

Department of Legislative Services
 Maryland General Assembly
 2019 Session

FISCAL AND POLICY NOTE
 Enrolled - Revised

Senate Bill 1030 (The President, *et al.*) (By Request - Commission on Innovation and Excellence in Education)

Education, Health, and Environmental Affairs Ways and Means and Appropriations and Budget and Taxation

The Blueprint for Maryland’s Future

This bill establishes The Blueprint for Maryland’s Future as State education policy, based on the recommendations of the Commission on Innovation and Excellence in Education (Commission). The bill establishes specified programs and entities; provides funding in fiscal 2020; and mandates funding in fiscal 2021 and 2022, as specified, including for The Blueprint for Maryland’s Future Fund, which succeeds the Commission special fund. The bill also establishes a Maryland Office of the Inspector General for Education, contingent on the release of specified funds. Any funds restricted for purposes of the bill in the fiscal 2020 budget that are not transferred or released by the Governor must be distributed in fiscal 2021, in addition to other funds required to be distributed by the bill in fiscal 2021. **The bill takes effect June 1, 2019; certain provisions are contingent upon enactment of specified legislation in 2019.**

Fiscal Summary

State Effect: Special fund revenues increase contingent on separate legislation beginning as early as fiscal 2020. General and special fund expenditures increase by \$255.7 million in FY 2020, by \$356.2 million in FY 2021, by at least \$370.9 million in FY 2022, and by approximately \$1.0 million annually beginning in FY 2023. FY 2020 expenditures are at the Governor’s discretion; the State budget provides sufficient funds in FY 2020. **This bill establishes mandated appropriations for FY 2021 and 2022.**

(\$ in millions)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
SF Revenue	-	-	-	-	-
GF Expenditure	\$4.69	\$4.77	\$4.79	\$0.82	\$0.85
SF Expenditure	\$251.02	\$351.46	\$366.15	\$0.15	\$0.15
Net Effect	(\$255.71)	(\$356.22)	(\$370.94)	(\$0.97)	(\$1.00)

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

Local Effect: State aid to local school systems increases by approximately \$252 million in FY 2020 and by as much as \$351 million in FY 2021 and \$370 million (or more) in FY 2022. Local expenditures also likely increase for the local share of teacher retirement costs beginning in FY 2022, and to cover the cost of other benefits related to teacher salaries beginning as soon as FY 2020.

Small Business Effect: Small businesses that provide information technology services or that can provide professional development services for teachers may benefit.

Analysis

Bill Summary: The bill establishes The Blueprint for Maryland's Future as State policy intended to transform the State's early childhood, primary, and secondary education system into a world-class system based on the recommendations of the Commission's [January 2019 Interim Report](#).

The principles of The Blueprint are:

- instruction and skills set to international standards that will enable Maryland students to be successful in the twenty-first century economy and productive citizens;
- access to educational experiences and opportunities beginning in early childhood to enable every Maryland student to reach their full promise and potential and be ready for college and a rewarding career; and
- student performance at among the world's best overall, and elimination of opportunity and achievement gaps so that every student can reach their full potential.

The Blueprint calls for sustained and coordinated effort in five main policy areas that were considered in-depth by the Commission:

- early support and interventions for young children and their families, including full-day prekindergarten for 3- and 4-year-olds;
- high-quality and diverse teachers and school leaders, including elevating the teaching profession to be comparable to other fields with the same education requirements and with comparable compensation, establishing a career ladder so that excellent teachers remain in the classroom, and increasing the rigor of teacher preparation programs and State certification standards;

- a college and career readiness (CCR) standard set at the level required to virtually guarantee success in the first year of a community college program or open enrollment four-year institutions, with Maryland schools focused on getting most students to CCR by the end of tenth grade, and nearly all by the end of high school; providing supports for students who are not on track for CCR; and providing post-CCR pathways for students who achieve CCR, including early-college programs that allow a student to earn an associate degree at no cost while in high school and Career and Technology Education pathways that lead to an industry-recognized credential;
- additional resources, supports, and services for students who need them to achieve the CCR standard, including English learners, students with disabilities, and students from low-income families, with particular attention on students in schools with high concentrations of poverty; and
- a strong accountability system with the ability to hold all entities accountable for implementing The Blueprint effectively to ensure that all students are successful.

Concentration of Poverty School Grant Program

This program provides grants to public schools in which at least 80% of the students were eligible for free and reduced-price meals (FRPM). For both fiscal 2020 and 2021, the State must distribute a grant to each local school board equal to \$248,833 for each existing eligible school; that same amount must be distributed by the local board to each eligible school. However, if the local school system has at least 40 eligible schools, the local board may distribute the funds in accordance with a plan developed in consultation with eligible schools that ensures that each eligible school receives the required positions/coverage and services.

