

R00A02
Aid to Education
Maryland State Department of Education

Operating Budget Data

(\$ in Thousands)

	<u>FY 14</u> <u>Actual</u>	<u>FY 15</u> <u>Working</u>	<u>FY 16</u> <u>Allowance</u>	<u>FY 15-16</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$5,581,049	\$5,716,230	\$5,871,154	\$154,923	2.7%
Deficiencies and Reductions	0	37,449	-82,324	-119,774	
Adjusted General Fund	\$5,581,049	\$5,753,679	\$5,788,829	\$35,150	0.6%
Special Fund	389,888	412,012	399,107	-12,906	-3.1%
Deficiencies and Reductions	0	-16,426	3,888	20,314	
Adjusted Special Fund	\$389,888	\$395,586	\$402,994	\$7,408	1.9%
Federal Fund	725,384	794,567	825,423	30,855	3.9%
Adjusted Federal Fund	\$725,384	\$794,567	\$825,423	\$30,855	3.9%
Reimbursable Fund	99	130	140	10	7.7%
Adjusted Reimbursable Fund	\$99	\$130	\$140	\$10	7.7%
Adjusted Grand Total	\$6,696,421	\$6,943,963	\$7,017,386	\$73,423	1.1%

Note: The fiscal 2015 working appropriation reflects deficiencies and the Board of Public Works reductions to the extent that they can be identified by program. The fiscal 2016 allowance reflects back of the bill and contingent reductions to the extent that they can be identified by program.

- Fiscal 2015 deficiency appropriations provide an additional \$21.0 million in general funds to State Aid to Education programs. This includes \$10.6 million to fund stipends for teachers in comprehensive needs schools who have obtained National Board Certification (NBC) or Advanced Professional Certification (APC), as required in statute. An additional \$10.8 million is provided to fund nonpublic placements for special education students, although this increase is slightly offset by a \$376,995 reduction to eliminate the 1.5% provider rate increase for the remainder of fiscal 2015.

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

For further information contact: Rebecca J. Ruff

Phone: (410) 946-5530

R00A02 – MSDE – Aid to Education

- Proposed deficiency appropriations for the foundation program include two fund swaps that do not impact total funding for the program. An additional \$20.5 million in general funds, with an offsetting special fund reduction, is needed to replace Education Trust Fund (ETF) revenues due to revised video lottery terminal (VLT) revenue projections. That amount is slightly reduced by a contingent action that would provide \$4.1 million in additional special funds by transferring VLT revenues dedicated to local impact grants to the ETF.
- The fiscal 2016 allowance is \$73.4 million above the adjusted fiscal 2015 working appropriation, considering all funds. General funds only increase by \$35.2 million, or 0.6%, due to the Geographic Cost of Education Index being funded at 50.0% and multiple proposed actions in the Budget Reconciliation and Financing Act of 2015 that propose to limit growth in direct State aid programs. Special funds increase by \$7.4 million, or 1.9%, based on ETF revenue projections and a contingent action to redirect VLT revenues to the ETF instead of local impact grants. The 3.9% increase in federal funds is primarily the result of additional funding for food service programs.

Analysis in Brief

Major Trends

Maryland School Assessment Reading and Math Scores Decrease: Reading scores had been relatively stable since the 2008-2009 school year, although scores declined starting in the 2011-2012 school year. After increasing steadily between the 2008-2009 and 2011-2012 school years, math scores declined for grades 3, 5, and 8 for the second year in a row.

High School Assessment Percent Passing Decreases in Three of Four Subject Areas: The percent passing the English High School Assessment (HSA) decreased to 85.9% in the 2013-2014 school year, after remaining steady at 86.4% the previous two years. The percent passing the Algebra HSA decreased slightly, from 88.3% to 88.2% in the 2013-2014 school year, and the percent passing the Government HSA decreased from 84.6% to 80.9%. However, the percent passing the Biology HSA increased to 87.6% from 85.8% in the previous school year. The reductions in percent passing English and Algebra are attributed to the misalignment between the HSAs and the implementation of the new State curriculum focusing on Maryland College- and Career-Ready Standards (MCCRS).

Statewide Graduation Rate Increases: The statewide graduation rate in the 2013-2014 school year remained steady at 87.4% using the traditional Leaver Graduation Rate. Maryland began calculating a new statewide four-year cohort graduation rate in 2010 per federal and State requirements. The four-year cohort graduation rate is lower than the Leaver Graduation Rate but has increased steadily each year since its implementation, reaching 86.4% in the 2013-2014 school year.

Issues

State Aid for Education: Under current law, public schools are expected to receive approximately \$6.2 billion in fiscal 2016, representing a \$110.5 million, or 1.8%, increase over fiscal 2015. Proposed contingent reductions reduce State education aid by approximately \$76.1 million. If all of the Administration's proposed actions are adopted by the General Assembly, State education aid would grow by \$34.4 million, or 0.6%. The majority of the contingent reductions result from the Governor's decision to level fund the per pupil foundation amount at the fiscal 2015 level, as opposed to allowing 1.4% growth in accordance with current law.

Funding for Nonpublic Placements Increases; Flaws Exist in the Calculation Used for Determining the Local Share of Basic Cost: Although total nonpublic placements have declined since fiscal 2010, the number of residential placements and placements requiring State assistance has increased in recent years. In addition, the cost per placement increased by more than 5% between fiscal 2013 and 2014. Even though total payments for nonpublic placements increased by less than 6% in the last three years, the entire increase has been solely born by the State. The local contribution toward nonpublic placements declined 2% during the same time period. The Department of Legislative Services (DLS) and the Maryland State Department of Education (MSDE) have discovered flaws in the formulas used to calculate the basic cost and the local share of basic cost for students in nonpublic placements. The

fiscal 2016 allowance does not make any effort to address the issues. This has a direct impact on the level of State funding required for nonpublic placements, as well as the Maryland School for the Blind (MSB). **DLS recommends that language be added to the budget restricting funds within MSDE until a report is provided on proposed solutions to the flaws in the basic cost and local share of basic cost calculations. The report should include fiscal estimates associated with correcting the errors, including the amount of additional revenue for MSB.**

Concerns with the Cost of Quality Teacher Incentives: Funding for Quality Teacher Incentives (QTI) increases substantially in fiscal 2015 and 2016 largely due to a significant increase in the number of schools identified as Strand 4 or 5 on the School Progress Index. Schools in these strands are considered to be in need of improvement. Teachers in these schools who have obtained NBC or APC are eligible to receive stipends. The increase in the number of schools identified as “in need of improvement” is largely artificial because of a misalignment with the MCCRS and the HSAs. Furthermore, the current administration of the program actually creates a disincentive for improving school performance because the program is being administered retroactively. Teachers apply to receive stipends once they know they have already taught a full year in a school in need of improvement. Knowing in advance whether a teacher is eligible for the stipend creates a disincentive for improving the school’s performance because once a school is no longer identified as comprehensive needs, the teacher loses the stipend. **Given the apparent flaws in the administration of the program and that the recent increase in the number of stipend-eligible schools is artificially inflated, DLS recommends restricting eligibility for stipends through the QTI program to those educators eligible for stipends in fiscal 2014 who are still teaching in the same school. Fiscal 2015 and 2016 funding levels should be correspondingly reduced in line with fiscal 2014 actual expenditures. In addition, DLS recommends that the QTI program be modified at the completion of fiscal 2016 to repeal the portion of the program providing stipends to APC-certified educators. MSDE should instead develop a proposal for restructuring fiscal incentive programs for teachers.**

Recommended Actions

1. Add annual budget language prohibiting the transfer of education aid funding without review by the budget committees.
2. Modify contingent language implementing proposed reductions resulting from level funding the per pupil foundation amount.
3. Concur with contingent language reducing funds for library aid based on the modified phase-in for per capita funding increases.
4. Modify contingent language swapping general and special funds as a result of redirecting gaming proceeds.
5. Add language acknowledging the contingent reduction resulting from a freeze in the phase-in of the Net Taxable Income grants.

6. Add language restricting funds until a report is provided on the flaws in the calculations for basic cost and the local share of basic cost.
7. Add language to reduce funding for Quality Teacher Incentives to the fiscal 2014 level and require a report on proposed restructuring of fiscal incentive programs for educators.
8. Add language to reduce the Quality Teacher Incentives fiscal 2015 deficiency appropriation contingent on enactment of legislation.

Updates

Report on College and Career Counseling: In response to a request in the 2014 *Joint Chairmen’s Report*, MSDE provided the budget committees with information regarding school counselors and their ability to provide personalized college and career information and guidance to students in grades 6 through 12. According to the report, Maryland school counselors at the middle and high school levels spend approximately one-third of their time on noncounseling activities. In addition, workloads for counselors at both levels far exceed the ideal 250:1 ratio. The increasing use of computer software has been helpful in increasing the quantity of time spent with students and the quality of information delivered. To improve school counselors’ opportunities to connect with students, MSDE recommends reducing counselor caseloads to be more in line with the recommended ratio and to remove the administrative responsibilities and clerical tasks that pull counselors away from students. To improve students’ connection with college and career information, MSDE recommends disseminating more information through teachers in the classrooms, further increasing the use of software to allow students more access to information, and increasing computer laboratory access for the purpose of college and career exploration as opposed to just classroom learning.

R00A02 – MSDE – Aid to Education

R00A02
Aid to Education
Maryland State Department of Education

Operating Budget Analysis

Program Description

State and local governments share responsibility for Maryland's public schools. In 2002, the State's Commission on Education Finance, Equity, and Excellence (a.k.a. the Thornton Commission) recommended, and the legislature approved, altering and enhancing the distribution of State aid to education. The new distribution system was phased in from fiscal 2003 through 2008. Since fiscal 2009, funding adjustments have been determined primarily by changes in enrollment.

Under the Bridge to Excellence (BTE) in Public Schools Act of 2002, commonly referred to as "Thornton," school systems receive a basic per pupil funding amount through the foundation program. Additional formulas provide supplemental aid based on students with special needs including students with disabilities, students eligible for free and reduced-price meals (FRPM), and students with limited English proficiency (LEP). The Geographic Cost of Education Index (GCEI) is a discretionary formula and is meant to account for differences in the costs of educational resources among school systems. State aid for student transportation also increased under Thornton.

Along with enhanced funding, local jurisdictions received broad flexibility in determining how to meet State goals for student achievement. At the same time, each school system is held accountable for achieving the goals and student outcome measurements outlined in its Comprehensive Master Plan, which is updated annually.

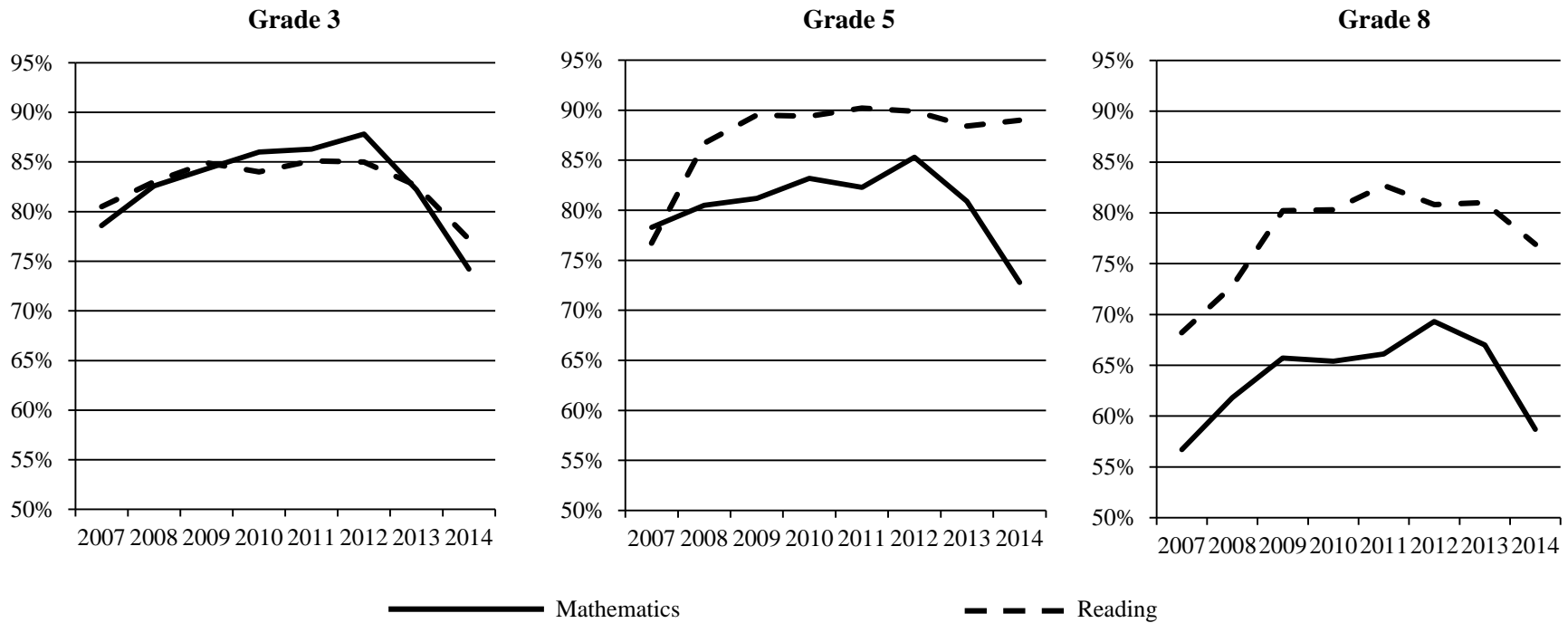
In addition to funding for public education, the Maryland State Department of Education (MSDE) is responsible for the general direction and control of library development in Maryland. The State provides support for local libraries, the State Library Resource Center, and several regional resource centers.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

Performance Analysis: Managing for Results

1. Maryland School Assessment Reading and Math Scores Decrease

Maryland School Assessments (MSA) measure student achievement in grades 3 through 8. **Exhibit 1** shows the MSA percent proficient or advanced for grades 3, 5, and 8 from 2006-2007 to the 2013-2014 school years. Reading scores had been relatively stable since the 2008-2009 school year but began to decline in the 2011-2012 school year. In the past three years, as the State began its transition to the Maryland College and Career-Ready Standards (MCCRS), reading scores for grades 3, 5, and 8 have declined by 9.0%, 1.0%, and 7.0%, respectively. In the most recent results, only

Exhibit 1
Maryland State Assessments – Percent Proficient or Advanced
School Year 2006-2007 to 2013-2014



