

**R00A01**  
**Headquarters**  
Maryland State Department of Education

***Operating Budget Data***

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(\$ in Thousands)

	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 02-04</u> <u>Change</u>	<u>FY 05</u>	<u>FY 04-05</u> <u>Change</u>
Operations	\$123,671	\$128,574	\$123,918	\$246	\$136,162	\$12,244
Contractual Services	40,693	44,506	53,002	12,309	55,972	2,970
Grants	15,681	14,501	18,763	3,082	17,353	-1,410
Contingent & Back of Bill Reductions	0	0	0	0	-2,108	-2,108
<b>Adjusted Grand Total</b>	<b>\$180,046</b>	<b>\$187,582</b>	<b>\$195,683</b>	<b>\$15,637</b>	<b>\$207,378</b>	<b>\$11,696</b>
General Funds	81,967	79,238	82,348	381	90,400	8,051
Contingent & Back of Bill Reductions	0	0	0	0	-1,763	-1,763
<b>Adjusted General Funds</b>	<b>\$81,967</b>	<b>\$79,238</b>	<b>\$82,348</b>	<b>\$381</b>	<b>\$88,637</b>	<b>\$6,289</b>
Special Funds	7,739	6,150	5,323	-2,415	5,028	-295
Contingent & Back of Bill Reductions	0	0	0	0	-4	-4
<b>Adjusted Special Funds</b>	<b>\$7,739</b>	<b>\$6,150</b>	<b>\$5,323</b>	<b>-\$2,415</b>	<b>\$5,024</b>	<b>-\$299</b>
Federal Funds	89,798	101,791	107,187	17,388	113,878	6,691
Contingent & Back of Bill Reductions	0	0	0	0	-341	-341
<b>Adjusted Federal Funds</b>	<b>\$89,798</b>	<b>\$101,791</b>	<b>\$107,187</b>	<b>\$17,388</b>	<b>\$113,536</b>	<b>\$6,349</b>
Reimbursable Funds	542	402	824	282	181	-643
<b>Adjusted Grand Total</b>	<b>\$180,046</b>	<b>\$187,582</b>	<b>\$195,683</b>	<b>\$15,637</b>	<b>\$207,378</b>	<b>\$11,696</b>
<b>Annual % Change</b>		<b>4.2%</b>	<b>4.3%</b>		<b>6.0%</b>	

- Cost containment actions from fiscal 2002 through 2004 reduced the funding for the Maryland State Department of Education (MSDE) Headquarters by \$7.4 million. Overall, this budget has seen an increase of approximately \$15.6 million from fiscal 2002 to 2004.
- The fiscal 2005 allowance increases by \$11.7 million, or 6.0% over the fiscal 2004 working appropriation.

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

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- The allowance includes approximately \$7.6 million for MSDE to take over the educational programs at the Charles H. Hickey, Jr. School (Hickey School), administered by the Department of Juvenile Services.
- The Budget Financing Act of 2004 contains a provision that would reduce the general fund appropriation in MSDE Headquarters by \$1.6 million by increasing the fee for teacher certification from \$10 to \$75 and using the increased revenues to fund teacher licensing and certification activities.
- Federal funds increase by \$6.3 million in the fiscal 2005 allowance. Notable changes include an increase of \$4.0 million in federal vocational rehabilitation grants, \$1.4 million in teacher quality grants, and the addition of \$2.1 million in Reading First funding.

***Personnel Data***

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	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<b>FY 02-04</b> <u>Change</u>	<u>FY 05</u>	<b>FY 04-05</b> <u>Change</u>
Regular Positions	1,363.9	1,440.5	1,328.8	-35.1	1,398.8	70.0
Contractual FTEs	138.9	118.4	116.6	-22.3	130.8	14.2
<b>Total Personnel</b>	<b>1,502.8</b>	<b>1,558.9</b>	<b>1,445.4</b>	<b>-57.4</b>	<b>1,529.6</b>	<b>84.2</b>

***Vacancy Data: Regular Positions***

Turnover Expectancy	81.06	6.10%
Positions Vacant as of 12/31/03	58.20	4.38%

- The allowance includes 70.0 new regular positions. Of these, MSDE is requesting 68.0 to meet the needs of MSDE’s proposed educational programs at Hickey School and 2.0 to administer the State’s charter school program.
- Turnover for the 68.0 positions at Hickey School is assessed at 6.14% rather than the traditional 25.0% for new positions because MSDE will be responsible for operation of the education program at Hickey School beginning July 1, 2004.
- MSDE Headquarters had 58.2 vacant positions on December 31, 2003, for a vacancy rate of 4.4%. The assumed vacancy rate in the allowance is higher at 6.1%.