Fiscal 2020 grants are based on the number of qualifying schools in the 2017-2018 school year. Fiscal 2021 grants go to all of these same schools still in existence during the 2018-2019 school year plus any school that becomes newly eligible during the 2018-2019 school year. Each of these schools must employ one community school coordinator and provide full-time coverage by at least one health care practitioner, as specified. If the funding exceeds costs and/or the school already employs individuals in such positions, resulting excess funds must only be used for specified wraparound services or for a required needs assessment. An eligible school that receives outside funding (*e.g.*, from the local health department) for a school nurse, school health services, or community school services in fiscal 2019 must receive at least the same level of resources in fiscal 2020 and 2021. For both fiscal 2020 and 2021, \$126,170 is provided to the Maryland State Department of Education (MSDE) to fund one director of community schools in MSDE.

Compensatory Aid, Low-income Proxy

The current low-income student count methodology for the compensatory aid program, which accounts for school and school system participation in the Community Eligibility Provision (CEP, as discussed below) is extended through fiscal 2025. MSDE and the Maryland Department of Health (MDH) must take specified steps toward the use of Medicaid data as part of the Direct Certification process to identify low-income students. MSDE must include the capability to verify student eligibility using Medicaid data in the new information technology system that is currently under development. MSDE and MDH must enter into a memorandum of understanding to allow for the sharing of Medicaid eligibility data between the two departments by December 1, 2020.

Special Education

In both fiscal 2020 and 2021, an additional \$65.5 million is provided for special education services for students with disabilities, with specified allocations to each local education agency (LEA). If any of this funding is not needed to fully implement individualized education programs and 504 plans for students with disabilities, each local board of education *must* use the remaining funding to implement other recommendations made in the Commission's January 2019 Interim Report. The bill also extends the due date for the report on the findings and recommendations of the special education study report required under Chapter 715 of 2017, and expanded under Chapter 361 of 2018 to December 1, 2019.

Transitional Supplemental Instruction for Struggling Learners

For each of fiscal 2020 and 2021, the State must distribute to local boards of education funds totaling \$23.0 million, as allocated by the bill, for the provision of Transitional Supplemental Instruction (TSI) for struggling learners, which involves additional academic support using evidence-based programs and strategies that meet the expectations of strong or moderate evidence as defined in the federal Every Student Succeeds Act. TSI includes one-on-one and small-group tutoring with a certified teacher, a teaching assistant, or any other trained professional; cross-age peer tutoring; and screening, identifying, and addressing literacy deficits. Struggling learners are students who perform below grade level in English/language arts or reading in kindergarten through grade 3.

Mental Health Services Coordinator

For both fiscal 2020 and 2021, \$83,333 is provided to each local school system to fund the mental health services coordinator that each local school system must appoint, pursuant to the Safe to Learn Act (Chapter 30) of 2018.

Prekindergarten Supplemental Grants

These grants are expanded to include State funding to an LEA based on *every* 4-year-old in full-day prekindergarten as of September 30 of each year, regardless of whether full-day services are available to all 4-year-olds in the county's prekindergarten program. Also, the enhanced grants are extended to fiscal 2021.

Declining Enrollment Supplemental Grants

The bill extends the declining enrollment supplement grant in current law by an additional year to fiscal 2021.

Teacher Salary Incentive Grant Program

This program, administered by MSDE, provides grants to county boards to increase teacher salaries to improve recruitment and retention of high-quality teachers. In each of fiscal 2020 and 2021, the State must provide a grant to a local board if the local board provides a negotiated (or planned) and funded average salary increase for teachers of at least 3.0% in fiscal 2020. However, funding is dependent on local boards providing required documentation. A county that did *not* receive a State grant in fiscal 2020, may apply for the grant in fiscal 2021 and must submit documentation showing that the required salary increase will be funded in fiscal 2021.

Local boards of education may apply to MSDE for grants by specified dates. A State grant may be used only to provide an additional salary increase to teachers, as defined in the bill; priority should be given to increasing starting teacher salaries and salaries for teachers with less than five years of teaching experience. In each of fiscal 2020 and 2021 the State must distribute \$75.0 million to eligible counties for the grants, including specified allocations for each county.

Teacher Collaborative Grant Program

This program, administered by MSDE in consultation with the Maryland Higher Education Commission (MHEC), awards grants to multiple collaboratives in various regions of the State to develop model, state-of-the-art, professional education programs for prospective and current teachers. A collaborative must constitute a partnership of at least one local board, one teacher preparation program, and one exclusive employee representative. Eligibility for grant funding and required components of a funded program are specified. For each of fiscal 2020 and 2021, the State must distribute at least \$2.5 million for the program. MSDE must evaluate the program at least once during each grant period and report to the Governor and General Assembly about specified aspects of the program in 2019 and 2020, and may retain up to 3% to administer the program.

Consumer Price Index

For purposes of determining the annual inflation of the target per pupil foundation amount as well as inflation to be applied to the student transportation formula, obsolete references to Consumer Price Index (CPI) for the Washington-Baltimore Metropolitan Area are replaced with references to CPI for the Washington Metropolitan Area.

Outreach and Training

The State must distribute at least \$250,000 in both fiscal 2020 and 2021 to MSDE to, in consultation with the Department of Legislative Services (DLS), enter into agreements necessary to provide outreach, educational materials, and appropriate training to specified parties on the vision, skills, and knowledge needed to implement The Blueprint.