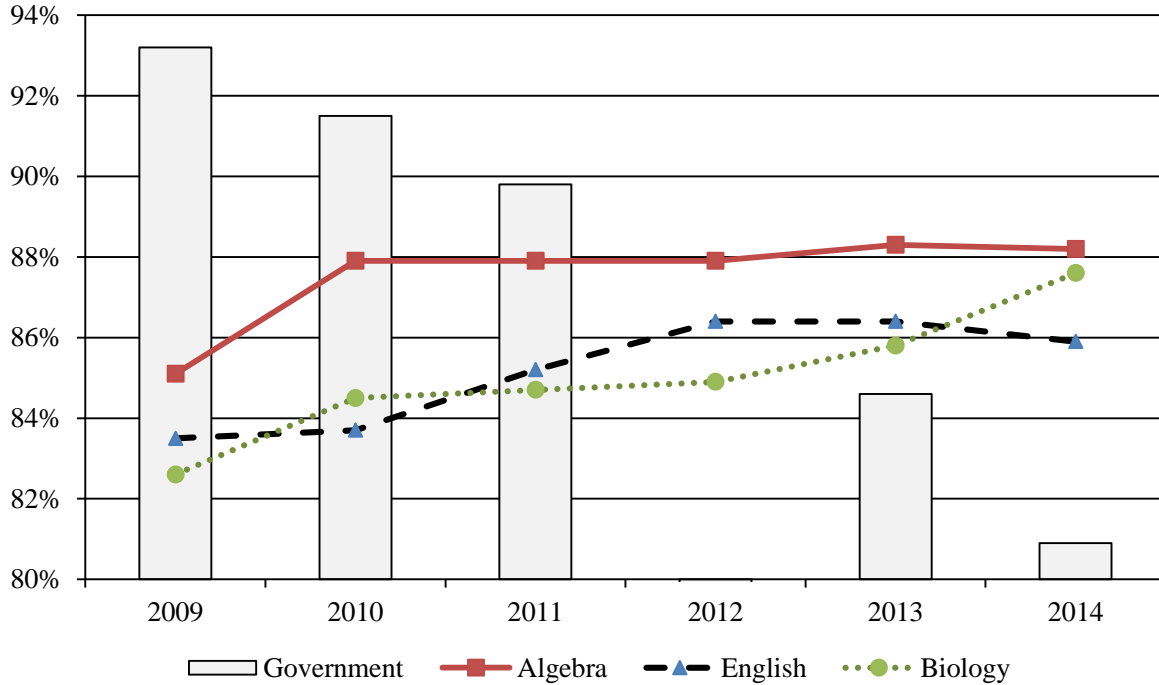
Source: *The Maryland Report Card*, Maryland State Department of Education

grade 5 reading scores showed an increase (0.6%) over the previous year. Math scores for all three grades decreased by at least 8 percentage points during the 2013-2014 school year, with grade 8 math scores continuing to lag behind scores in earlier grades. Less than two-thirds of students tested in grade 8 math were deemed proficient or advanced.

2. High School Assessment Percent Passing Decreases in Three of Four Subject Areas

The Maryland High School Assessments (HSA) measure school and individual student performance in high school English, algebra I, biology, and government. The assessments are administered at the end of courses and are offered four times per year. Beginning with the class of 2009, the assessments have been a graduation requirement. As shown in **Exhibit 2**, the percent passing the Biology HSA increased to 87.6% from 85.8% in the previous school year. This was the only subject area to show an increase in pass rates from the prior year. The percent passing the English HSA decreased to 85.9% in the 2013-2014 school year, after remaining steady at 86.4% the previous two years. The percent passing the Algebra HSA decreased slightly, from 88.3% to 88.2%. The percent passing the Government HSA also decreased from 84.6% to 80.9%. In fiscal 2012, the Government HSA was eliminated to recognize cost savings, although Chapter 476 of 2012 required MSDE to reinstate the Government HSA. Due to the elimination and subsequent reinstatement of the Government exam, passing the Government exam is a graduation requirement beginning with students entering grade 9 in the 2013-2014 school year. The reductions in the percent passing English and Algebra are largely reflective of the misalignment between the HSAs and the implementation of the new State curriculum focusing on the MCCRS.

**Exhibit 2
High School Assessments – Percent Passing
School Year 2008-2009 to 2013-2014**



Note: Pass rates shown are for grade 12 students.

Source: *The Maryland Report Card*, Maryland State Department of Education

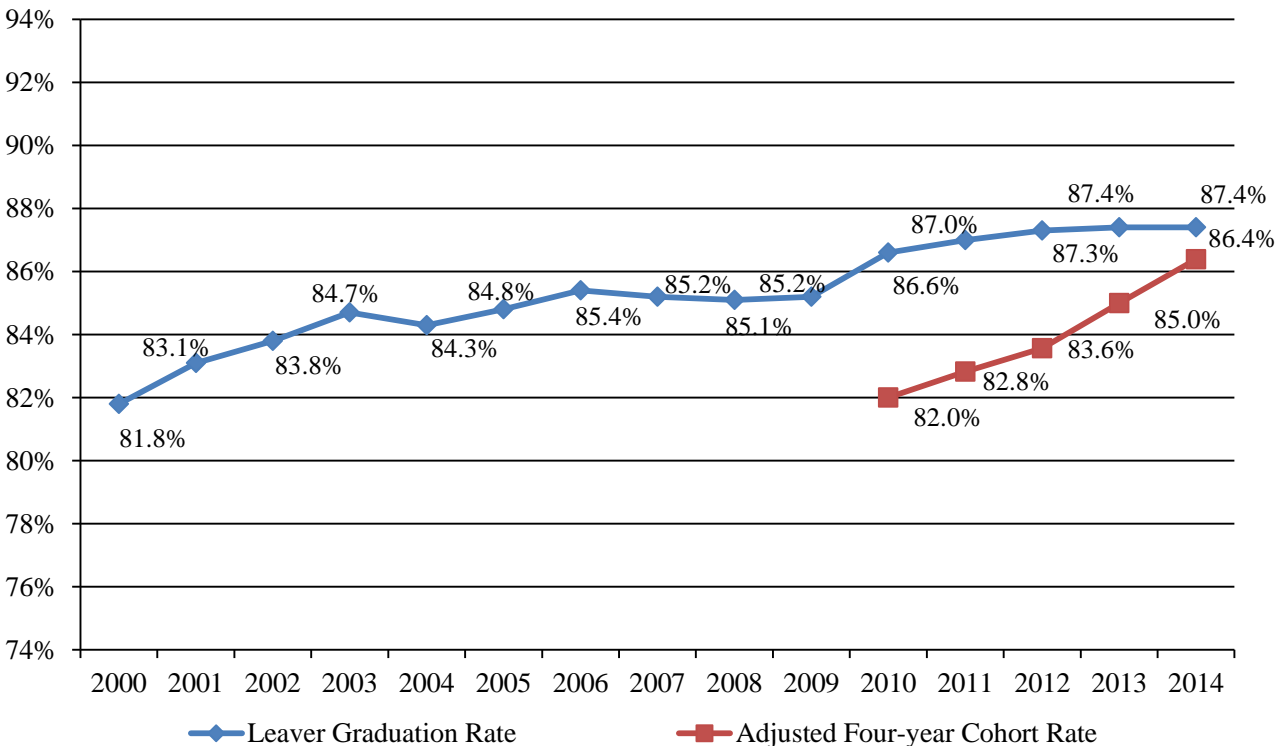
Students can meet the HSA requirement by passing all tests, by attaining a minimum combined score (with no minimum score for individual tests), by completing a bridge project instead of the tests, or by qualifying for a waiver. A waiver may be granted if the student (1) has met all other graduation requirements; (2) has taken or will take all tests; (3) has taken advantage of all extra help; and (4) the circumstances that have prevented the student from passing the test are beyond the student’s control. In the 2013-2014 school year, less than 1% of graduates received a waiver for extenuating circumstances. In the 2013-2014 school year, 3,402 students did not graduate, primarily because of unmet local requirements.

In the 2013-2014 school year, Maryland public schools fully implemented the MCCRS for curriculum and instruction. Partnership for Assessment of Readiness for College and Career (PARCC) assessments, which are aligned to the standards, are being administered for the first time in the current school year (2014-2015 school year). PARCC assessments will replace the MSAs in reading and mathematics and HSAs in Algebra I and English I in 2015. The State Board of Education has adopted a transition plan to require high school students to pass the English I and Algebra I PARCCs in order to graduate; the HSAs in Biology and Government remain a requirement for high school graduation.

3. Statewide Graduation Rate Increases

The statewide high school graduation rate in the 2013-2014 school year remained steady at 87.4% using the traditional Leaver Graduation Rate, as shown in **Exhibit 3**. The rate hovered around 85.0% between the 2005-2006 and 2008-2009 school years before increasing to 86.6% in the 2009-2010 school year. The graduation rate increased slightly over the past four years. Maryland began calculating a new cohort graduation rate with the class of 2010, per federal and State requirements, and will report both rates for several years. Maryland’s statewide four-year cohort graduation rate is lower than the Leaver Graduation Rate but has increased in each year since its implementation, reaching 86.4% in the 2013-2014 school year. **Exhibit 4** shows the four-year cohort graduation rates by county for the 2014 cohort. Carroll County had the highest rate, greater than or equal to 95.0%. Baltimore City had the lowest rate at 69.7%. All but four local education agencies (LEA) improved their graduation rates from the 2013 cohort, with Somerset County improving the most (8.6 percentage points). Caroline, Frederick, Howard, and Washington counties experienced declines in the 2014 cohort graduation rate.

Exhibit 3
State High School Graduation Rates
2000-2014 School Years



Source: *The Maryland Report Card*, Maryland State Department of Education

Exhibit 4
Graduation Rate by County
2014 Cohort

<u>School System</u>	<u>Students Graduating</u>	<u>Adjusted Cohort</u>	<u>Rate</u>
Allegany	593	648	91.5%
Anne Arundel	4,978	5,673	87.7%
Baltimore City	3,840	5,513	69.7%
Baltimore County	6,935	7,914	87.6%
Calvert	1,290	1,371	94.1%
Caroline	304	371	81.9%
Carroll	-	-	≥95.0%
Cecil	1,043	1,177	88.6%
Charles	2,022	2,212	91.4%
Dorchester	276	314	87.9%
Frederick	2,910	3,142	92.6%
Garrett	301	323	93.2%
Harford	2,685	2,989	89.8%
Howard	3,885	4,184	92.9%
Kent	140	156	89.7%
Montgomery	10,255	11,434	89.7%
Prince George's	7,323	9,561	76.6%
Queen Anne's	592	630	94.0%
St. Mary's	1,200	1,284	93.5%
Somerset	166	194	85.6%
Talbot	323	352	91.8%
Washington	1,587	1,743	91.0%
Wicomico	836	990	84.4%
Worcester	453	497	91.1%
State	53,937	62,672	86.1%

Source: *The Maryland Report Card*, Maryland State Department of Education

The Leaver Graduation Rate method estimates the number of students who entered the class four years prior compared to the number of graduates, but it does not follow the grade 9 cohort. For example, there can be students who count in the dropout total, then return to school and count in the graduation total. The new four-year adjusted cohort rate follows the cohort of students who entered high school. From the beginning of grade 9, students who transfer into the cohort later during grade 9 and the next three years are added, and students who transfer out, emigrate to another country, or die during that same period are subtracted. The four-year cohort graduation rate is calculated by dividing the number of students who graduate in four years or less with a regular high school diploma

by the number of students who form the adjusted cohort for that graduating class. Students who drop out remain in the adjusted cohort in the denominator of the calculation. MSDE also reports three- and five-year adjusted cohort rates.

Fiscal 2015 Actions

Proposed Deficiencies

The fiscal 2016 allowance provides a net increase of \$21.0 million in fiscal 2015 deficiency appropriations for Aid to Education programs. Proposed fiscal 2015 deficiency appropriations for the foundation program provide a net increase of \$16.4 million in general funds and a corresponding decrease in special funds from the Education Trust Fund (ETF). An additional \$20.5 million in general funds, with an offsetting special fund reduction, is needed to replace ETF revenues due to revised video lottery terminal (VLT) revenue projections. That amount is slightly reduced by a contingent action that would provide \$4.1 million in additional special funds by transferring VLT revenues dedicated to local impact grants to the ETF. A similar contingent action is proposed for the fiscal 2016 allowance, as well. Changes within the foundation program, including those pertaining to the ETF, are discussed further in the Issues section of this analysis. **Exhibit 5** provides detail on the proposed fund shifts within the foundation program in both fiscal 2015 and 2016.

Exhibit 5 Fund Shifts within the Foundation Program Fiscal 2015-2016

	2015			2016		
	<u>GF</u>	<u>SF</u>	<u>TF</u>	<u>GF</u>	<u>SF</u>	<u>TF</u>
Appropriation	\$2,681,915	\$407,287	\$3,089,202	\$2,703,615	\$394,007	\$3,097,621
Deficiencies	20,500	-20,500	0			0
Contingent Action to Redirect VLT Revenue from Local Impact Grants	-4,074	4,074	0	-3,888	3,888	0
Contingent Reduction to Level Fund Per Pupil Amount at the Fiscal 2015 Level and Freeze NTI Grants for One Year	0	0	0	-52,789	0	-52,789
Total Foundation Funds	\$2,698,341	\$390,861	\$3,089,202	\$2,646,938	\$397,894	\$3,044,833

GF: general funds
NTI: net taxable income
SF: special funds

TF: total funds
VLT: video lottery terminal

Source: Department of Legislative Services

The fiscal 2015 appropriation for stipends provided through the Quality Teacher Incentives (QTI) program receives an increase of \$10.6 million. This increase is maintained in the fiscal 2016 allowance. Stipends are provided, in accordance with statute, to teachers in comprehensive needs schools who have obtained National Board Certification (NBC) or Advanced Professional Certification (APC) and teach for a full year following the designation of being in a school in need of improvement. Primarily resulting from a misalignment between State assessments that continued to be administered through the 2013-2014 school year and the implementation of the new MCCRS State curriculum beginning in the 2011-2012 school year, the number of comprehensive needs schools increased from 165 in fiscal 2014 to 497 in fiscal 2015. The fiscal impact is an increase in funding for the program from \$9.5 million to \$22.9 million. School performance status is frozen for all elementary and middle schools in fiscal 2016. As such, the fiscal 2016 allowance is level funded at \$22.9 million, once the fiscal 2015 deficiency appropriation has been taken into account. The QTI program is discussed more in depth in the Issues section of this analysis.

A net increase of \$10.4 million is provided to cover the State share of nonpublic placements costs for special education children. A \$10.8 million increase is needed to cover a fiscal 2014 shortfall. This increase is offset by a \$376,995 withdrawn appropriation to reduce nonpublic placement provider rates to the fiscal 2014 level for the last quarter of the current fiscal year. The Budget Reconciliation and Financing Act (BRFA) of 2015 also includes a provision to limit provider rates in fiscal 2016 to the fiscal 2014 amount. The issue of funding for nonpublic placements is addressed in more detail in the Issues section of this analysis.