## Analysis in Brief

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### Issues

**Maryland State Department of Education Scheduled to Assume Responsibility for Educational Programs at Charles H. Hickey, Jr. School Operated by Department of Juvenile Services:** Chapter 53, Acts of 2003 required MSDE to provide educational services at Hickey School beginning July 1, 2004. The issue will explore MSDE’s proposal for the education program.

**\$20 Million in Medicaid School-based Health Services Funding Contested:** The U.S. Department of Health and Human Services’ Office of the Inspector General has recommended that Maryland repay \$20 million in inappropriate Medicaid reimbursements for school-based health services via future withheld Medicaid appropriations. The Department of Health and Mental Hygiene is contesting the audit findings and the repayment recommendation. **MSDE should comment on the status of negotiations regarding the findings and the repayment recommendation.**

### Recommended Actions

	<u>Funds</u>	<u>Positions</u>
1. Delete funding and PINs for charter school program administration.	\$ 78,501	2.0
2. Reduce funds for the education program at Charles H. Hickey, Jr. School.	2,329,893	
3. Delete funds for administration of nonpublic textbook program.	90,000	
4. Reduce funding for purchase and lease of vehicles.	41,352	
<b>Total Reductions</b>	<b>\$ 2,539,746</b>	<b>2.0</b>

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**Headquarters**  
**Maryland State Department of Education**

***Operating Budget Analysis***

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**Program Description**

The Maryland State Department of Education (MSDE) focuses its efforts in the following three program areas: public education, including correctional education; library development and services; and rehabilitation services.

Public education consists of the Office of the State Superintendent; Division of Business Services; Division for Leadership Development; Division of Planning, Results, and Information Management; Office of Information Technology; Major Information Technology Development Projects; Division of Instruction; Division of Student and School Services; Division of Special Education; Division of Career Technology and Adult Learning; Division of Certification and Accreditation; and Division of Correctional Education. Together, the programs work toward achieving the following goals:

- improving achievement for each student;
- aligning programs of instruction, curriculum, and assessment; and
- ensuring that all educators have the skills to improve student achievement.

The Library Development and Services division is divided into two branches, the Public Library State Network Branch and the Library for the Blind and Physically Handicapped (LBPH). The division is responsible for developing statewide library services, the statewide library network, and regional libraries. Regional libraries provide support to public libraries in southern, western, and eastern Maryland. The Enoch Pratt Free Library, which is designated as the State Library Resource Center, runs the SAILOR network, provides statewide training, and assumes other statewide responsibilities. LBPH provides specialized services through its facility in Baltimore to the blind and handicapped communities.

The library division works toward achieving the following goals:

- meeting the changing information needs of local communities;
- anticipating and meeting digital and electronic needs of Maryland communities; and
- ensuring access to materials in appropriate formats for registered readers and institutions at the Maryland LBPH.

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The Division of Rehabilitation Services program consists of the Division Headquarters, Client Services, the Workforce and Technology Center, and the Disability Determination Service. These programs provide vocational rehabilitation services and determine eligibility for federal disability benefits. The primary purpose of client services is to plan and provide vocational rehabilitation services for individuals with disabilities so that they can maintain or achieve economic self-sufficiency through productive employment. The primary purpose of the disability determination unit is to adjudicate claims for Social Security Disability Insurance and Supplemental Security Income based on medical evidence, vocational factors, and federal rules promulgated by the Social Security Administration.

The rehabilitation services division works toward achieving the following goals:

- promoting employment and independent living for individuals with disabilities;
- maximizing independence and self-sufficiency by administering the State’s disability determination services program;
- promoting empowerment and inclusion of individuals with disabilities in all Maryland communities;
- building collaborative relationships with public, private, business, and civic organizations; and
- fostering a skilled workforce reflecting the diversity of Maryland’s communities.

## **Fiscal 2004 Actions**

### **Impact of Cost Containment**

Fiscal 2004 cost containment reduced the MSDE Headquarters budget by \$1.1 million and eliminated 8.00 positions, some filled, some vacant. MSDE eliminated 3.0 filled psychometrician positions, 1.0 vacant correctional education position, and 4.0 “non-essential” positions in the Division of Rehabilitative Services (2.0 vacant, 2.0 filled). MSDE also eliminated vacant contractual positions and reduced the use of contractual services, administrative funds for the Juvenile Justice Alternative Education Pilot Program, funds for the Occupational Skills Training Center in the Division of Correctional Education, vehicle purchases, travel, and catering. MSDE also substituted federal funds for general funds for the hearing aid loaner bank program. MSDE eliminated an additional 20.0 vacant regular positions and 2.0 contractual positions as part of the November 2003 Board of Public Works actions to align position authorizations with the levels established by the legislature for fiscal 2004.