Maryland Office of the Inspector General for Education

The bill establishes the office as an independent unit of the State and establishes the Inspector General (IG) position within the office. The bill specifies the qualifications and experience that the IG must have, provides for the appointment of the IG to five-year terms, and specifies conditions for removal of an IG. The IG is responsible for examining local boards of education, local school systems, and public schools; nonpublic schools that receive State funds; MSDE; and the Interagency Commission on School Construction. The IG may employ specified staff and receive and investigate complaints or information concerning:

- fraud, waste, and abuse involving the use of public funds and property;
- violations of the civil rights of students and employees;
- whether policies and procedures governing the prevention and reporting of child abuse and neglect comply with federal and State law; and
- compliance with other federal and State law.

With the exception of certain protected, confidential, and privileged documents, the IG must have access to records, data, reports, contracts, correspondence, and other documents of the entities it may investigate. The office may serve a subpoena in the same manner as does a circuit court. Funding for the office, including the IG salary, is as provided in the annual State budget. The office must annually report on its goals and priorities; activities; the number and nature of incidents it reports to specified State and federal entities; and findings and recommendations related to (1) instances of fraud, waste, and abuse; (2) civil rights violations; and (3) specified policy matters.

Performance Evaluations

Contingent on the enactment of Senate Bill 640/House Bill 1113 of 2019, which would create an Office of Program Evaluation and Government Accountability (OPE) in DLS, local school systems are subject to performance evaluations conducted by OPE. The performance evaluations may be performed concurrently with or separately from an audit conducted by the Office of Legislative Audits (OLA).

Local School Board Reports

By December 1 of 2019 and 2020, local boards of education must report to specified General Assembly committees on how funds distributed under the bill were allocated, including at the school level, to begin implementation of the Commission's January 2019 Interim Report recommendations.

Maintenance of Effort

The bill expresses the intent of the General Assembly that increases in local appropriations to local boards of education above any additional amount required to meet maintenance of effort (MOE) is considered part of the increased local funding required by The Blueprint funding formulas to be recommended by the Commission.

Workgroup to Study MSDE and MHEC

This workgroup, whose membership is specified, must study and make recommendations regarding the capability of MSDE and MHEC to carry out their responsibilities and duties and to implement The Blueprint. DLS, in consultation with the Governor's Office, must staff the workgroup. By December 31, 2019, the workgroup must report its findings and recommendations to the Governor and the General Assembly.

The Blueprint for Maryland's Future Fund

This special, nonlapsing fund is the successor to the Commission Fund and may be used only to assist in providing adequate funding for early childhood education and primary and secondary education based on the recommendations of the Commission, including revised education funding formulas. The fund consists of \$200 million in income tax funds within the existing fund and, contingent on enactment of Senate Bill 728/House Bill 1301 of 2019, any sales and use tax revenues in excess of \$100 million each year collected by the Comptroller from marketplace facilitators and certain out-of-state vendors.

Extension of Commission Term and Final Report Due Date

The bill extends the term of the Commission to December 31, 2019, and requires a final Commission report by December 1, 2019.

Current Law/Background:

Commission on Innovation and Excellence in Education

Chapters 701 and 702 of 2016 established the Commission on Innovation and Excellence in Education to, among other charges, (1) review the findings of a consultant's study on adequacy of education funding and its related studies and make recommendations on the funding formula; (2) review and make recommendations on expenditures of local education agencies; (3) review and make recommendations on innovative education delivery mechanisms and other strategies to prepare Maryland students for the twenty-first century workforce and global economy; and (4) review and make recommendations on expanding prekindergarten, including special education prekindergarten.

Consistent with [preliminary recommendations](#) of the Commission, Chapter 361 of 2018 established a Comprehensive Teacher Recruitment and Outreach Program, the Maryland Early Literacy Initiative, the Learning in Extended Academic Programs Grant Program, the Career and Technology Education Innovative Grant Program, and the Commission Fund. Chapter 361 also mandated annual funding for the Teaching Fellows for Maryland Scholarship Program; altered annual funding for the Public School Opportunities Enhancement Program while repealing the fiscal 2021 termination of the program; altered the scope of the special education study required under Chapter 715 of 2017; and extended the term of the Commission and the due date for its final report.

This bill is largely in response to the recommendations in the Commission's January 2019 interim report and the Commission's funding priorities.

Commission on Innovation and Excellence in Education Fund

Chapter 361 of 2018 also established the Commission on Innovation and Excellence in Education Fund as a special, nonlapsing fund. The fund is to be used to provide adequate funding for a world-class education for early childhood education and primary and secondary education in accordance with the State budget through revised funding formulas, based on the final recommendations of the Commission on Innovation and Excellence in Education. The Comptroller must distribute \$200 million in income tax revenue to the fund in fiscal 2019. The fund also consists of additional money appropriated in the State budget and any money from other sources accepted for the benefit of the fund. MSDE must administer the fund. The fiscal 2020 State budget does not include any appropriations from

the Commission Fund. However, the fiscal 2020 budget as enacted by the General Assembly (House Bill 100) expresses the intent that \$134.5 million from The Blueprint for Maryland's Future Fund be added to the fiscal 2020 budget to be distributed as specified in Section 47 of the budget bill, contingent on the enactment of this bill.