Assumed General Fund Reversions

The Governor's fiscal 2016 allowance includes \$4.8 million in assumed general fund reversions from programs budgeted within Aid to Education. The allowance assumes that \$1.5 million and \$500,000 will be reverted at the close of fiscal 2015 from the out-of-county placements and the Montgomery County Optional Library Retirement grant program, respectively. These reductions are based on prior year actual expenditures.

A \$2.8 million reversion is assumed from the Autism Waiver program. This effectively reduces the fiscal 2015 appropriation for the program to \$9.2 million. The Autism Waiver program provides services to children with autism spectrum disorder in the most appropriate environment for this type of disability and in the least restrictive environment. The waiver also maximizes the use of Medical Assistance funding to cover the cost of providing services to this population. Related federal funding is provided in the Department of Health and Mental Hygiene (DHMH) budget, and the State has a 50% match requirement.

During the fiscal 2013 closeout process, DHMH informed MSDE of a billing error on DHMH's part that indicated billings for the State portion of the Autism Waiver had been overstated in previous years. DHMH indicated that it had been previously billing MSDE in error for children who were Medicaid-eligible, as opposed to through the waiver program. As such, billings were reduced for fiscal 2013 and 2014 and general funds from the program were reverted. This is also the reasoning behind the \$2.8 million assumed reversion for fiscal 2015.

R00A02 – MSDE – Aid to Education

The fiscal 2016 allowance provides a \$9.0 million general fund increase above the fiscal 2015 appropriation, once accounting for the assumed reversion; however, the Governor’s Budget Highlights book provides no indication that there is a corresponding increase in the number of slots available within the waiver program. According to MSDE, DHMH has reported the error in billing was actually an understatement of the costs to be charged to the State portion of the Autism Waiver program. As of fiscal 2016, the general funds included in MSDE’s budget will reflect all children receiving services through the waiver program. This change in billing results in the need for the additional funding in fiscal 2016. According to MSDE and DHMH, the \$18.2 million included in fiscal 2016 represents the actual State cost of providing services through the Autism Waiver program to 1,000 children.

MSDE should discuss how it is working with DHMH to clarify the cause of the billing errors, the reliability of the estimated cost for fiscal 2016, and what steps have been taken to ensure that similar billing errors do not occur in the future.

Proposed Budget

The proposed fiscal 2016 allowance is \$7.0 billion, a \$73.4 million increase over the fiscal 2015 working appropriation among all funds, as shown in **Exhibit 6**. Further detail on changes by fund is shown in **Exhibit 7**. The changes by program are shown in **Appendix 5**. General funds increase by \$35.2 million, inclusive of all proposed contingent reductions. BTE formulas increase \$87.9 million in fiscal 2016. This includes \$403.0 million in special funds primarily budgeted from VLT and table game proceeds and funding for the SEED School. The fiscal 2015 appropriation includes \$395.6 million in special funds, including the net \$16.4 million reduction from revised VLT revenue projections and the proposed contingent action to redirect VLT revenue for local impact grants to the ETF.

Exhibit 6
Proposed Budget
MSDE – Aid to Education
(\$ in Thousands)

How Much It Grows:	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2014 Actual	\$5,581,049	\$389,888	\$725,384	\$99	\$6,696,421
Fiscal 2015 Working Appropriation	5,753,679	395,586	794,567	130	6,943,963
Fiscal 2016 Allowance	<u>5,788,829</u>	<u>402,994</u>	<u>825,423</u>	<u>140</u>	<u>7,017,386</u>
Fiscal 2015-2016 Amt. Change	\$35,150	\$7,408	\$30,855	\$10	\$73,423
Fiscal 2015-2016 Percent Change	0.6%	1.9%	3.9%	7.7%	1.1%

R00A02 – MSDE – Aid to Education

Where It Goes:

Bridge to Excellence Changes

Foundation formula.....	\$64,638
Contingent reduction to the foundation formula from level funding the per pupil foundation amount	-40,726
Compensatory education.....	53,457
Contingent reduction to compensatory education from level funding the per pupil foundation amount.....	-17,799
Net Taxable Income adjustment.....	8,872
Contingent reduction to the Net Taxable Income adjustment based on a one-year freeze	-12,063
Guaranteed Tax Base	-5,628
Limited English Proficiency	19,521
Contingent reduction to the Limited English Proficiency funding from level funding the per pupil foundation amount.....	-2,902
Special education formula.....	4,294
Contingent reduction to the special education formula from level funding the per pupil foundation amount.....	-3,754
Transportation funding.....	7,867
Geographic Cost of Education Index	-64,585
Small and declining enrollment grant	-507

Other General Fund Changes

Teacher and librarian retirement	30,091
Autism Waiver	6,200
Public libraries funding formula	2,753
Contingent reduction to public libraries funding formula.....	-1,793
State library network.....	816
Contingent reduction to funding for the State library network	-526
Nonpublic placements.....	-423
Out-of-county living arrangements	-881
Science and math education initiative.....	-601
Early College Innovation Fund	-1,407
Digital Learning Innovation Fund.....	-3,500

Combined Fund Changes

Children at-risk	778
SEED School.....	539
Contingent reduction to the SEED School from level funding the per pupil foundation amount.....	-139

Federal Fund Changes

Title I – Educationally deprived children funds and school improvement grants.....	-2,275
Teacher development – Improving Teacher Quality.....	-1,850
Gifted and Talented.....	-917
English language grants	-457
Career and technology education	256

R00A02 – MSDE – Aid to Education

Where It Goes:

Special education – grants to states, preschool, and infant/family grants	467
Food services program	35,074
Other	533
Total	\$73,423

Note: Numbers may not sum to total due to rounding. The fiscal 2015 working appropriation reflects deficiencies and the Board of Public Works reductions to the extent that they can be identified by program. The fiscal 2016 allowance reflects back of the bill and contingent reductions to the extent that they can be identified by program.

Exhibit 7
Education Aid by Fund
Before Proposed Contingent Reduction
Fiscal 2014-2016
(\$ in Thousands)

	<u>2014</u> <u>Actual</u>	<u>2015</u> <u>Working</u>	<u>2016</u> <u>Allowance</u>	<u>Change</u> <u>2015-16</u>
General Funds	\$5,631,272	\$5,787,179	\$5,921,787	\$134,608
Federal Funds	769,125	839,674	894,316	54,642
Special Funds from Gaming	385,165	390,861	397,894	7,033
Other Special Funds	8,989	4,890	5,595	705
Reimbursable Funds	99	130	140	10
Total	\$6,794,650	\$7,022,734	\$7,219,732	\$196,997

Note: All fund changes take into account both positive and negative deficiencies but do not reflect proposed contingent reductions.

Source: Department of Legislative Services

State Share of the Foundation Program

The foundation program includes the State share of the per pupil foundation formula, the GCEI, the Supplemental Grants (created in Chapter 2 of the 2007 special session), the Net Taxable Income (NTI) Adjustment (created by Chapter 4 of 2013), and Grants to Jurisdictions with Small and Declining Enrollment Populations (Chapter 516 of 2014). Based on current law, funding for the State share of the foundation program increases by \$8.4 million. Once adjusting for fiscal 2015 deficiencies and fiscal 2016 contingent reductions, the State share of the foundation program decreases by \$44.4 million.

- ***Foundation Formula (\$64.6 Million Increase):*** The foundation formula ensures a minimum funding level per pupil and requires the LEAs to provide a local match. The formula is calculated based on a per pupil amount and student enrollment. Less wealthy school systems, as measured by the assessable base and the NTI, receive more aid per pupil than wealthier school systems. For the fiscal 2016 formula, fall 2013 enrollment increases by 7,705 full-time equivalent students, or 0.92%, totaling 842,229 statewide. The per pupil foundation amount in fiscal 2015 is \$6,860. Under current law, the per pupil foundation amount would increase to \$6,954 based on the 1.4% increase in the implicit price deflator. This would result in an increase of \$64.6 million. The \$40.7 million contingent reduction to the foundation formula that results from level funding the per pupil foundation amount at the fiscal 2015 level would result in a net increase of only \$23.9 million.
- ***NTI (\$8.9 Million Increase):*** The fiscal 2016 allowance includes \$8.9 million for the third of a five-year phased change to the NTI amount used to calculate wealth-based education formulas enacted by Chapter 4. The majority of State education aid is distributed through formulas that allocate funding to the local school boards inverse to local wealth per pupil. Local wealth includes the NTI and the assessable property tax base. Under the law, the NTI measure is based either on returns filed on or before September 1 of each year or tax returns filed through November 1, aligning the date with the automatic income tax extension deadline of October 15. Using a more complete NTI data set results in a reallocation of State education aid in which most counties receive more aid and some receive less. However, under Chapter 4, jurisdictions that would otherwise be adversely impacted are held harmless, and the NTI adjustment is phased in over five years, so that local school boards that will receive an increase in State aid based on November NTI realize 40.0% of the additional amount in fiscal 2015, 60.0% in fiscal 2016, and increasing incrementally to 100.0% in fiscal 2018. The BRFA of 2015 proposes freezing the fiscal 2016 amount at the fiscal 2015 level (40%), which results in a \$12.1 million contingent reduction. To the extent that changes are made to the per pupil foundation amount, the reduction for the NTI grant would also be impacted.
- ***GCEI (\$64.6 Million Decrease):*** The GCEI is a discretionary formula that accounts for differences in the costs of educational resources among the local school systems. The GCEI was fully funded for the first time in fiscal 2010 and had been fully funded through fiscal 2015. The fiscal 2016 allowance funds GCEI at 50.0%, which results in a general fund reduction of \$64.6 million for 13 school systems. Prince George’s and Montgomery counties, along with Baltimore City, are the jurisdictions most impacted by this reduction. **Appendix 3** shows changes to GCEI funding by jurisdiction.
- ***Supplemental Grants – Chapter 2 (No Change):*** To mitigate the impact of an inflation freeze in the per pupil foundation amount in fiscal 2009 and 2010, supplemental grants were established to ensure at least a 1.0% annual increase in State funding in 2009 and 2010 for each local school system in accordance with a formula codified in the legislation. To determine if a school system was eligible for supplemental grants in 2009, the amount of State aid under the BTE programs, 50.0% of the State payment for teachers’ retirement, and 50.0% of the GCEI funding received by the LEAs was compared to State aid from the prior fiscal year. The

2010 calculation was the same, except 60.0% of the GCEI funding was included in the comparison.

Beginning in fiscal 2011, as approved in 2007 and amended by Chapter 487 of 2009 (the BRFA), the supplemental grants continue at the amount provided in the previous year. For fiscal 2011 and future years, the amount will total \$46.5 million for the nine counties that receive the grant. Due to a wealth adjustment error in 2009, State aid was adjusted, and Carroll and Harford counties actually received negative supplemental grants totaling \$123,667 for fiscal 2012 through 2014. Chapter 425 of 2013 (the BRFA) provided that no supplemental grant may be less than zero. The fiscal 2015 appropriation reflected an increase from \$46.5 million to \$46.6 million due to the end of those negative grants. The fiscal 2016 allowance is funded at the fiscal 2015 level.

- ***Small and Declining Enrollment Grants (\$506,734 Decrease):*** As required by Chapters 515 and 516 of 2014, the State is required to provide grants in fiscal 2015 through 2017 to local boards of education which receive a decrease of more than 1% in total direct education aid from the current fiscal year and which have a total enrollment count of less than 5,000 students that has declined from the previous fiscal year. The grant must equal 50% of the decrease in total direct education aid. The fiscal 2015 working appropriation provided \$593,055 to two jurisdictions (Garrett and Kent counties). The fiscal 2016 allowance includes \$86,321 for Kent County.

Other Bridge to Excellence Changes

- ***Compensatory Education (\$53.5 Million Increase):*** The compensatory education formula provides additional funding based on the number of students eligible for FRPM. The formula is calculated using the number of eligible students and 97.0% of the per pupil foundation amount. The State share of the formula cost is 50.0%, with the State paying no less than 40.0% of formula funding for each LEA. Funds are distributed to each LEA based on the enrollment of students eligible for FRPM in the school system and local wealth. The \$53.5 million increase in fiscal 2016 equates to a 4.3% increase over the fiscal 2015 level. Due to the economic recession and the corresponding income decline for many households, 10,722 more students qualify for FRPM. Currently, 44.1% of students statewide qualify for FRPM. The impact of the proposed level-funding of the per pupil foundation amount in fiscal 2016 is a \$17.8 million contingent reduction.
- ***Limited English Proficiency (\$19.5 Million Increase):*** The LEP formula provides additional funds based on the number of students for whom English is a second language. The formula is calculated based on the enrollment of LEP students and 99.0% of the per pupil foundation amount. The \$19.5 million increase represents a 9.9% increase over the fiscal 2015 level and is based on 4,657 more LEP students. Like the compensatory formula, the State pays 50.0% of the formula costs statewide for LEP with a floor of 40.0% for each LEA. The proposed level-funding of the per pupil foundation amount to the fiscal 2015 level results in a contingent reduction of \$2.9 million.

R00A02 – MSDE – Aid to Education

- ***Special Education (\$4.3 Million Increase):*** The special education formula provides additional aid based on the number of students with disabilities. The formula is calculated using special education enrollment and 74.0% of the per pupil foundation amount. The State share of the formula cost is 50.0% statewide with a floor of 40.0% for each LEA. The State share increases by \$4.3 million, or 1.6%, in the fiscal 2016 allowance, due to the 1.4% increase in the foundation per pupil amount and an increase of 371 students. The proposed level-funding of the per pupil foundation amount at the fiscal 2015 level results in a contingent reduction of \$3.8 million.
- ***Transportation Funding (\$7.9 Million Increase):*** The State provides grants to assist LEAs with the cost of transporting students to school. The grant includes a separate component for the transportation of disabled students, which equals \$1,000 per student requiring special transportation enrolled in the school system the prior fiscal year. Section 5-205 of the Education Article requires an inflationary increase based on the Consumer Price Index for private transportation in the second preceding fiscal year for the base grant. Chapter 484 of 2010 capped the rate at 1.0% for fiscal 2011 through 2015, and allows the rate to fluctuate between 1.0% and 8.0% in future years. Previously, the rate could fluctuate between 3.0% and 8.0%. The fiscal 2016 allowance includes funds to support a 2.0% increase for student transportation.
- ***Guaranteed Tax Base (\$5.6 Million Decrease):*** The Guaranteed Tax Base provides additional funding to LEAs with less than 80.0% of statewide wealth per pupil and with a contribution of more than the minimum required local share under the foundation program in the prior fiscal year compared to the LEA's wealth (*i.e.*, education effort). In fiscal 2016, nine school systems qualify for the grant. The Guaranteed Tax Base formula has an inverse relationship with per pupil foundation changes. As the per pupil amount increases, the proportion of a LEA's contribution above the minimum local share is reduced as a share of total funds. The proposed level-funding of the per pupil foundation amount at the fiscal 2015 level generates an increase of \$1.3 million in Guaranteed Tax Base funding. These funds are not currently provided in the fiscal 2016 allowance. Therefore, the Administration would need to allocate the additional funding through a supplemental appropriation.