**Governor's Proposed Budget**

As **Exhibit 1** demonstrates, the fiscal 2005 allowance increases by \$11.7 million, or 6.0% over the fiscal 2004 working appropriation.

**Exhibit 1**  
**Governor's Proposed Budget**  
**MSDE – Headquarters**  
 (\$ in Thousands)

	<u>FY 03</u> <u>Actual</u>	<u>FY 04</u> <u>Approp.</u>	<u>FY 05</u> <u>Allowance</u>	<u>FY 04-05</u> <u>Change</u>	<u>FY 04-05</u> <u>% Change</u>
General Funds	\$79,238	\$82,348	\$90,400	\$8,051	9.8%
Contingent & Back of Bill Reductions	0	0	-1,763	-1,763	
<b>Adjusted General Funds</b>	<b>\$79,238</b>	<b>\$82,348</b>	<b>\$88,637</b>	<b>\$6,289</b>	<b>7.6%</b>
Special Funds	\$6,150	\$5,323	\$5,028	-\$295	-5.6%
Contingent & Back of Bill Reductions	0	0	-4	-4	
<b>Adjusted Special Funds</b>	<b>\$6,150</b>	<b>\$5,323</b>	<b>\$5,024</b>	<b>-\$299</b>	<b>-5.6%</b>
Federal Funds	\$101,791	\$107,187	\$113,878	\$6,691	6.2%
Contingent & Back of Bill Reductions	0	0	-341	-341	
<b>Adjusted Federal Funds</b>	<b>\$101,791</b>	<b>\$107,187</b>	<b>\$113,536</b>	<b>\$6,349</b>	<b>5.9%</b>
Reimbursable Funds	\$402	\$824	\$181	-\$643	-78.0%
<b>Adjusted Reimbursable Funds</b>	<b>\$402</b>	<b>\$824</b>	<b>\$181</b>	<b>-\$643</b>	<b>-78.0%</b>
<b>Adjusted Grand Total</b>	<b>\$187,582</b>	<b>\$195,683</b>	<b>\$207,378</b>	<b>\$11,696</b>	<b>6.0%</b>

**Where It Goes:**

**Personnel Expenses**

68.0 new positions for educational program at Hickey School .....	\$4,070
2.0 new positions for administration of charter school program .....	79
Increments and other compensation .....	1,194
Employee and retiree health insurance .....	269
Workers' compensation premium and unemployment assessment .....	213
Turnover adjustments .....	-478
Other fringe benefit adjustments .....	-794

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**Where It Goes:**

**Other Changes**

Increase in vocational rehabilitation and disability determination medical services ...	5,326
Operating costs for educational program at Hickey School .....	3,446
Increased costs of administering, scoring, reporting on various school assessments ..	2,006
Reduced grants to local education agencies for standardized test administration, various student and school services.....	-1,979
Communications, travel, fuel, vehicles, food service, supplies, equipment, fixed costs .....	-1,388
Other operating adjustments .....	-269
<b>Total</b>	<b>\$11,696</b>

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

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**Impact of Cost Containment**

The fiscal 2005 allowance reflects the elimination of \$544,197, the appropriation for matching employee deferred compensation contributions up to \$600, contingent upon enactment of a provision in budget reconciliation language.

The Budget Financing Act of 2004 contains a provision that would reduce the general fund appropriation by \$1.6 million by increasing the fee for teacher certification from \$10 to \$75 and using the increased revenues to fund teacher licensing and certification activities.

**Personnel Changes**

Personnel expenses increase by \$4.6 million in the fiscal 2005 allowance, including \$4.1 million for 70.0 new positions. Of these, 68.0 will support MSDE's planned educational program at the Charles H. Hickey, Jr., School (Hickey School) administered by the Department of Juvenile Services (DJS). The other two positions are requested to administer the State's charter school program, as established by Chapter 358, Acts of 2003. Other major changes include increases of \$1.2 million for increments, \$269,000 for health insurance and \$213,000 for unemployment and workers' compensation assessments offset by a decrease of \$794,000 for other compensation and increased turnover expectancy of \$478,000.