Constitutional Amendment on Supplemental Funding for Public Schools

Chapter 357 of 2018 authorized a constitutional amendment, which was subsequently approved by Maryland voters in November 2018, requiring the Governor to provide supplemental State funding for public education through the use of commercial gaming revenues that are dedicated to public education in the State budget beginning in fiscal 2020. Supplemental funding must total \$125.0 million in fiscal 2020, \$250.0 million in fiscal 2021, and \$375.0 million in fiscal 2022. In all subsequent years, 100% of the gaming revenues dedicated to public education must be used for supplemental funding. Beginning in fiscal 2020, the Governor must identify in the annual State budget how the supplemental revenue is being used to supplement and not supplant spending on public schools. The Governor's proposed fiscal 2020 budget included approximately \$36 million of supplemental funding for unspecified Commission recommendations; as enacted by the General Assembly, Section 47 of the fiscal 2020 budget bill also specifies how the \$36 million and an additional \$65 million from the Education Trust Fund should be distributed in fiscal 2020, contingent on enactment of this bill.

Sales and Use Tax Legislation

Among other provisions, as passed by the General Assembly, Senate Bill 728 and House Bill 1301 require a marketplace facilitator and a marketplace seller to collect and remit the State sales and use tax under specified circumstances. Senate Bill 728 and House Bill 1301 also establish tax collection and licensing requirements for marketplace facilitators and marketplace sellers. In addition, distribution of sales and use tax revenues is altered by requiring that for each fiscal year (1) the first \$100 million in sales taxes collected from marketplace facilitators and certain out-of-state vendors be distributed to the general fund and (2) revenues in excess of \$100 million be distributed to The Blueprint Fund. Current estimates suggest that revenues under Senate Bill 728 and House Bill 1301 will not exceed \$100 million in fiscal 2020, while nearly \$10 million will be diverted to the fund in fiscal 2021, increasing to over \$24 million by fiscal 2024.

Prekindergarten Supplemental Grants

Chapter 701 of 2016 charged the Commission with making recommendations on expanding prekindergarten. Chapters 6 and 607 of 2017 established prekindergarten supplemental grants to local boards of education in which all prekindergarten students are provided full-day prekindergarten, for fiscal 2018 through 2020. For each of fiscal 2018

through 2020, the supplemental prekindergarten grant for each eligible local board equals the State share of the per pupil foundation amount multiplied by the number of full-time equivalent (FTE) eligible children enrolled in a public full-day prekindergarten program on September 30 of the previous school year. The grant program phases in, beginning with a 50% supplemental grant in fiscal 2018, a 75% supplemental grant in fiscal 2019, and a 100% supplemental grant in fiscal 2020. “State share of the per pupil foundation amount” is the State share of the foundation program for a county divided by the county’s FTE (not including prekindergarten FTE). The State budget for fiscal 2020 includes \$21.1 million for these grants.

Declining Enrollment Supplemental Grants

Under Chapters 6 and 607 of 2017, a local board is eligible for a supplemental grant if the county’s most recent prior three-year moving average FTE is greater than the FTE in the previous school year. For each of fiscal 2018 through 2020, the supplemental grant to an eligible local board is (1) the amount by which the three-year moving average exceeds the FTE in the prior year (2) multiplied by “total direct education aid” per FTE. For this purpose, “total direct education aid” is the total financial assistance provided by the State to a local board of education for the foundation program, including funds for the geographic cost of education; transportation; compensatory education; students with limited English proficiency; special education students; and the guaranteed tax base program. The State budget for fiscal 2020 includes \$18.9 million for these grants.

Determination of an Appropriate CPI Measure

For purposes of major formula aid to public schools, the target per pupil funding amount is inflated by the *lesser* of the increase in (1) the implicit price deflator for State and local government expenditures for the second prior fiscal year; (2) the regional CPI for the second prior fiscal year; or (3) 5%. For the student transportation formula, the base grant is increased by the growth in the regional CPI for private transportation as of July of the preceding fiscal year, subject to the limitation that it cannot be less than 1% or more than 8%.

Chapter 10 of 2018 (the Budget Reconciliation and Financing Act), required DLS, MSDE, and the Department of Budget and Management to jointly determine the appropriate regional CPI to be used in place of the discontinued Washington-Baltimore Metropolitan Area CPI in order to calculate the per pupil foundation amount for the foundation formula and other major formula aid programs, as well as the student transportation formula, for fiscal 2020 funding. The departments agreed that the Washington Metropolitan Area CPI was the best replacement measure. The Commission on Innovation and Excellence in Education was likewise required to recommend a permanent replacement in its subsequent

report to the Governor and the General Assembly. The Commission recommended that the Washington Metropolitan Area CPI measure be used after fiscal 2020 as well.