Other General Fund Changes

- ***Teachers' and Librarians' Retirement (\$30.1 Million Increase):*** Chapter 1 of the first special session of 2012 (the BRFA) phased in school board payments of the annual normal cost over four years (with increased county maintenance of effort (MOE) requirements equal to the required payments). After fiscal 2016, each school board is responsible for paying the actual normal costs associated with its employees. Largely due to recent pension reform and local cost-sharing initiatives, teachers' and librarians' retirement payments made by the State on behalf of local school boards and libraries are increasing by a relatively modest \$30.1 million. This increase is largely reflective of an increase in the salary base for teachers.
- ***Home and Community-Based Waiver for Autism (\$6.2 Million):*** The Home and Community-Based Waiver for Autism program provides services to children with autism

spectrum disorder in the most appropriate environment for this type of disability and in the least restrictive environment. The waiver also maximizes the use of Medical Assistance funding to cover the cost of providing services to this population. Related federal funding is provided in the DHMH budget, and the State has a 50.0% State match requirement.

The fiscal 2016 allowance increases general funds for the waiver by \$6.2 million. Once the assumed \$2.8 million reversion is accounted for, the fiscal 2016 allowance reflects an increase of \$9.0 million. The Governor's Fiscal 2016 Budget Highlights Book indicates that the \$18.2 million provided in fiscal 2016 will continue to support services for 1,000 children. Prior year expenditures had been artificially reduced due to billing errors committed by DHMH. According to MSDE and DHMH, the fiscal 2016 allowance reflects the accurate cost to the State for funding services to 1,000 children through the Autism Waiver program.

- ***Public Library Aid (\$2.8 Million Increase):*** Chapter 481 of 2005 provided funding increases for county public libraries based on an increase in a per capita formula funding level. Budget reconciliation legislation enacted between 2007 and 2011 slowed enhancements and reduced the target per resident amount to \$14.00 from \$16.00. Chapter 500 of 2014 established a multi-year plan to phase in an increase in the per capita amount from \$14.00 to \$16.70 by fiscal 2019. The fiscal 2016 per capita amount is \$15.00. The proposed extension of the phase-in from 5 to 10 years results in a contingent reduction of \$1.8 million.
- ***State Library Network (\$815,780):*** The State provides funds in addition to the local library formula to libraries designated as resource centers, including the State Library Resource Center in Baltimore City, the Eastern Resource Center in Salisbury, the Southern Resource Center in Charlotte Hall, and the Western Resource Center in Hagerstown.

State funding for the State Library Resource Center had been steady at \$1.85 per Maryland resident, but Chapter 487 of 2009 reduced the amount to \$1.67 per resident in fiscal 2010 and 2011. Chapter 397 of 2011 (the BRFA) held funding at \$1.67 per resident for fiscal 2012 through 2016, before a phase in to \$1.85 in 2019 and in subsequent years. Chapter 397 also set funding for regional resource centers at \$6.75 per resident of each region for fiscal 2012 through 2016, before phasing up to \$7.50 per resident in 2019 and in subsequent years. Chapter 500 accelerated the per capita increase to \$7.50 and established a multi-year plan to phase in an increase up to \$8.75 by fiscal 2019. The per capita amount in fiscal 2016, under current law, is \$7.50. The BRFA of 2015 proposes to extend the phase-in from 5 to 10 years, resulting in a contingent reduction of \$526,000.

- ***Nonpublic Placements (\$423,005 Decrease):*** The State funds a share of the cost of placing students with special needs in nonpublic school facilities. The costs vary depending on the number of students and the cost of the services provided for students placed in the program. The decrease is attributable to a slight reduction in provider rates. Provider rate increases in the program were limited to 1.0% in fiscal 2010, prohibited in fiscal 2011 and 2012, and again limited to 1.0% in fiscal 2013 as a result of budget reconciliation legislation. Chapter 425 of 2013 (the BRFA) capped provider rate increases for this program at 2.5% in fiscal 2014. An

additional increase of 1.5% was provided in fiscal 2015, however, the BRFA of 2015 eliminates that increase for the last quarter of the current fiscal year and holds fiscal 2016 provider rates to no more than the fiscal 2014 level, resulting in \$423,000 savings after the fiscal 2015 deficiency of \$10.8 million is considered. Funding for nonpublic placements is further discussed in the Issues section of this analysis.

- ***Out-of-county Living and Schools Near County Lines (\$881,000 Decrease):*** The State provides a contribution to counties for educating students who are not permanent residents of the county but may be attending the local school. This includes students who live near county lines and the closest school is not in their county of residence, and students in State-supervised or foster care who are not in the county where their legal guardian resides. The State contribution is a statutory mandate and depends on the number of children in these circumstances. Fiscal 2015 cost containment actions identified \$1.5 million in assumed reversions based on prior year actual expenditures for the program, reducing the appropriation for the program to \$2.4 million. Fiscal 2014 actual expenditures totaled \$2.6 million. The fiscal 2016 allowance is \$3.0 million.
- ***Early College Innovation Fund (\$1.4 Million Decrease):*** This initiative was intended to support an expansion of early college access programs that provide accelerated pathways for students seeking career and technical education or training in science, technology, engineering, and math disciplines. The fiscal 2016 allowance eliminates funding for this discretionary program.
- ***Digital Learning Innovation Fund (\$3.5 Million Decrease):*** This initiative was intended to support competitive grants to LEAs to create digital learning environments such as multimedia assets to students and teachers; differentiated instruction; differentiated assignments and materials for students advancing at different paces; training and support to educators and students; and offering more current information than traditional textbooks on an ongoing basis. The fiscal 2016 allowance eliminates funding for this discretionary program.
- ***Quality Teacher Incentives and National Board Certification Fees (No change):*** Funds for QTIs are used to recruit and retain quality teachers by providing stipends to teachers achieving the NBC and teachers holding the APC that teach in comprehensive needs schools. Shortfalls in funding for the program have existed since fiscal 2013. A \$10.6 million deficiency is required to cover the expected shortfall in fiscal 2015. The fiscal 2016 allowance is level funded with fiscal 2015, inclusive of the deficiency, as the performance status of schools has largely been frozen due to the misalignment of State assessments with the newly implemented MCCRS. The QTI program is further discussed in the Issues section of this analysis.

NBC fees provide funds to reimburse teachers for the cost of attaining the NBC. The fiscal 2016 allowance, which includes \$600,000 in general funds and \$300,000 in special funds, is level funded at the fiscal 2015 amount. Chapter 581 of 2013 repealed the termination date for the program, which provides State reimbursement for NBC fees for up to 1,000 teachers. The State pays two-thirds of the fee, and the counties pay one-third.

Combined Fund Changes

- ***Children at Risk (\$778,047 Increase):*** Programs for at-risk youth receive a \$778,047 increase in federal funds for programs to educate homeless children and youth and to support after school learning centers.
- ***At-risk Youth – SEED School for Disadvantaged Youth (\$539,007 Increase):*** The SEED School of Maryland is a residential education boarding program for at-risk students that opened in August 2008 (fiscal 2009) with a grade 6 class of 80. As of September 30, 2014, the school had the full enrollment of 406 students enrolled in grades 6 through 12.

General funds increase by \$139,507 in the allowance, bringing the total State funds for the SEED School to \$10.3 million. Beginning in fiscal 2014, minimum funding per student was the prior year funding amount as altered by the annual change in the per pupil foundation amount that is used to determine State aid for public primary and secondary education. The inflationary factor used in the foundation program, under current law, is 1.4% in fiscal 2016. With the proposed level-funding of the per pupil foundation amount, the fiscal 2016 allowance includes a \$139,000 contingent reduction for the SEED School.

Special funds increase by \$400,000 in fiscal 2016. Special funds are collected from LEAs where the SEED school students are domiciled. Because the LEA local cost of education (LCE) varies from year to year, the SEED special fund budget is just an estimate, which has to be adjusted after the fiscal year starts. Once actual LEA LCE fund amounts are calculated, usually in March, the appropriation is either increased or a deficiency request or budget amendment is submitted to cover the shortfall. The total amount is \$4.8 million in special funds for the fiscal 2016 allowance.

Federal Fund Changes

- ***Title I – Educationally Deprived Children (\$2.3 Million Decrease):*** Federal Title I grants are allocated to states under the Elementary and Secondary Education Act to provide additional resources for low-income children. The fiscal 2016 allowance reflects a \$17.7 million increase over fiscal 2014 actual expenditures.
- ***Improving Teacher Quality (\$1.9 Million Decrease):*** Federal funds for Improving Teacher Quality are distributed to states based on a two-part formula: a base allocation and a formula that accounts for each state's share of the population aged 5 to 17 and relative share of poor children in that age range. Funds are used for professional development, class-size reduction, and other activities that improve teacher quality.
- ***Gifted and Talented (\$916,850 Decrease):*** MSDE provides technical assistance and funding for programs serving gifted and talented children in all 24 jurisdictions. Federal fund support had been provided through the Advanced Placement Test Fee Payment Program. The grant ends in fiscal 2016.

R00A02 – MSDE – Aid to Education

- ***English Language Grants (\$456,644 Decrease)***: The Language Assistance Program supports instruction in public and nonpublic schools for students whose native language is not English. Funds are provided to LEAs for speakers of other language or bilingual instruction, in-service training for English to Speakers of Other Languages/bilingual teachers, and curriculum and materials. The fiscal 2016 allowance reflects an increase of \$572,975 over fiscal 2014 actual expenditures.
- ***Career and Technology Education (\$255,846 Increase)***: Federal funds for vocational education basic grants to states increase by \$256,000.
- ***Special Education (\$466,751 Increase)***: Federal special education funds include special education grants to states, preschool grants, and grants for infants and families with disabilities. The fiscal 2016 allowance reflects a \$942,000 increase above fiscal 2014 actual expenditures.
- ***Food Services Program (\$35.1 Million Increase)***: Federal funds budgeted for food services include the School Breakfast Program, the National School Lunch Program, and the Child and Adult Care Food Program.

Contingent Actions

Contingent actions to education aid are discussed in detail in the Issues section of this analysis. The total impact of those contingent actions is a decrease of \$76.1 million. The BRFA of 2015 also includes actions to extend the phase-in for per capita library funding. The resulting impact is a \$1.8 million contingent reduction to the public libraries funding formula and a \$526,083 reduction to the State library network. This would provide public libraries with a net increase of approximately \$959,765 and the State library network with an increase of \$289,697 over the fiscal 2015 working appropriation.

Issues

1. State Aid for Education

Under current law, public schools are expected to receive approximately \$6.2 billion in direct and indirect aid in fiscal 2016, representing a \$110.5 million (1.8%) increase over fiscal 2015. Proposed contingent reductions reduce State education aid by approximately \$76.1 million. If all of the Administration's proposed actions are adopted by the General Assembly, State education aid would grow by \$34.4 million, or 0.6%. The majority of the reductions result from the Governor's decision to level fund the per pupil foundation amount at the fiscal 2015 level, as opposed to allowing 1.4% growth in accordance with current law.

Administration's Proposed Funding for Direct Education Aid Reflects Less than 1.0% Increase

Exhibit 8 provides detail on funding changes for most direct education aid programs under current law and with the Administration's proposed statutory changes. Not reflected in this chart is the \$1.5 million in assumed fiscal 2015 reversions for the specific populations formulas included in the Other programs. Under current law, direct aid is expected to increase by \$81.6 million, or 1.5%. As the GCEI is a discretionary formula, the Administration has chosen to fund the program at 50.0% in fiscal 2016, resulting in a direct reduction of \$64.6 million within the current law calculation. Statutory changes are not required to alter funding provided through the GCEI. The BRFA of 2015 proposes statutory changes that would reduce the growth under current law by \$76.1 million. If all the contingent actions are adopted by the General Assembly, direct education aid would receive a minimal increase of \$5.5 million, or 0.1%, above the fiscal 2015 working appropriation.

Exhibit 8
Aid to Education Programs with Proposed Contingent Reductions
Fiscal 2015-2016

	<u>Working</u> <u>2015</u>	<u>Allowance</u> <u>2016</u>	<u>Current</u> <u>Law Change</u> <u>2015-16</u>	<u>%</u> <u>Change</u>	<u>Contingent</u> <u>Reductions</u>	<u>Proposed</u> <u>Change</u> <u>2015-16</u>	<u>%</u> <u>Change</u>
Foundation Formula	\$2,882,444	\$2,947,083	\$64,638	2.2%	-\$40,726	\$23,913	0.8%
Net Taxable Income	26,860	35,732	8,872	33.0%	-12,063	-3,191	-11.9%
GCEI	132,685	68,100	-64,585	-48.7%		-64,585	-48.7%
Supplemental Grant	46,620	46,620	0	0.0%		0	0.0%
Small and Declining Enrollment Grant	593	86	-507	-85.4%		-507	-85.4%
Compensatory Education	1,251,676	1,305,133	53,457	4.3%	-17,799	35,658	2.8%
Special Education Formula	271,703	275,997	4,294	1.6%	-3,754	540	0.2%
Nonpublic Placements	121,341	120,918	-423	-0.3%		-423	-0.3%
Limited English Proficiency	197,659	217,180	19,521	9.9%	-2,902	16,619	8.4%
Guaranteed Tax Base	59,390	53,762	-5,628	-9.5%	1,266	-4,362	-7.3%
Student Transportation	258,380	266,247	7,867	3.0%		7,867	3.0%
Other	79,473	73,603	-5,870	-7.4%	-139	-6,009	-7.6%
Direct Aid Subtotal	\$5,328,824	\$5,410,462	\$81,638	1.5%	-\$76,117	\$5,521	0.1%
Teachers Retirement	738,575	767,473	28,898	3.9%		28,898	3.9%
Total Education Aid	\$6,067,399	\$6,177,935	\$110,537	1.8%	-\$76,117	\$34,419	0.6%

GCEI: Geographic Cost of Education Index

Note: Other includes general and special funds supporting the SEED School; formulas for specific populations; Infants and Toddlers; Innovative Programs; Food Service; science, technology, engineering, and math (STEM); and Teacher Development. Excludes State Retirement Agency administrative fee for teachers' retirement and Autism Waiver, as this is not considered State Aid for Education. Assumes all positive and negative deficiency appropriations for fiscal 2015, with the exception of the \$10.8 million for nonpublic placements. This deficiency is actually provided to cover a shortfall in fiscal 2014.

