of these schools meet the threshold established by MSDE for making three successive years of statistically significant progress as required by the bill, State performance incentive grants would total \$1.05 million (70 schools x \$15,000).
- The proposed fiscal 2005 State budget includes \$7.55 million for Quality Teacher Incentive grants, \$6.50 million more than what would be needed to fund performance incentive awards.
- MSDE advises that up to 500 schools could be in a school improvement status for the 2004-2005 school year after failing to make AYP last school year. The exact number will depend on test scores from the Maryland School Assessments (MSAs) that were taken this year. Although estimates are speculative in just the second year of the MSAs, it is assumed that approximately 300 to 400 schools will be in school improvement status next year. Due to the requirement that schools make three consecutive years of statistically significant progress, the 2005-2006 school year would probably be the first opportunity these schools have to earn performance incentive awards.
- If 50% of the schools that are in a school improvement status next year make statistically significant progress towards achieving AYP, up to 200 schools could receive performance incentive awards at a cost of \$3.0 million in fiscal 2006. This represents a \$4.6 million decrease from the proposed fiscal 2005 appropriation for Quality Teacher Incentives.
- It is assumed that the number of schools receiving performance incentive awards from the State would remain relatively stable after fiscal 2006.

Local Fiscal Effect: In total, State aid to local school systems would decrease by an estimated \$6.5 million in fiscal 2005 and by an estimated \$4.6 million annually thereafter. Quality Teacher Incentives, which are considered State aid, would be eliminated and replaced with performance incentive grants established in this legislation. The distribution of State aid could also be affected, with a greater percentage of aid from performance incentive awards going to school systems with large numbers of low-performing schools.

Additional Information

Prior Introductions: None.

Cross File: HB 851 (Delegate Hixson, *et al.*) – Ways and Means.

Information Source(s): Maryland State Department of Education, Department of Legislative Services

Fiscal Note History: First Reader - March 10, 2004
ncs/jr

Analysis by: Mark W. Collins

Direct Inquiries to:
(410) 946-5510
(301) 970-5510