Community Eligibility Program, Compensatory Aid, Low-income Proxy

The Healthy, Hunger-Free Kids Act of 2010, in part, amended the federal National School Lunch Act to provide an alternative to household applications for FRPM in high-poverty LEAs and schools. This alternative is referred to as CEP. To be eligible, LEAs and schools must meet a minimum level of students directly certified for free meals (40% of enrollment) in the year prior to implementing the option, agree to serve free lunches and breakfasts to *all* students, and agree to cover with nonfederal funds any costs of providing free meals to all students above amounts provided in federal assistance.

Reimbursement is based on claiming percentages derived from the percentage of students directly certified as increased by use of a multiplier determined by the U.S. Department of Agriculture (USDA). An LEA may participate in CEP for all schools in an LEA or only some schools, depending on the eligibility of the individual schools and financial considerations based on the anticipated level of federal reimbursement and other nonfederal support that may be available.

Since fiscal 2004, the compensatory aid formula, providing additional State support for students with educational needs resulting from educationally or economically disadvantaged environments, has used the number of students eligible for FRPM. Children from families (1) with incomes at or below 130% of the federal poverty level are eligible for free meals and (2) with incomes no greater than 185% of the federal poverty level are eligible for reduced-price meals. The State compensatory aid formula uses a per pupil cost that is 0.97 times the per pupil funding level established in the foundation program. The State budget for fiscal 2020 includes \$1.3 billion for these grants.

Chapter 291 of 2015, which altered the compensatory enrollment count for LEAs that participate, in whole or in part, in CEP such that it is the greater of:

- (1) the sum of:
 - the number of students in CEP participating schools identified by direct certification for the prior fiscal year;
 - the number of students identified by the income information provided by the family to the school system on an alternative form developed by MSDE for the prior fiscal year; and
 - the number of students eligible for FRPM from any schools not participating in CEP for the prior fiscal year; *or*

(2) the sum of:

- the number of students eligible for FRPM from any schools not participating in CEP for the prior fiscal year; and
- for schools participating in CEP, the result of multiplying the prior fiscal year total enrollment by the percentage of FRPM-eligible students as compared to total enrollment in the year prior to participating in CEP. However, for the purpose of this calculation, schools participating in CEP in the pilot year may use the percentage of FRPM-eligible students during the pilot year.

The Commission recommends that for the compensatory education formula and new concentration of poverty formula, direct certification including Medicaid eligibility should be used as the proxy for poverty in the future instead of eligibility for FRPM. Funded by USDA, MSDE has issued a contract to develop a Maryland Direct Certification System to include matching processes for the Supplemental Nutrition Assistance Program, Temporary Cash Assistance, and foster care.

Maintenance of Effort

Generally, under the MOE requirement, each county government (including Baltimore City) must provide on a per pupil basis at least as much funding for the local school board as was provided in the prior fiscal year. A county that has an education effort below the five-year statewide average education effort must increase its MOE payment to the local school board in years when the wealth base per pupil is increasing. The required increase is the lesser of the increase in a county's per pupil wealth, the average statewide increase in per pupil local wealth, or 2.5%. This provision ensures an increase in the amount a county provides to the local school board concomitant with an increase in county wealth.

Special Education Formula State Aid

The State special education formula is calculated based on 74% of the annual per pupil foundation amount and the number of special education students from the prior year. The State budget for fiscal 2020 includes \$303.3 million in special education formula funds as well as \$121.5 million for nonpublic placement of students with disabilities.

Teacher Salaries

The Commission recommends that in addition to making teacher preparation programs more rigorous, raising licensing standards for new teachers, and rebranding the teaching profession as a more attractive career, Maryland will raise teacher pay to make it equitable with other highly trained professions with comparable education requirements. The Commission proposes that the State will conduct periodic benchmarking studies of teacher

salaries to include comparability with other professionals with similar education and experience levels at the State and regional levels based on the Economic Policy Institute's list of comparable occupations. Statewide, the average teacher salary for the 2018-2019 school year is \$70,460, ranging from an average of \$54,040 in Dorchester County to \$82,320 in Montgomery County.

Mental Health Services

Under Chapter 30 of 2018, the Maryland Safe to Learn Act, by September 1, 2018, each local school system must appoint a mental health services coordinator to coordinate existing mental health services and referral procedures within the local school system. Working with specified local entities, the coordinator must (1) ensure that a student who is referred for mental health services obtains the necessary services; (2) maximize external funding for mental health and wraparound services, as defined by the bill; and (3) develop plans for delivering behavioral health and wraparound services to students who exhibit specified behaviors of concern. Grants from the Safe Schools Fund may be used to develop plans for delivering mental health and wraparound services. Chapter 30 requires the Commission to include in its final report, recommendations for additional mental health and wraparound services in local school systems and funding required for those services.

School System Audits and Program Evaluation

Each local board of education must provide for an annual audit of its financial transactions and accounts. Also, MSDE, at the request of a county government and under certain conditions, must contract for a performance audit of a county school system. A performance audit covers an assessment of a school system's practices to determine whether the school system or a school program is operating economically and efficiently. Furthermore, OLA must, at least once every six years, subject to certain waivers, conduct an audit of each local school system to evaluate the effectiveness and efficiency of the financial management practices of the local school system.