Source: Department of Legislative Services

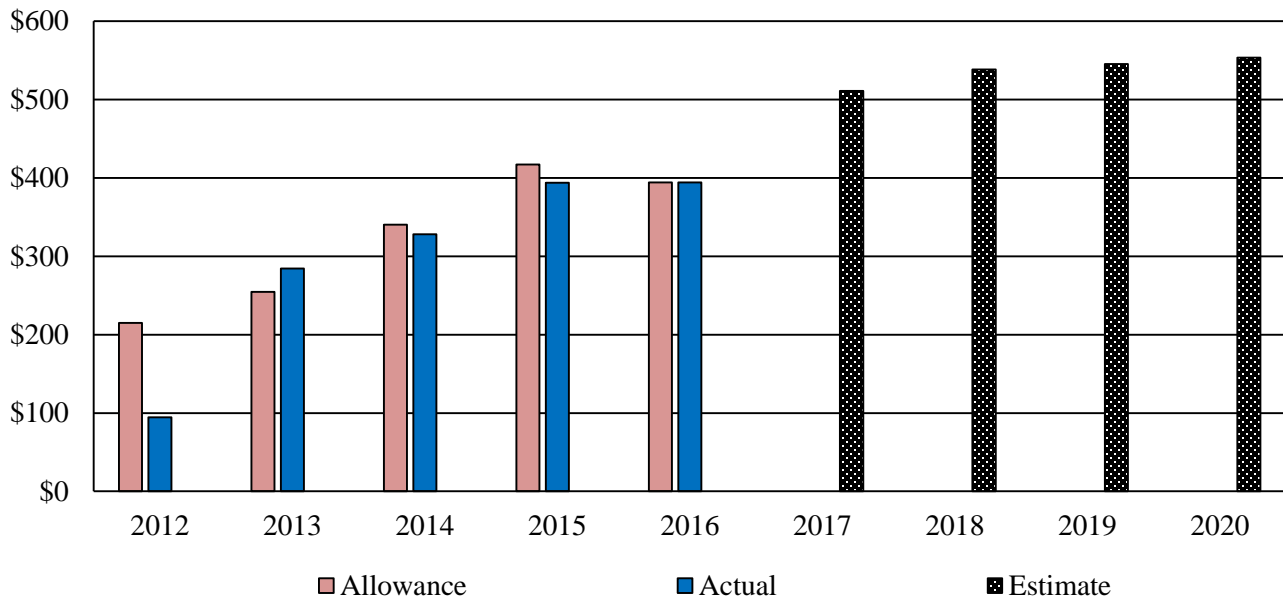
State Share of Foundation Program

The State share of the foundation program consists of the main foundation formula, NTI grants, the GCEI, Supplemental Grants, and Grants to Jurisdictions with Small and Declining Enrollments. Under current law, the foundation program, as a whole, would increase by \$8.4 million, excluding the 50% reduction in the GCEI, which is discretionary funding. Approximately 95% of the funding in the State share of the foundation program is provided through the foundation formula. Current law

provides for a \$64.6 million increase in the foundation formula, for a total fiscal 2016 appropriation of \$2.9 billion. The foundation formula consists of general funds and special funds from the ETF, which contains the share of revenues from VLT and table game proceeds that has been dedicated to support education aid.

As previously illustrated in Exhibit 5, the Governor’s proposed budget includes a \$20.5 million general fund deficiency appropriation and corresponding special fund decrease to the ETF in fiscal 2016. The additional general funds are slightly offset by contingent actions that would redirect gaming revenues from local impact grants to the ETF. There is no net impact to the fiscal 2015 appropriation, but there is a \$16.4 million fund swap between general and special funds. The redirection of gaming proceeds to the ETF continues in fiscal 2016. This is not the first time that additional general funds have been required to cover a shortfall in the ETF due to lower attainment of gaming revenues. **Exhibit 9** compares the allowance for each fiscal year to the actual ETF revenues received for fiscal 2012 through 2016 and includes out-year ETF estimates for fiscal 2017 through 2020, based on the December 2014 estimates from the Board of Revenue Estimates. In all but one of the past four years, ETF revenues have fallen short of the anticipated appropriation and additional general funds have been required to cover the shortfall.

Exhibit 9
Education Trust Fund Revenues
Projections vs. Actuals
Fiscal 2012-2020
(\$ in Millions)



Source: Board of Revenue Estimates; Department of Legislative Services

NTI grants are the other statutory program funded within the State share of the foundation program that experience an increase in fiscal 2016. Under current law, NTI grants would increase by \$8.9 million, or 33%, as the calculation for NTI amounts increases to 60%. NTI grants, under current law, provide \$35.7 million in additional funding to systems whose formula aid funding amount is higher using NTI data from November 1 as compared to September 1.

As shown in Exhibit 8, the Governor’s proposed allowance includes a \$52.8 million contingent reduction of the State share of foundation program. This action impacts both the foundation formula and the NTI grants. Actions in the BRFA of 2015 propose level funding the per pupil foundation amount at the fiscal 2015 amount and extending the phase-in of the NTI grants by one year to fiscal 2019. The fiscal 2015 per pupil foundation amount is \$6,860. Current law would have increased the per pupil amount by 1.4%, in accordance with the implicit price deflator, to \$6,954. The provision relating to the NTI grant freezes the phase-in for fiscal 2016 at 40%, which equates to \$12.1 million of the \$52.8 million contingent reduction. The total impact of all actions in fiscal 2015 and 2016 to the State Share of the Foundation program is a reduction in funding of \$44.4 million, or 1.4%.

The actions proposed in the BRFA of 2015 are not new proposals. **Appendix 2** provides a recent history of changes to per pupil foundation funding and the GCEI.

Other Direct Aid Programs

Freezing the per pupil foundation has a ripple effect on other formulas used for calculating direct education aid. This action impacts funding for compensatory education, special education, LEP, the Guaranteed Tax Base, and the SEED School. Level funding the per pupil amount also impacts the funding formulas for the Maryland School for the Deaf and the Maryland School for the Blind, although that funding is not provided through the Aid to Education program.

After the foundation program, in fiscal 2016, the compensatory education and LEP formulas have the largest dollar increases among the direct aid programs. With the proposed freeze in the per pupil foundation amount, the \$35.7 million and \$16.6 million increases for these respective programs is attributable to enrollment growth in these special populations.

The Guaranteed Tax Base provides additional funding to LEAs with less than 80% of statewide wealth per pupil and with a contribution of more than the minimum required local share under the foundation program in the prior fiscal year compared to the LEA’s wealth (*i.e.*, education effort). The formula has an inverse relationship with per pupil foundation changes. As such, limiting growth in the per pupil foundation amount in fiscal 2016 actually creates a shortfall of \$1.3 million that is not included in the allowance.

There are no contingent reductions proposed to funding for student transportation or the majority of aid programs included in the “Other” category. There is no proposed reduction in funding for nonpublic placements in fiscal 2016; however, as discussed in the next issues, it does appear that fiscal 2015 is likely underfunded, and the BRFA of 2015 includes a provision to reduce fiscal 2016 nonpublic placement provider rates to the fiscal 2014 level.

Retirement Costs Grow Slightly Due to Pension Reforms

In an effort to constrain rapidly escalating teachers' retirement costs and reduce the long-term liabilities of the State Retirement and Pension System (SRPS), changes to the State's pension structure have been enacted recently. Chapter 397 of 2011 altered the benefit structure for teachers and other professional school employees (along with the benefits provided to State employees) and required that \$300 million of the savings from the reform be reinvested in the system each year, beginning in fiscal 2014. Chapter 464 of 2014 (the BRFA) reduced the amount to be reinvested by \$200 million in each of fiscal 2014 and 2015 and established a plan for phasing back to the \$300 million contribution level by fiscal 2019. Chapter 397 also requires each local school board, along with the community colleges and all State agencies, to share in the administrative costs of the State Retirement Agency (SRA) in proportion to its active membership in SRPS. In fiscal 2013, further statutory and nonstatutory changes were made that are expected to generate significant short- and long-term savings in employer contributions to SRPS.

Further cost-sharing was approved in Chapter 1 of the first special session of 2012. Chapter 1 phased in school board payments of the annual normal cost for the teachers retirement system over four years. The payments required from each school board for fiscal 2013 through 2016 are specified in the legislation, and county MOE payments to the school boards increase to help support the cost-sharing initiative. After fiscal 2016, each school board is responsible for paying the *actual* normal costs associated with its employees.

Largely due to these cost-saving measures, State retirement payments for public school teachers and other professional personnel grow modestly in fiscal 2016. The costs will total an estimated \$767.5 million in fiscal 2016, representing a \$28.9 million increase (3.9%) from the prior fiscal year. This increase in State payments is due to a number of offsetting factors, including the nearly 50% increase in the supplemental payment. In addition to the State's share of teacher pension costs, local school boards will contribute approximately \$268.3 million to the payments in fiscal 2016. This represents an increase of \$32.7 million over the combined fiscal 2015 local share and includes \$268.3 million for the local share of pension contributions and \$13.6 million toward SRA administrative costs. To help offset the increased local costs, local school boards are no longer required to reimburse the State for the retirement costs of federally funded teachers beginning in fiscal 2015.

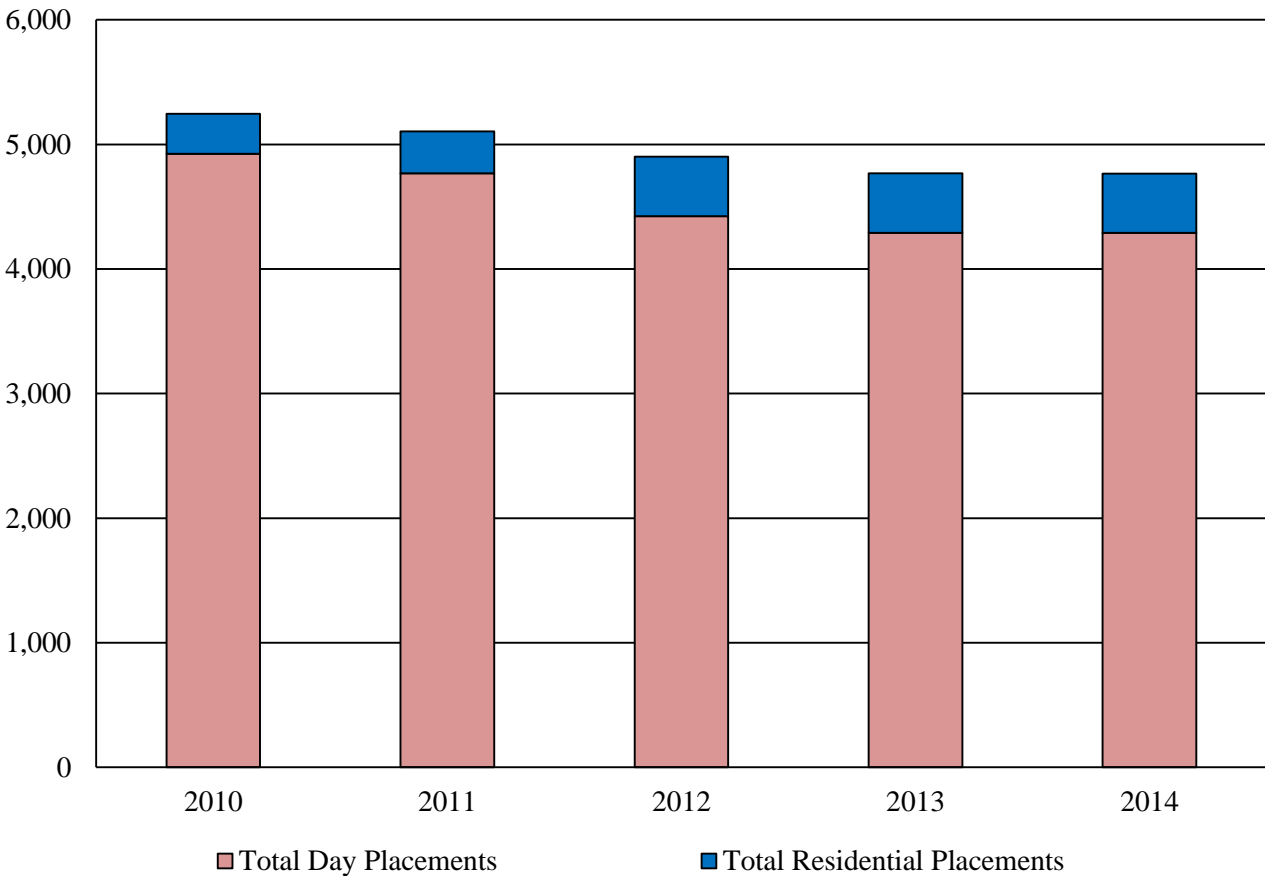
2. Funding for Nonpublic Placements Increases; Flaws Exist in the Calculation Used for Determining the Local Share of Basic Cost

Most students with disabilities receive special education services in the public schools. However, if an appropriate program is not available in the public schools, a student may be placed in a private school offering more specialized services. The costs for these students, who are placed in nonpublic day or residential facilities, are shared by the local school systems and the State. The school system contributes an amount equal to the local share of the basic cost of educating a child without disabilities plus two times the total basic cost. Any costs above this are split 70% State/30% local.