OLA must provide information regarding the audit process to the local school system before the audit is conducted. The legislative auditor must review each local school system's response to OLA's audit and advise the local school system of the results of the review. The legislative auditor must advise the Joint Audit Committee when a local school system does not make a response to a recommendation; does not indicate action to be taken in response to a recommendation; has not taken the action the local school system indicated in its response to a recommendation; or responds in a manner that is not considered appropriate to carry out the recommendation.

The Executive Director of Legislative Services or the Joint Audit Committee may direct the legislative auditor to undertake a review to determine the extent to which action has

been taken by a local school system to implement a report recommendation. With respect to findings and recommendations made to a local school system, the Joint Audit Committee may make recommendations to the Governor, State Superintendent of Schools, the local school governing board, or local school officials after reviewing a local school system's response to a recommended action.

As passed by the General Assembly, Senate Bill 640/House Bill 1113 of 2019 would, among other provisions, establish OPE in DLS. The office has similar powers and responsibilities to OLA, but with respect to conducting performance evaluations instead of audits. The Commission recommends a multi-faceted accountability system for public schools and advises that research shows that, beyond a threshold level, how funds for education are spent is at least as important as how much is spent in determining student achievement and funding equity.

Fiscal 2020 State Operating Budget

Approximately \$255.0 million is made available through separate legislation to implement this bill in fiscal 2020, contingent on enactment of this bill. Specifically, Section 47 of the State operating budget for fiscal 2020 (House Bill 100 of 2019) as enacted restricts \$100.8 million in Education Trust Fund (ETF) lockbox funds to specific purposes under this bill. It also expresses legislative intent that the Governor process a budget amendment to appropriate \$134.5 million for the purposes of this bill. In addition, the Budget Reconciliation and Financing Act of 2019 (BRFA, House Bill 1407), in conjunction with the budget bill, authorizes the Governor to appropriate, in fiscal 2020, specifically for special education grants under this bill: \$15.8 million in additional ETF revenues received due to the repeal of certain video lottery facility provisions of law; and \$4.0 million in general funds that would otherwise be used for the Teacher Induction, Retention, and Advancement Pilot Program.

State Revenues: Special fund revenues increase beginning as early as fiscal 2020 for The Blueprint for Maryland's Future Fund, contingent on the enactment of Senate Bill 728 or House Bill 1301. In addition, general or special fund revenues may increase to implement the Commission's recommendations in fiscal 2022 contingent on enactment of other legislation in the 2019 and 2020 legislative sessions. The BRFA of 2019 dedicates approximately \$36 million of corporate filing fee revenues that would otherwise not have been collected under current law to The Blueprint Fund in fiscal 2021 only.

State Expenditures: The bill distributes \$255 million in fiscal 2020 (at the Governor's discretion) consistent with the funding priorities identified by the Commission and mandates a total of \$356 million in fiscal 2021 to begin to implement the recommendations. The bill also mandates that \$500 million be distributed to The Blueprint Fund in fiscal 2022; \$130 million of this mandate is contingent on (1) the Board of Revenue

Estimates' December 2020 estimate of fiscal 2022 revenues resulting from legislation enacted at the 2019 and 2020 legislative sessions, and (2) revenue made available as a result of legislation enacted in the 2019 and 2020 legislative sessions to implement the Commission's recommendations. Thus, fiscal 2022 expenditures increase by as much as \$500 million. **Exhibit 1** shows the increase in State expenditures under the bill for fiscal 2020 and 2021, based on the following assumptions and analysis.

Total increased funding for fiscal 2020 and 2021 is specified in the bill for special education; TSI grants; a mental health services coordinator for each county; teacher salary incentive grants; teacher collaborative grants; outreach and training on The Blueprint; and the required (fiscal 2021 only) appropriation to The Blueprint Fund. The majority of State expenditures are fixed by the language of the bill in fiscal 2020 and 2021. For fiscal 2022, as discussed above, the bill mandates at least \$370 million and up to \$500 million be appropriated to The Blueprint Fund for the purposes of the fund, including implementing revised funding formulas to be recommended by the Commission.

The fiscal 2020 \$54.6 million estimate for concentration of poverty grants (including the MSDE director of community schools) is based on 2017-2018 school year data indicating that 219 schools (mostly in Baltimore City and Prince George's County) meet the 80% eligibility threshold set by the bill. However, DLS is aware of as many as six schools in Baltimore City identified in this data that have since closed. Amounts for these schools and any other schools that have been closed, in any jurisdiction, or that are otherwise misidentified, will not be distributed and will remain in the fund balance of the ETF or The Blueprint Fund for use in future years. For fiscal 2021, additional schools are eligible for the grant based on the 2018-2019 school year data. Increased expenditures under the extended declining enrollment grants and the enhanced and extended prekindergarten supplemental grants are estimates based on enrollment and wealth projections.

Based on information received from MSDE, it is estimated that one-time costs of \$500,000 will be incurred by MSDE to incorporate the capability to verify student eligibility using Medicaid data into the new information technology system that is currently under development. In subsequent years, \$150,000 is needed to maintain this added capability.

Exhibit 1
Change in State Expenditures under the Bill
(\$ in Millions)

	<u>FY 2020</u>	<u>FY 2021</u>
Enhanced Special Education Funding	\$65.5	\$65.5
Concentration of Poverty Grants ¹	54.6	58.9
Transitional Supplemental Instruction	23.0	23.0
Supplemental Prekindergarten Grants	31.7	53.6
Enrollment-based Grants	0.0	16.7
Mental Health Services Coordinator	2.0	2.0
Teacher Salary Incentive Grants	75.0	75.0
Teacher Collaborative Grants ²	2.5	2.5
Outreach and Training	0.3	0.3
MSDE Data System Enhancement	0.5	0.2
Appropriation to The Blueprint Fund	0.0	58.0
Office of the Inspector General for Education	0.7	0.8
Total	\$255.7	\$356.2

MSDE: Maryland State Department of Education

¹Includes \$126,170 in both years for an MSDE Director of Community Schools.

²Up to 3% (or \$75,000) in both years may be used by MSDE for administering the program.

Though MSDE has requested an additional four positions to implement the bill, it is assumed that provisions of the bill stipulating funding for a director of community schools and allowing for 3% of the funding for teacher collaborative grants to be used for administrative costs cover MSDE administrative costs under the bill.

General fund expenditures increase by \$689,100 in fiscal 2020 escalating to \$846,900 in fiscal 2024 to establish and implement the activities of the Office of the Inspector General for Education. To operate the office will require the addition of six new positions: an inspector general, a deputy inspector general, and four administrator positions. The fiscal estimate includes salaries, fringe benefits, one-time start-up costs (including the purchase of four vehicles at \$20,000 each), and ongoing operating expenses. This estimate allows time for the initial IG selection process and assumes that the IG position will be filled and additional staff are hired by October 1, 2019. These positions are funded in the fiscal 2020 budget contingent on enactment of this bill and also contingent on the Governor's release or transfer of fiscal 2020 funds restricted in the budget for purposes of implementing this bill.

Positions	6.0
Salaries and Fringe Benefits	\$566,075
Vehicle Purchases/Operations	90,909
One-time Start-up Costs	29,340
Operating Expenses	<u>2,813</u>
Total FY 2020 State Expenditures	\$689,137

Future year expenditures reflect annualization, full salaries with annual increases and employee turnover, elimination of one-time costs, and ongoing operating expenses. This estimate assumes that an assistant Attorney General can provide advice as needed to the unit. It also assumes that sufficient space for the office can be obtained in an existing State building.

Other provisions of the bill are anticipated to generate either no additional expenditures or to have an indeterminate impact on State expenditures. The extension of report due dates and of the term of the Commission are not expected to substantially impact State costs. Notwithstanding the information system enhancement described above, it is assumed that MSDE and MDH can share data using existing resources. The impact of extending the CEP adjustment for the purposes of compensatory education aid is indeterminate, but it maintains a predictable pattern of future funding levels through fiscal 2025. DLS can staff the Workgroup to Study MSDE and MHEC using existing resources.

There is no option to use the now defunct Washington-Baltimore Metropolitan Area for purposes of determining annual inflation factors for State education aid. The selection of the Washington Metropolitan Area for this purpose was largely based upon its close correlation to past inflation results. The bill's provisions related to a performance evaluation by OPE are contingent on the passage of other legislation. It is estimated that this bill's requirements will not alter the staffing and responsibilities of OPE, if it is established. Further, it is assumed that the bill does not have a material effect on the State share of teacher retirement costs.

Local Fiscal Effect: Local school systems statewide receive a substantial increase in State aid beginning in fiscal 2020. About \$251.6 million of the estimated \$255.7 million in increased fiscal 2020 State expenditures shown in Exhibit 1 (above) are received by local school systems. (It is assumed that most of the \$2.5 million for teacher collaborative grants are received by higher education institutions.) Similarly, local school systems receive about \$294.4 million in specified State funding in fiscal 2021. Further, it is assumed that the great majority of the \$58.0 million in fiscal 2021 that must be appropriated to The Blueprint Fund, as well as the great majority of between \$370 million and \$500 million made available for fiscal 2022, will be expended by the State in the form of aid to local school systems. Local school system expenditures increase accordingly.

Exhibit 2 shows State grant funding for local school systems and local schools for which the funding amounts are constant in both fiscal 2020 and 2021. **Exhibit 3** shows concentration of poverty grant funding and *increased* State funding of prekindergarten supplemental grants and declining enrollment grants under the bill. Note that Baltimore City and Garrett, Kent, and Somerset counties receive a combined \$21.1 million under current law; fiscal 2020 prekindergarten supplemental funding for these counties is not increased by the bill.