Nonpublic Placement Participation and Funding

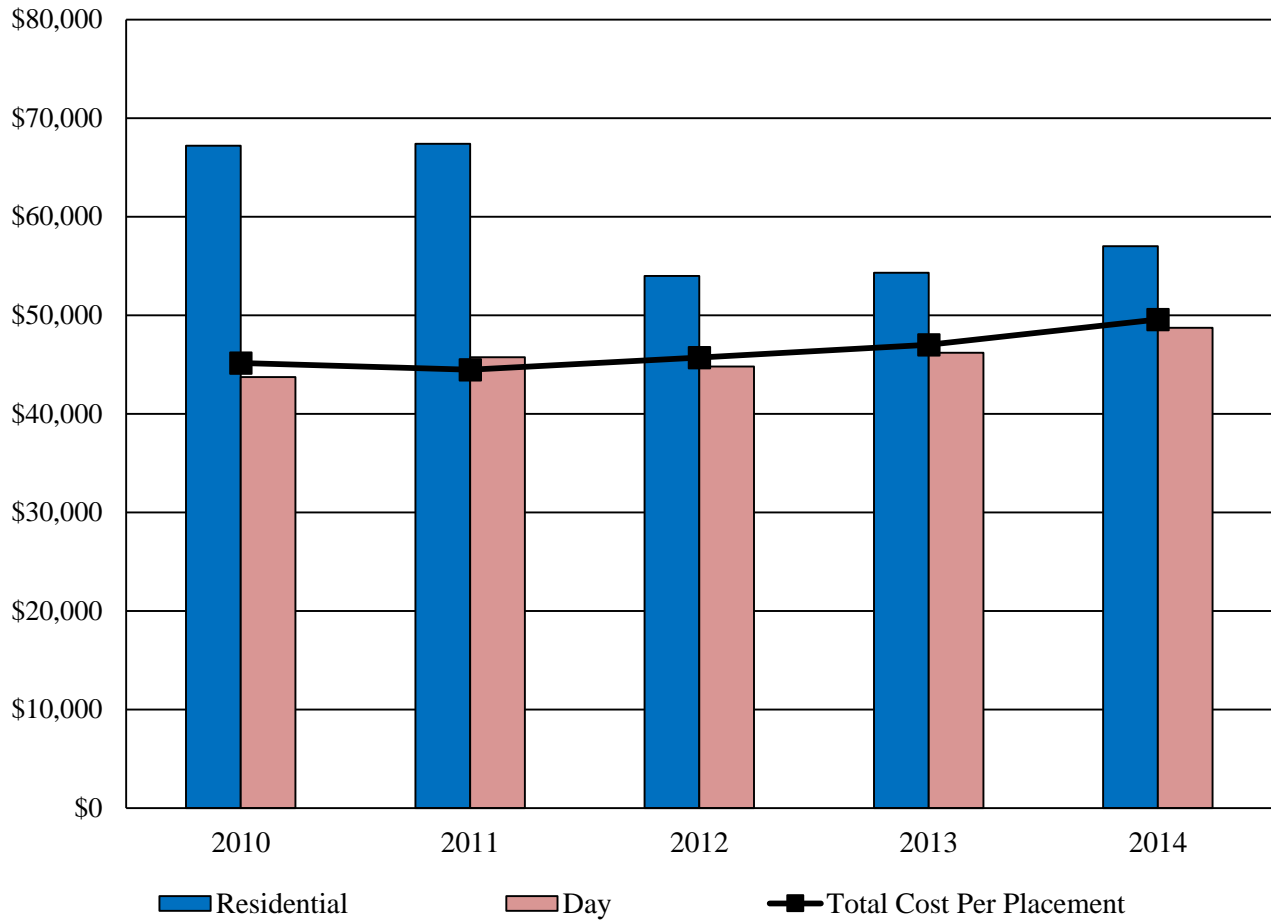
Exhibits 10, 11, and 12 illustrate the trends since fiscal 2010 in the number of children placed in nonpublic education programs, the cost per placement, and the State and local share of total costs. As seen in Exhibit 10, between fiscal 2010 and 2014, total placements declined by 9.1%, or 480 children. This is not entirely surprising, as the State share of funding for nonpublic placements was reduced from 80.0% to 70.0% of the costs exceeding the base local contribution in fiscal 2010. The decrease between fiscal 2010 and 2014 was entirely among students in nonpublic day programs, students that are more easily accommodated in a traditional school setting; the number of children in nonpublic residential programs actually increased by nearly 50.0% over the five-year period.

Exhibit 10
Children in Nonpublic Placements
Day vs. Residential Placements
Fiscal 2010-2014



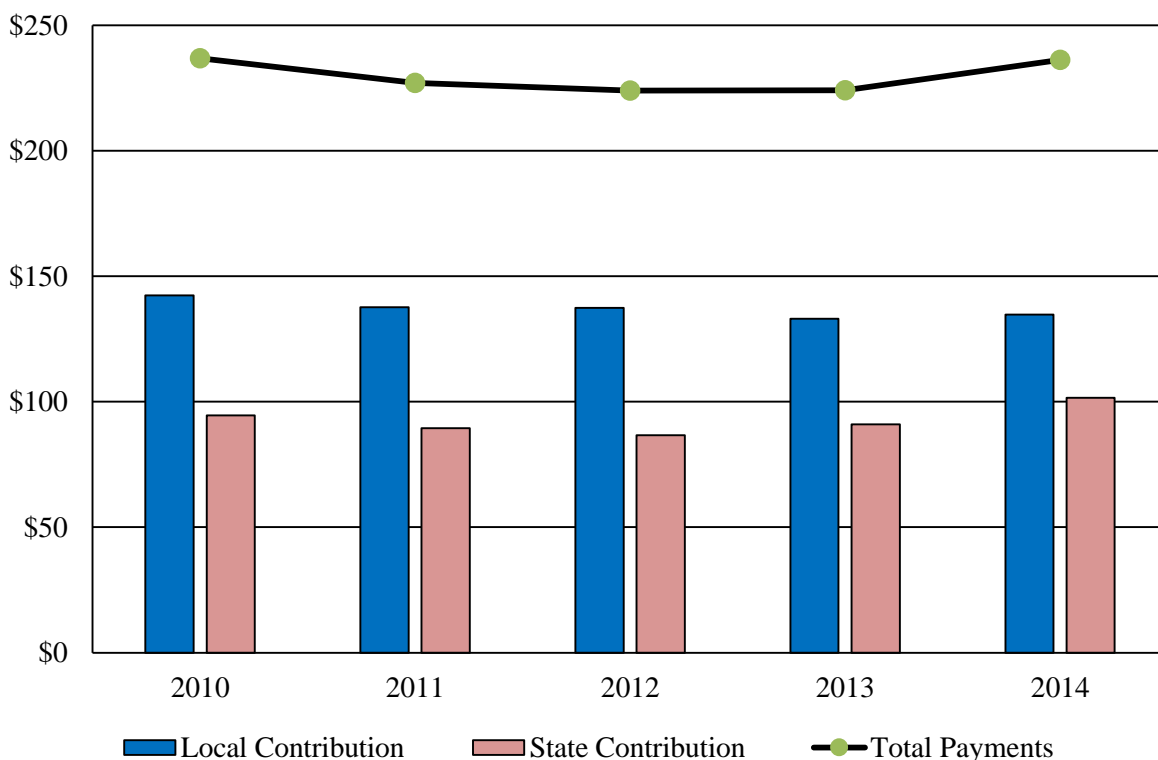
Source: Maryland State Department of Education

Exhibit 11
Nonpublic Placement Program
Cost Per Placement
Fiscal 2010-2014



Source: Maryland State Department of Education

**Exhibit 12
Nonpublic Placement Program
Total Payments
Fiscal 2010-2014
(\$ in Millions)**



Source: Maryland State Department of Education

As seen in Exhibit 11, cost per placement has been increasing in the past two years, most recently by 5.5% between fiscal 2013 and 2014. Residential placements are more expensive than placement in a nonpublic day program. With the increase in the number of students placed in nonpublic residential programs, the overall cost for funding nonpublic placements has increased. The increase in nonpublic residential placements, particularly since fiscal 2012, has been somewhat mitigated by the decrease in the total number of placements in nonpublic day programs and also the reduction in out-of-state residential placements.

Along with the increase in the cost per placement in recent years is the increase in the number of placements requiring State assistance. This has contributed to higher levels of State funding for the nonpublic placement program, as illustrated by Exhibit 12. Between fiscal 2012 and 2014, total

R00A02 – MSDE – Aid to Education

payments for nonpublic placements increased by \$12.2 million, or 5.5%. The entire increase was funded by the State. State funding for nonpublic placement payments increased by \$14.9 million, or 17.2%, while the local contribution declined by \$2.7 million, or 2.0%. The amount of funding required for the State contribution is influenced by the amount each local jurisdiction contributes toward the placement. This is a factor in the calculated local share of basic cost and also the overall expense of the placement. With the cost per placement increasing, the amount required for LEAs to contribute does not cover as much of the entire cost of the placement. The result is an increase in the need for State assistance to help close the gap.

Fiscal 2013 actual expenditures for State aid to the nonpublic placement program totaled \$109.6 million. The fiscal 2014 appropriation was also \$109.9 million; however, Chapter 425 of 2013 allowed for an increase in provider rates of up to 2.5%. The Office of Legislative Audits' Statewide Review of Budget Closeout Transactions for Fiscal 2014 found that MSDE overspent its fiscal 2014 appropriation for nonpublic placements by \$10.8 million and failed to report it to the Comptroller's General Accounting Division (GAD). Actual fiscal 2014 expenditures for nonpublic placements totaled \$120.7 million. A fiscal 2015 deficiency appropriation provides the \$10.8 million necessary to cover the shortfall in fiscal 2014; however, the fiscal 2015 working appropriation is only \$110.9 million. Nonpublic placement provider rates were allowed to increase by 1.5% in fiscal 2015, effective July 1, 2014. The budget includes a \$376,995 withdrawn appropriation for fiscal 2015 to reduce provider rates to the fiscal 2014 level for the last quarter of the fiscal year. The fiscal 2016 allowance is essentially funded at the fiscal 2014 level, providing \$120.9 million for the State contribution toward nonpublic placements. The fiscal 2016 allowance may be adequate, absent any significant population changes, because the BRFA of 2015 includes a provision to limit provider rates for nonpublic placements to the fiscal 2014 level. The concern is that the fiscal 2015 appropriation is underfunded because the deficiency appropriation that would increase fiscal 2015 in line with prior year actual expenditures is needed to cover the fiscal 2014 shortfall. The Department of Legislative Services (DLS) estimates that an additional \$10.0 million is likely needed to avoid overspending in fiscal 2015, as illustrated by **Exhibit 13**.

Exhibit 13
Funding for Nonpublic Placements
Fiscal 2013-2016

	<u>2013</u> <u>Actual</u>	<u>2014</u> <u>Actual</u>	<u>2015</u> <u>Working</u>	<u>2016</u> <u>Allowance</u>
Budget Appropriation	\$109.6	\$109.9	\$110.9	\$120.9
Fiscal 2015 Deficiency to Cover Fiscal 2014 Shortfall		10.8		
Proposed Reduction to Provider Rates			-0.4	
Adjusted Appropriation	\$109.6	\$120.7	\$110.5	\$120.9

Source: Department of Legislative Services

Calculating Basic Cost and the Local Share of Basic Cost

Exhibit 14 illustrates the calculations used by MSDE to determine the basic cost of providing education services and the local share of that basic cost. 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. The local share of basic cost is currently calculated as the basic cost excluding State Aid; however, this is not actually defined in statute.

Exhibit 14 MSDE Calculations for Basic Cost and Local Share of Basic Cost

$$\text{Basic Cost} = \frac{\text{Total Expenditures} - \text{Special Education Expenditures} - (\text{Total Federal Revenue} - (\text{IDEA} + \text{Title I} + \text{McKinney-Vento}))}{\text{FTE Enrollment}}$$

$$\text{Local Share of Basic Cost} = (\text{Basic Cost} - (\text{State Aid} - \text{State Aid for Special Education}))$$

$$\begin{aligned} \text{Local Contribution toward Nonpublic Placement Costs} = \\ (\text{Local Share of Basic Cost} + (200\% \times \text{Basic Cost})) \end{aligned}$$

FTE: full-time equivalent

MSDE: Maryland State Department of Education

Source: Department of Legislative Services

Recently, MSDE and DLS have discovered flaws in the methodology used for calculating basic cost and the local share of basic cost. These flaws include double counting the amount of special education expenditures excluded from the calculation, using different definitions of basic cost at different points in the calculation, and overstating the anticipated change in the local share of basic cost when trying to forecast for budget development purposes. To some extent, the issues with the methodology may be complicated by the State's implementation of BTE. Prior to BTE, State funding was highly restricted to specific purposes, making it easier to calculate State aid and expenditures on special education. Under BTE, most funding is unrestricted. The State funding provided through the special education formula does not require those funds to be spent specifically on special education services, and to the extent that a jurisdiction has a high population of handicapped students, LEAs may spend well beyond the amount of State aid provided for special education. Although the actual reporting mechanisms used by local jurisdictions has not changed much, the resulting lack of transparency in the amount of State and local funds spent on special education may have contributed to a number of compounding missteps over the years. To the extent that the flaws in the calculations for basic cost and the local share of basic cost have understated a jurisdiction's fiscal commitment to funding nonpublic placements, that could also contribute to an apparent increase in the need for State funding to support the program.

MSDE, DLS, and the Department of Budget and Management have been aware of the need to update the local share of basic cost for some time. The most recent issues with the calculations were first identified by DLS during the 2014 session. MSDE has indicated that the department has also been aware of the flaws. Due to errors in the calculation, MSDE froze the fiscal 2015 local share of basic

cost rate at the fiscal 2014 rate. There are no proposed changes or resolutions included in the fiscal 2016 allowance to address the known problems.

MSDE should comment on what is driving the changes in the population of children in nonpublic placements and the cost of those placements. The department should also comment on why the State contribution toward nonpublic placements has increased significantly in recent years, while the local contribution has declined. Finally, MSDE should discuss why the shortfall in fiscal 2014 was not reported to GAD and whether the fiscal 2015 appropriation is underfunded.

DLS recommends that language be added to the budget restricting funds within MSDE until a report is provided that outlines all of the issues with the calculations, proposes solutions to the flaws in the basic cost and local share of basic cost calculations, and identifies the degree to which these errors have contributed to the increased State cost for nonpublic placements since fiscal 2012. The report should also provide fiscal estimates associated with correcting the errors, including the amount of additional revenue for the Maryland School for the Blind.

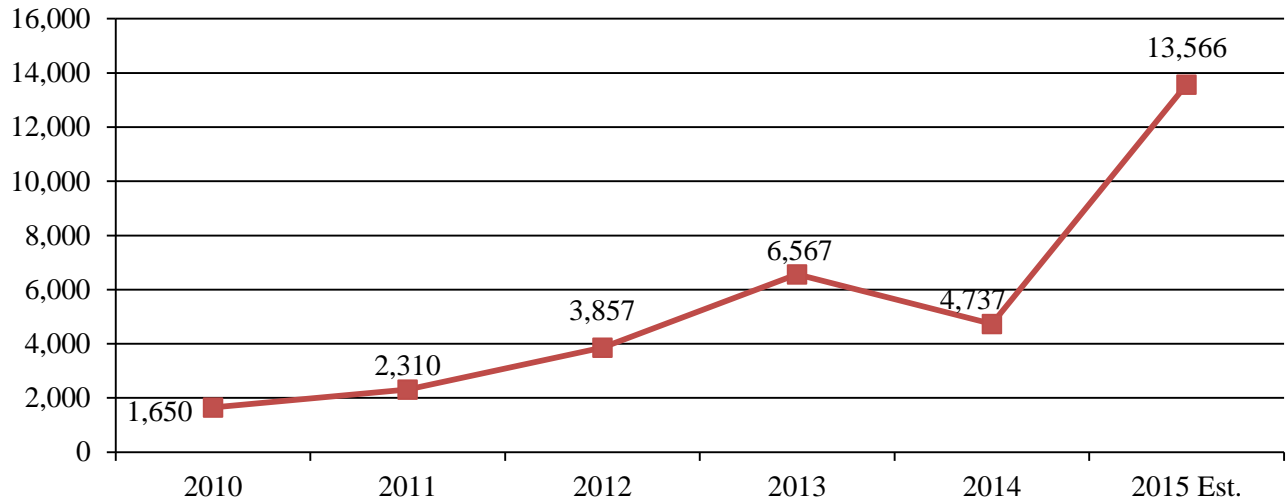
3. Concerns with the Cost of Quality Teacher Incentives

Stipends and bonuses for eligible classroom teachers were established in 1999 to attract and retain quality teachers in Maryland public schools. Chapter 487 of 2009 (the BRFA) scaled the program back by limiting the number of qualifying teachers, reducing stipends, and eliminating signing bonuses for teachers who graduated with college grade point averages of 3.5 or better. As a result of the changes, teachers and other nonadministrative school-based employees in schools identified as having comprehensive needs and who hold NBC, receive a stipend from the State equal to the county grant up to \$2,000, while those in noncomprehensive needs schools receive stipends equal to the county grant up to \$1,000. In addition, teachers in comprehensive needs schools holding APC are entitled to \$1,500 stipends.