Local school boards are responsible for the cost of benefits associated with teacher salaries, including health insurance, Social Security, and the actual normal cost of pensions for qualifying personnel (the State pays the remaining pension costs). Thus, to the extent that the bill increases expenditures under the bill for salaries (not limited to expenditures in response to salary incentives), local costs for fringe benefits, excluding retirement, increase as early as fiscal 2020 and retirement costs increase as early as fiscal 2022. Applying a rate of about 4.5% for normal cost to every \$100.0 million in total teacher salary increases results in \$4.5 million in increased annual local retirement costs statewide (which are currently about \$290 million in fiscal 2019). Though the bill requires that specified amounts of the \$75.0 million in fiscal 2020 and 2021 be distributed to each county for teacher salary increases, if they choose to participate in the program, any increase in teacher salaries is at the discretion of local governments; thus, the bill itself does not lock any local government into future salary increases beyond the fiscal 2020 and 2021 time period for those counties that choose to participate. Since the bill does not mandate State funding for salary increases beyond fiscal 2021, nor any increases beyond fiscal 2022, participating counties may need to use local funds to maintain the salary levels reached through participation in the program beginning in either fiscal 2022 or 2023.

To the extent that the bill's provisions present an inducement for increased local appropriations to public schools, future year local obligations under the MOE law will be increased. The bill expresses the intent that any such increases are considered part of the increased local funding required by The Blueprint funding formulas to be recommended by the Commission. It is assumed that local boards of education can report to General Assembly committees on the use of funds under the bill using existing resources.

Exhibit 2
Selected State Funding Increases under the Bill
For Both Fiscal 2020 and 2021*
(\$ in Thousands)

	<u>Special Education</u>	<u>Transitional Supplemental Instruction</u>	<u>Mental Health Services Coordinator</u>	<u>Teacher Salary Incentive</u>
Allegany	\$1,296	\$255	\$83	\$992
Anne Arundel	4,170	1,201	83	5,417
Baltimore City	9,735	4,107	83	8,433
Baltimore	8,465	2,639	83	9,846
Calvert	956	272	83	1,494
Caroline	602	274	83	706
Carroll	1,663	429	83	2,255
Cecil	1,624	441	83	1,553
Charles	2,239	772	83	2,819
Dorchester	373	248	83	525
Frederick	2,966	856	83	4,074
Garrett	170	85	83	268
Harford	2,894	630	83	3,460
Howard	2,737	805	83	4,389
Kent	124	48	83	55
Montgomery	9,133	2,735	83	8,109
Prince George's	10,115	4,820	83	13,386
Queen Anne's	393	134	83	544
St. Mary's	1,192	458	83	1,711
Somerset	412	111	83	340
Talbot	229	93	83	114
Washington	1,931	828	83	2,520
Wicomico	1,689	681	83	1,822
Worcester	360	79	83	165
Total	\$65,469	\$23,000	\$2,000	\$75,000

*Excludes Teacher Collaborative Grants as well as programs shown in Exhibit 3.

Exhibit 3
Selected State Funding Increases under the Bill
(\$ in Thousands)

	Concentration of Poverty¹		Supplemental Prekindergarten		Declining Enrollment
	FY 2020	FY 2021	FY 2020	FY 2021	FY 2021
Allegany	\$498	\$1,244	\$142	\$147	\$66
Anne Arundel	498	1,742	2,191	2,278	0
Baltimore City	32,348	31,602	0	19,203	14,224
Baltimore	995	995	593	616	0
Calvert	0	0	0	0	0
Caroline	498	498	1,490	1,537	0
Carroll	0	0	160	161	1,535
Cecil	498	498	0	0	625
Charles	0	0	1,162	1,195	0
Dorchester	1,493	1,493	1,037	1,084	0
Frederick	498	746	244	249	0
Garrett	498	498	0	536	55
Harford	746	746	842	873	0
Howard	0	0	717	751	0
Kent	0	0	0	148	152
Montgomery	1,991	2,488	2,373	2,462	0
Prince George's	11,197	11,446	14,027	14,305	0
Queen Anne's	0	0	217	225	0
St. Mary's	0	249	482	498	0
Somerset	995	1,493	0	1,128	0
Talbot	0	0	146	149	0
Washington	249	995	3,845	3,973	0
Wicomico	1,493	1,991	2,009	2,062	0
Worcester	0	0	1	1	0
Total	\$54,494	\$58,725	\$31,678	\$53,581	\$16,656

¹As discussed above, actual funding for Concentration of Poverty Grants in fiscal 2020 may be lower due to as many as six schools identified in relevant data that have since closed, making them ineligible for funding.

Additional Information

Prior Introductions: None.

Cross File: HB 1413 (The Speaker, *et al.*) (By Request - Commission on Innovation and Excellence in Education) - Ways and Means and Appropriations.

Information Source(s): Department of Budget and Management; Maryland State Department of Education; Anne Arundel County Public Schools; Montgomery County Public Schools; Baltimore City Public Schools; Washington County Public Schools; Department of Legislative Services

Fiscal Note History: First Reader - March 6, 2019
an/rhh Third Reader - April 4, 2019
Revised - Amendment(s) - April 4, 2019
Revised - Budget Information - April 4, 2019
Enrolled - May 13, 2019
Revised - Amendment(s) - May 13, 2019
Revised - Budget Information - May 13, 2019

Analysis by: Scott P. Gates

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