Quality Teacher Incentive Participation and Funding

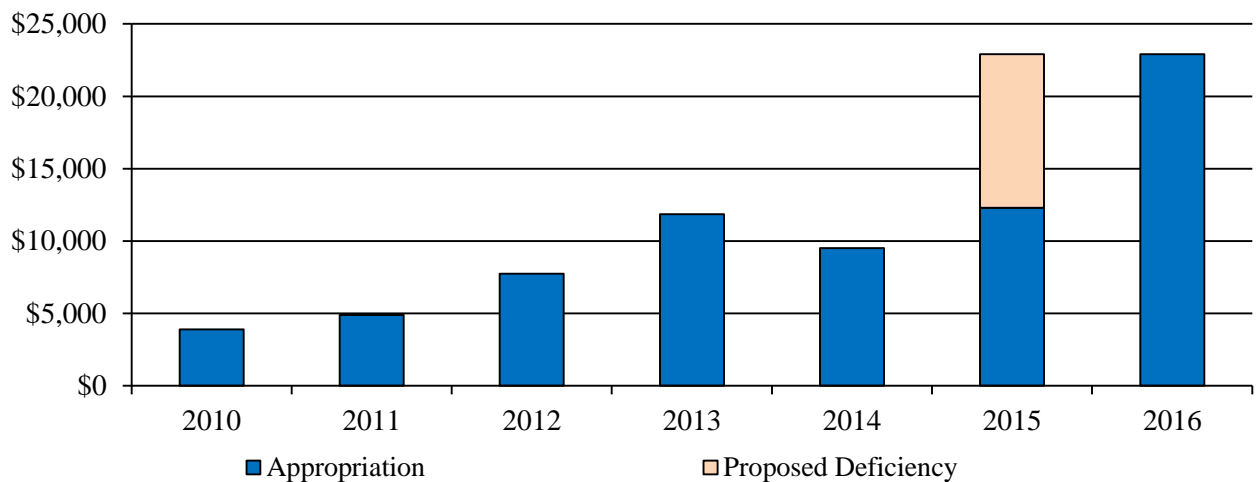
The number of teachers receiving funds through the program has risen dramatically in recent years, as the number of schools identified as having comprehensive needs under No Child Left Behind increased. **Exhibit 15** shows the number of teachers receiving APC stipends between fiscal 2010 and 2015. Over this period, the number of stipends increased by 722% from 1,650 in fiscal 2010 to an estimated 13,566 in fiscal 2015. **Exhibit 16** shows appropriations for the QTI Program (including stipends for NBC and APC), which have increased from \$3.9 million in fiscal 2010 to \$22.9 million in fiscal 2016. Fiscal 2014 actual expenditures totaled \$9.5 million, although the fiscal 2015 allowance had included a deficiency appropriation to increase funding for fiscal 2014 to \$14.9 million. The supplemental budget introduced during the 2014 session reduced the amount of the fiscal 2014 deficiency appropriation based on more recent estimates of the number of eligible teachers and the remainder was left unexpended at the close of the fiscal year. The budget provides a \$10.6 million deficiency appropriation to increase funding for QTIs to \$22.9 million, based on an increase in the number of schools identified as having comprehensive needs from 165 in fiscal 2014 to 497 in fiscal 2015. Approximately \$224,000 of the \$22.9 million is expected to fund NBC stipends; the remainder supports APC stipends.

Exhibit 15
Advanced Professional Certificate Stipends
Fiscal 2010-2015 Est.



Source: Maryland State Department of Education

Exhibit 16
Quality Teacher Incentive Appropriations
Fiscal 2010-2016
(\$ in Thousands)



Source: Governor’s Budget Books 2014-2016

Causes for Concern

In May 2012, Maryland received an Elementary and Secondary Education Act (ESEA) flexibility waiver. As a result, the Adequate Yearly Progress is no longer part of Maryland's accountability system and is replaced by the School Progress Index (SPI). SPI measures school progress in improving student achievement, closing achievement gaps, and moving students toward college and career readiness. Under the waiver, new performance targets are set for each school to reduce student achievement gaps for student subgroups and for all students by 50% by 2017. Based on their SPI, schools are placed into one of five performance strands. Schools in the lowest two strands (Strands 4 and 5) are identified as comprehensive needs schools, and those teachers are eligible for APC stipends and larger NBC stipends.

APC payments are based on the school performance status from the prior year, which is based on assessment data from the second prior year. Classroom teachers who receive the APC stipend must have taught the entire school year in order to be eligible. With the transition to a new State curriculum beginning in the 2011-2012 school year, there has been a misalignment for the past three years between what is taught in the classroom and what is tested as part of the State assessments. The assessment data is what drives the SPI rating. This has resulted in an artificial increase in the number of stipend-eligible schools.

Recognizing this misalignment, MSDE requested and received an ESEA waiver amendment to freeze SPIs for elementary and middle schools and school systems at the 2012-2013 school year. The SPI was calculated for high schools in the 2013-2014 school year and for all schools in Carroll County. With the school performance status frozen for a significant portion of the teacher population, MSDE has indicated that stipend costs should not increase beyond the fiscal 2015 level. As such, there is no increase provided for QTI funding in fiscal 2016.

The intent of the program is to attract more effective teachers to low-performing schools by way of the fiscal incentive in hopes that they will close the achievement gaps. The current administration of the program does compensate teachers in low-performing schools who have obtained advanced certifications, but based on the initial results of the new teacher and principal evaluations, schools with high poverty and minority student populations, which are often the lowest performing, have the highest concentrations of ineffective teachers. This would suggest that the stipends are not achieving the desired outcome of drawing in highly effective educators to low-performing schools. In reality, the amount of each individual stipend is a relatively small incentive to entice initial attraction to a low-performing school, although it may serve as an incentive to remain in a comprehensive needs school. The final issue with the administration of the existing program is that it could be creating a disincentive to achieve significant enough improvement to increase above a Strand 4 or 5. As it currently stands, teachers receive stipends for teaching while a school is identified as in need of improvement. If the school improves to the point of losing its comprehensive needs status, the educator loses the stipend.

An additional concern is how SPI will be affected by the new PARCC results. It has been widely suggested that student proficiency levels will be lower, possibly significantly lower, under

PARCC, at least initially. This will likely result in more schools identified as Strands 4 and 5 and put more pressure on the QTI budget.

Consistent with its Race to the Top (RTTT) application, MSDE has proposed regulations that would allow “highly effective” teachers to receive APC without earning a master’s degree beginning in the 2016-2017 school year. This will put further pressure on the QTI budget. Three of the department’s 54 RTTT projects targeted new innovations for providing fiscal incentives to attract educators to specific areas of need. One program aimed to attract teachers to the lowest 5% of schools, another targeted identified teacher shortage areas (science, technology, engineering, and mathematics; special education; and English language learning), and the third piloted incentives for teachers who obtain English as a Second Language certification. To date, thorough evaluations have not been conducted to assess the performance of the QTI program or the three RTTT funded teacher incentive pilots. In addition, Chapter 189 of 2010 (Education Reform Act of 2010) required the State Board of Education to establish a program for supporting locally negotiated incentives. To date, little information is available regarding the extent to which that has been implemented.

MSDE should comment on expenditure trends for QTIs and the reliability of the fiscal 2015 and 2016 estimates. Furthermore, the department should discuss the status of the three teacher incentive pilot programs funded through RTTT.

Given the apparent flaws in the administration of the program and that the increase in the number of stipend-eligible schools is artificially inflated, DLS recommends restricting eligibility for stipends through the QTI program to those educators eligible for stipends in fiscal 2014 who are still teaching in the same school. Fiscal 2015 and 2016 funding levels should be correspondingly reduced in line with fiscal 2014 actual expenditures. This results in \$13.4 million of savings in fiscal 2016 and also negates the need for the \$10.6 million deficiency appropriation in fiscal 2015. In addition, DLS recommends that the QTI program be modified at the completion of fiscal 2016 to sunset the portion of the program that provides stipends to APC-certified educators. MSDE should also develop a proposal for restructuring fiscal incentive programs for teachers.

Recommended Actions

1. Add the following language:

Provided that the Maryland State Department of Education shall notify the budget committees of any intent to transfer the funds from program R00A02 Aid to Education to any other budgetary unit. The budget committees shall have 45 days to review and comment on the planned transfer prior to its effect.

Explanation: The Maryland State Department of Education (MSDE) should not transfer any funds from Aid to Education until the transfer is reviewed by the budget committees.

Information Request	Author	Due Date
Report on any transfer of funds from R00A02	MSDE	45 days prior to the transfer of funds

2. Strike the following language:

~~, provided that this appropriation shall be reduced by \$52,788,580 contingent upon the enactment of legislation level funding the per pupil foundation amount at the fiscal year 2015 amount and freezing the net taxable increase phase in.~~

~~, provided that this appropriation shall be increased by \$1,266,162 contingent upon the enactment of legislation level funding the per pupil foundation amount at the fiscal year 2015 amount.~~

Add the following language:

, provided that this appropriation shall be reduced by \$40,725,775 contingent upon the enactment of legislation level funding the per pupil foundation amount at the fiscal year 2015 amount.

Concur with the following language:

, provided that this appropriation shall be reduced by \$17,799,024 contingent upon the enactment of legislation level funding the per pupil foundation amount at the fiscal year 2015 amount.

, provided that this appropriation shall be reduced by \$139,007 contingent upon the enactment of legislation level funding the per pupil foundation amount at the fiscal year 2015 amount.

R00A02 – MSDE – Aid to Education

, provided that this appropriation shall be reduced by \$3,754,335 contingent upon the enactment of legislation level funding the per pupil foundation amount at the fiscal year 2015 amount.

, provided that this appropriation shall be reduced by \$2,902,468 contingent upon the enactment of legislation level funding the per pupil foundation amount at the fiscal year 2015 amount.

Explanation: This action acknowledges and modifies contingent language pertaining to level funding the per pupil foundation amount at the fiscal 2015 level. The contingent increase in funding for the Guaranteed Tax Base (GTB) is unconstitutional. The Administration should instead provide a supplemental appropriation for the GTB in accordance with the proposed funding plan for State education aid. In addition, this action separates the reductions within the State Share of the Foundation program that result from level funding the per pupil foundation amount and from freezing the Net Taxable Income grant calculation at the fiscal 2015 levels.

3. Concur with the following language:

, provided that this appropriation shall be reduced by \$1,793,461 contingent upon the enactment of legislation phasing in the increase per resident amount over ten years.

, provided that this appropriation shall be reduced by \$526,083 contingent upon the enactment of legislation phasing in the increase per resident amount over ten years.

Explanation: This action acknowledges the Administration’s proposed plan to extend the phase-in of per capita funding increases for Public Libraries and the State Library Network.

4. Concur with the following language:

Further provided that this appropriation shall be reduced by \$3,887,697 contingent upon the enactment of legislation transferring video lottery terminal revenue to the Education Trust Fund.

Strike the following language:

~~, provided that \$3,887,697 of this appropriation shall be increased contingent upon the enactment of legislation transferring \$3,887,697 in video lottery terminal revenue to the Education Trust Fund.~~

Explanation: This action acknowledges the Administration’s proposal to redirect video lottery terminal revenue from local impact grants to the Education Trust Fund. In addition, it strikes the contingent increase for the special fund appropriation, as this action is unconstitutional. The special funds may be brought in via a budget amendment or a supplemental appropriation. The action should have been submitted as a contingent appropriation.

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

, provided that this appropriation shall be reduced by \$12,062,805 contingent upon the enactment of legislation freezing the net taxable increase phase-in.

Explanation: This action adds language to acknowledge the Administration’s plan to freeze the phase-in of Net Taxable Income grants at the fiscal 2015 level for one year. It also separates the contingent action from the reduction within the State share of foundation program that results from level funding the per pupil foundation amount.

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

Further provided that \$10,000,000 of this appropriation made for the purpose of funding nonpublic placements may not be expended until the Maryland State Department of Education provides the budget committees with a report on the flaws in the calculations of basic cost and the local share of basic cost. The report should specifically outline all of the issues with the calculations, propose solutions to the identified flaws in the basic cost and local share of basic cost calculations, and identify the degree to which these errors have contributed to the increased State cost for nonpublic placements since fiscal 2012. The report should also provide fiscal estimates associated with correcting the errors, including the amount of additional revenue for the Maryland School for the Blind. The report shall be submitted no later than July 1, 2015, and the budget committees shall have 45 days to review and comment. Funds restricted pending the 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.

Explanation: The Department of Legislative Services and the Maryland State Department of Education (MSDE) are aware of flaws in the methodologies used for calculating basic cost and the local share of basic cost, which is used to determine local funding amounts for nonpublic placements. The fiscal 2016 allowance does not attempt to correct these errors. This action restricts \$10 million in funding for nonpublic placements pending receipt of a report from MSDE identifying the specific flaws in the calculations and providing proposed solutions for correcting the errors. The report is due July 1, 2015.

Information Request	Author	Due Date
Calculating basic cost and the local share of basic cost	MSDE	July 1, 2015

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

, provided that this appropriation made for the purpose of providing Quality Teacher Incentives shall be reduced by \$13,400,000 contingent on the enactment of HB 72 that would limit eligibility for receiving a stipend through the program to educators who were eligible for the stipend in fiscal 2014 and remain teaching in a comprehensive needs school.

Further provided that \$100,000 of this appropriation may not be expended until the Maryland State Department of Education (MSDE) submits a report to the budget committees on the proposed restructuring of fiscal incentive programs for educators. The report should provide a review of best practices for administering fiscal incentive programs for educators and an evaluation of the current Quality Teacher Incentive program and any incentive programs piloted through the Race to the Top grant program. In addition, it should include at least two alternate grant proposals for programs designed to improve the quality of educators at the State’s lowest performing schools. The proposals should include fiscal estimates associated with implementing and administering the program. The report should also identify any proposed statutory changes necessary to improve existing programs or implement new programs. The report shall be submitted by December 1, 2015, and the budget committees shall have 45 days to review and comment. Funds restricted pending the 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.

Explanation: Funding for Quality Teacher Incentives (QTI) increases substantially in fiscal 2015 and 2016. The increase is artificially created because of an increase in the number of stipend-eligible schools due to a misalignment between State assessments and the new State College and Career-Ready curriculum. This language reduces fiscal 2016 funding in line with fiscal 2014 actual expenditures, contingent on the enactment of a provision in HB 72 that would freeze eligibility for receiving a stipend to those educators who received stipends in fiscal 2014. In addition to the funding concerns, the current administration of the QTI program creates a disincentive for improving school performance. Once a school improves enough to no longer have the comprehensive needs status, a teacher loses the stipend funding. Concerns with how the QTI program has been functioning are not new. This action includes language to have the Maryland State Department of Education review the current QTI program and propose alternate plans for restructuring fiscal incentive programs for educators.

Information Request	Author	Due Date
Restructuring fiscal incentive programs for teachers	Maryland State Department of Education	December 1, 2015

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

. provided that this appropriation made for the purpose of providing Quality Teacher Incentives shall be reduced by \$10,600,000 contingent on the enactment of HB 72 that would limit eligibility for receiving a stipend through the program to educators who were eligible for the stipend in fiscal 2014 and remain teaching in a comprehensive needs school.

Explanation: This action deletes the fiscal 2015 deficiency appropriation for Quality Teacher Incentives, contingent on the enactment of a provision in HB 72 that would freeze eligibility for receiving a stipend to those educators who received stipends in fiscal 2014.

Updates

1. Report on College and Career Counseling

In response to a request in the 2014 *Joint Chairmen's Report*, MSDE provided the budget committees with information regarding school counselors and their ability to provide personalized college and career information and guidance to students in grades 6 through 12. The submitted report was to specifically include the percentage of time middle and high school counselors currently spend delivering college and career counseling to their students. In order to ascertain this information, MSDE surveyed school counselors at the middle and high school levels. Approximately one-quarter of middle and high school counselors responded to the survey. The department also reached out to two major vendors who supply Maryland's school systems with computer applications to glean whether there was increased utilization in technology assisting with providing counseling services.

According to the report, Maryland school counselors at the middle and high school levels spend approximately one-third of their time on noncounseling activities. These include test administration, developing master schedules, chairing special education committees, substitute teaching, lunch or hall monitoring, and other clerical tasks. College and career counseling accounted for 11% and 22% of school counselors' time at the middle and high school levels, respectively. At the middle school level, personal/social/emotional counseling accounted for the majority of counselors' time.

Workloads for counselors at both levels far exceed the ideal 250:1 student to counselor ratio established by the American School Counselor Association (ASCA). ASCA also recommends that counselors engage in direct services to their students and the students' families 80% of the day. Based on the survey day, only 66% of counselors' time is spent, on average, providing direct counseling services. The average number of students per counselor at the middle school level is 320 students. The average caseload per counselor at the high school level is 333 students. In response to legislation introduced during the 2014 session that would have required school systems to reduce ratios in line with the ASCA recommendation, DLS estimated the fiscal impact of achieving a 250:1 student to counselor ratio to be approximately \$22.7 million for 226 additional counselors across the State.

The increasing use of computer software has been helpful in increasing the quantity of time spent with students and quality of information delivered. Only 8.5% of high school counselors and 19.1% of middle school counselors responding to the MSDE survey indicated that their school does not provide a college and career planning information system. A variety of products are available and utilized by the school systems to address the State's college and career planning information needs.

To improve school counselors' opportunities to connect with students, MSDE recommends reducing counselor caseloads to be more in line with the ASCA recommended ratio and to remove the administrative responsibilities and clerical tasks that pull counselors away from students. To improve students' connection with college and career information, MSDE recommends disseminating more information through teachers in the classrooms, further increasing the use of software to allow students more access to college and career planning information, and increasing computer laboratory access for the purpose of college and career exploration as opposed to just classroom learning.

Current and Prior Year Budgets

Current and Prior Year Budgets **MSDE – Aid to Education** **(\$ in Thousands)**

	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Fund</u>	<u>Federal</u> <u>Fund</u>	<u>Reimb.</u> <u>Fund</u>	<u>Total</u>
Fiscal 2014					
Legislative					
Appropriation	\$5,741,926	\$354,317	\$746,342	\$120	\$6,842,706
Deficiency					
Appropriation	-157,329	34,848	0	0	-122,481
Budget					
Amendments	0	868	-199	11	680
Reversions and					
Cancellations	-3,548	-144	-20,759	-32	-24,483
Actual					
Expenditures	\$5,581,049	\$389,888	\$725,384	\$99	\$6,696,421
Fiscal 2015					
Legislative					
Appropriation	\$5,716,230	\$412,012	\$794,567	\$130	\$6,922,940
Cost					
Containment	0	0	0	0	0
Budget					
Amendments	0	0	0	0	0
Working					
Appropriation	\$5,716,230	\$412,012	\$794,567	\$130	\$6,922,940

Note: Numbers may not sum to total due to rounding. The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies.

Fiscal 2014

General fund expenditures totaled nearly \$5.6 billion in fiscal 2014, reflecting a decrease of approximately \$160.9 million when compared to the legislative appropriation.

- Deficiency appropriations reduced the legislative appropriation by a net \$157.3 million. This included a \$126.7 million reduction for retirement contributions, a \$34.8 million fund swap in recognition of additional special funds available for the ETF, and \$2.2 million reversion within the transportation program. These decreases were offset by an additional \$6.3 million in funding for the statutory stipends provided to teachers who achieve NBC or APC.
- General fund reversions further reduced the legislative appropriation by approximately \$3.5 million. Approximately \$1.2 million was reverted from the State share of the Out-of-county Living program based on actual expenditures. An additional \$1.0 million was reverted from payments for librarian retirement contributions. Funding for NBC fees and teacher stipends received for achieving certification through the NBC or APC incentive programs account for the remainder of the reverted funds.

Special fund expenditures totaled \$389.9 million in fiscal 2014, an increase of nearly \$35.6 million over the legislative appropriation. An additional \$34.8 million was provided via deficiency appropriation as part of a fund swap to reflect additional VLT revenue in the ETF. Budget amendments provided an additional increase of approximately \$868,000. These amendments transferred funding from MSDE Headquarters to reflect additional revenue for the SEED School based on actual enrollment and increased revenue from LEAs for NBC fees. LEAs are responsible for one-third of the cost of obtaining certification. Offsetting these increases is approximately \$144,000 in cancelled funds to reflect actual revenue attained from the LEAs for the NBC incentive program.

Federal fund expenditures totaled \$725.4 million in fiscal 2014, a decrease of nearly \$21.0 million when compared with the legislative appropriation. Nearly \$200,000 was shifted from the funds provided to support students with disabilities to the Juvenile Services Education program within MSDE Headquarters. An additional \$20.8 million in federal grant funding was cancelled by the department at the close of the fiscal year. All but \$404,000 is carried forward into the next fiscal year. The largest programs with cancelled funds in fiscal 2014 include \$13.5 million for Title I schools, \$2.2 million to support the 21st Century Community Learning Centers after school program, \$1.8 million for Improving Teacher Quality grants, and \$1.2 million in funding for students with disabilities.

Reimbursable fund expenditures totaled \$99,000 at the close of fiscal 2014, a decrease of \$21,000 from the legislative appropriation. This reflects the net impact of grant funding received from the DHMH to support sexual abuse prevention and awareness programs in schools.

Recent History of Changes to Per Pupil Foundation Funding and the Geographic Cost of Education Index

Per Pupil Foundation Funding

- 2007 Chapter 2 of the 2007 special session froze inflation in the per pupil foundation amount for fiscal 2009 and 2010. It also specified that the foundation would increase in subsequent years by the lesser of the increase in the implicit price deflator for State and local government expenditures, the increase in the Consumer Price Index for urban consumers in the Baltimore-Washington area for the second prior fiscal year, or 5.0%. If there is no increase in inflation indexes, the foundation amount remains the same as the prior fiscal year.
- 2009 Chapter 487 limited the per pupil foundation inflation increase for fiscal 2012 to 1.0%.
- 2010 Chapter 484 limited inflationary growth in the per pupil foundation amount to 1.0% through fiscal 2015.
- 2011 Chapter 397 prevented a 0.8% or \$55 increase in the per pupil foundation amount by holding the per pupil foundation amount at \$6,694 in fiscal 2012 for a fifth consecutive year.

Geographic Cost of Education Index

The Bridge to Excellence Act required the development of a Maryland-specific Geographic Cost of Education Index (GCEI) that would be available to adjust State aid beginning in fiscal 2005. Chapter 430 of 2004 established a formula for the GCEI, but unlike the rest of the major State aid programs, the formula was not mandated. The statutory GCEI formula phased in from fiscal 2006 to 2010, but the phase-in schedule was not followed. Instead, the formula received no funding through fiscal 2008 and was phased in at 30% in fiscal 2009 and 100% in fiscal 2010; it has been fully funded since then.

**Geographic Cost of Education Index Funding
Fiscal 2015-2016**

<u>County</u>	<u>2015</u>	<u>2016</u>	<u>Change 2015-2016</u>
Allegany	\$0	\$0	\$0
Anne Arundel	9,406,830	4,836,646	-4,570,184
Baltimore City	22,862,898	11,610,141	-11,252,757
Baltimore	5,727,153	2,945,833	-2,781,320
Calvert	2,279,425	1,138,627	-1,140,798
Caroline	0	0	0
Carroll	2,492,094	1,241,508	-1,250,586
Cecil	0	0	0
Charles	3,501,859	1,767,220	-1,734,639
Dorchester	0	0	0
Frederick	6,498,588	3,309,089	-3,189,499
Garrett	0	0	0
Harford	0	0	0
Howard	5,312,701	2,736,808	-2,575,893
Kent	136,857	68,497	-68,360
Montgomery	34,394,095	17,744,167	-16,649,928
Prince George's	39,276,765	20,297,766	-18,978,999
Queen Anne's	563,799	286,002	-277,797
St. Mary's	231,734	117,933	-113,801
Somerset	0	0	0
Talbot	0	0	0
Washington	0	0	0
Wicomico	0	0	0
Worcester	0	0	0
Unallocated	0	0	0
Total	\$132,684,798	\$68,100,237	-\$64,584,561

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

<u>Object/Fund</u>	<u>FY 14 Actual</u>	<u>FY 15 Working Appropriation</u>	<u>FY 16 Allowance</u>	<u>FY 15 - FY 16 Amount Change</u>	<u>Percent Change</u>
Objects					
12 Grants, Subsidies, and Contributions	\$ 6,696,421,420	\$ 6,922,939,884	\$ 7,095,822,725	\$ 172,882,841	2.5%
Total Objects	\$ 6,696,421,420	\$ 6,922,939,884	\$ 7,095,822,725	\$ 172,882,841	2.5%
Funds					
01 General Fund	\$ 5,581,049,393	\$ 5,716,230,198	\$ 5,871,153,551	\$ 154,923,353	2.7%
03 Special Fund	389,888,493	412,012,482	399,106,600	-12,905,882	-3.1%
05 Federal Fund	725,384,379	794,567,204	825,422,574	30,855,370	3.9%
09 Reimbursable Fund	99,155	130,000	140,000	10,000	7.7%
Total Funds	\$ 6,696,421,420	\$ 6,922,939,884	\$ 7,095,822,725	\$ 172,882,841	2.5%

Note: The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies. The fiscal 2016 allowance does not reflect contingent or across-the-board reductions.

**Fiscal Summary
MSDE – Aid to Education**

<u>Program/Unit</u>	<u>FY 14 Actual</u>	<u>FY 15 Wrk Approp</u>	<u>FY 16 Allowance</u>	<u>Change</u>	<u>FY 15 - FY 16 % Change</u>
01 State Share of Foundation Program	\$ 3,036,083,046	\$ 3,089,202,341	\$ 3,097,621,351	\$ 8,419,010	0.3%
02 Compensatory Education	1,195,984,922	1,251,675,638	1,305,132,944	53,457,306	4.3%
03 Aid for Local Employee Fringe Benefits	745,420,086	757,603,298	787,215,491	29,612,193	3.9%
04 Children at Risk	29,638,904	31,910,913	33,227,967	1,317,054	4.1%
05 Formula Programs for Specific Populations	2,582,564	3,881,000	3,000,000	-881,000	-22.7%
07 Students with Disabilities	389,639,829	405,053,968	425,548,409	20,494,441	5.1%
08 State Assistance for Students with Disabilities	201,423,516	201,898,733	202,365,484	466,751	0.2%
09 Gifted and Talented	619,835	916,850	0	-916,850	-100.0%
12 Educationally Deprived Children	187,168,890	207,414,579	204,840,000	-2,574,579	-1.2%
13 Innovative Programs	13,549,419	13,214,973	8,352,000	-4,862,973	-36.8%
15 Language Assistance	8,790,381	9,820,000	9,363,356	-456,644	-4.7%
18 Career and Technology Education	12,883,605	12,800,461	13,056,307	255,846	2.0%
24 Limited English Proficient	193,427,735	197,658,807	217,180,270	19,521,463	9.9%
25 Guaranteed Tax Base	52,317,464	59,390,154	53,762,142	-5,628,012	-9.5%
27 Food Services Program	276,397,256	319,872,764	354,946,344	35,073,580	11.0%
31 Public Libraries	34,586,371	35,046,212	37,799,438	2,753,226	7.9%
32 State Library Network	16,196,779	16,323,271	17,139,051	815,780	5.0%
39 Transportation	254,526,492	258,379,692	266,246,924	7,867,232	3.0%
52 Science and Mathematics Education Initiative	3,267,299	4,076,230	3,475,247	-600,983	-14.7%
55 Teacher Development	41,917,027	46,800,000	55,550,000	8,750,000	18.7%
Total Expenditures	\$ 6,696,421,420	\$ 6,922,939,884	\$ 7,095,822,725	\$ 172,882,841	2.5%
General Fund	\$ 5,581,049,393	\$ 5,716,230,198	\$ 5,871,153,551	\$ 154,923,353	2.7%
Special Fund	389,888,493	412,012,482	399,106,600	-12,905,882	-3.1%
Federal Fund	725,384,379	794,567,204	825,422,574	30,855,370	3.9%
Total Appropriations	\$ 6,696,322,265	\$ 6,922,809,884	\$ 7,095,682,725	\$ 172,872,841	2.5%
Reimbursable Fund	\$ 99,155	\$ 130,000	\$ 140,000	\$ 10,000	7.7%
Total Funds	\$ 6,696,421,420	\$ 6,922,939,884	\$ 7,095,822,725	\$ 172,882,841	2.5%

Note: The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies. The fiscal 2016 allowance does not reflect contingent or across-the-board reductions.