**Operating Changes**

The fiscal 2005 allowance includes an additional \$5.3 million for medical services in the Division of Rehabilitative Services (DORS). Of this increase, \$4.1 million is in federal funds, and \$1.2 million

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is in general funds. The DORS Client Services program provides medical and other support to individuals with disabilities who can be productive in the labor force with these additional supports. Currently, insufficient funding requires DORS to operate under an “order of selection” policy which requires it to serve the most severely disabled of its clients first, while others remain on a waiting list. These increased funds will allow DORS to expand its services to approximately 900 new clients. The increased general fund investment allows DORS to leverage additional federal funds.

Operating costs for the Hickey School program total \$3.4 million. This program will be further discussed in *Issue 1*. The allowance also includes an additional \$2.0 million for administering, scoring, and reporting results of the Maryland School Assessments (MSAs) and the High School Assessments. The MSAs will be administered to grades 4, 6, and 7 for the first time in fiscal 2005. This increase is offset by a decrease of \$1.6 million in funds to local education agencies for administration of the CTBS5 assessment, which was used prior to the MSA. Other grants to local education agencies for various student and school services and miscellaneous programs decrease by approximately \$400,000. Various operating expenses throughout the department decrease by \$1.7 million. Excluding the new funding for the Hickey School and accounting for the increased teacher certification fee, the allowance includes net general fund growth of 2.4%.

## Issues

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### 1. Maryland State Department of Education Scheduled to Assume Responsibility for Educational Programs at Charles H. Hickey, Jr. School Operated by Department of Juvenile Services

Hickey School is a State-owned, DJS operated facility in Baltimore County serving youthful male offenders aged 12 to 18. All operations at the school are currently provided through a contract with Youth Services International, Inc. (YSI), though this contract will expire March 31, 2004. DJS intends to award a three-month no-bid extension to YSI through July 1, 2004. DJS has issued a request for proposals for continued operation of the facility, beginning July 1, 2004. The new contractor will have responsibility for providing all services except education.

In response to several findings of deficiencies in Hickey School operations, Chapter 53, Acts of 2003 required MSDE to develop and implement an educational program for Hickey School by July 1, 2004, contingent upon the availability of appropriations for this program. MSDE has worked over the interim to develop educational programming appropriate for students at the Hickey School.

#### Education Program Proposal

Each student who arrives at Hickey School will be assessed for academic skills, special education needs, and career and workplace awareness to determine his individual needs. Each student will have an Individual Education Plan (IEP) to deliver the education services appropriate to his academic and workforce needs as well as his duration of confinement. Local school systems are required to submit a student's academic record in a timely fashion in order to assist in assessing student needs and developing the IEP.

#### Segmented Populations and Programs

Because distinct populations at Hickey School must by law be kept separate at all times, MSDE has developed academic programs that can be offered to each of these populations in isolation. MSDE's educational proposal includes programming for three distinct populations:

- **Impact** – youth serving sentences of 30 to 90 days, estimated 72 average daily population (ADP);
- **Detained/Committed Pending Placement** – youth awaiting trial or having been adjudicated, but awaiting permanent placement, estimated 48 ADP; and
- **Enhanced Security** – adjudicated youth serving sentences of 9 to 18 months, estimated 120 ADP.

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While MSDE will offer overlapping programs to these populations, programs will be modified to meet the varying needs in each. Students in the detained population will receive intensive remedial instruction in reading and mathematics, financial literacy, communication and workplace skills, information and technology literacy, pre-General Education Diploma (GED) and GED preparation services where appropriate, and limited introduction to various career possibilities. Students in the impact population will receive all of these same services but will be given more in-depth career exposure in auto mechanics, landscaping, graphic printing, building trades, and computer technology. Students in the enhanced security program who will be returning to a public school system will receive middle school or high school level instruction in reading, mathematics, science, and social studies that will be transferable for credit to their home schools. Students who will not be returning will receive either Pre-GED or GED level instruction. Enhanced security students will also be assessed for career aptitude and given prolonged exposure and training in one of the five trade areas offered at the school.

MSDE will also offer services to a separate group of youth in the Graduated Sanctions program. These youth will be at Hickey School for very short stays of approximately 3 to 10 days. These students will spend most of their time in an intensive, intervention behavior modification program conducted by the DJS contractor, but MSDE will provide them with information technology skill development and career exploration. These students will be served separately from the other populations. Estimated ADP for this population is 24 students.

### **Special Education**

Special education services will be provided under a contract through MSDE's Division of Special Education and Early Intervention. Based on DJS data, MSDE estimates serving approximately 150 youth needing special education services, equivalent to approximately 60 full-time equivalents (FTE). MSDE indicates that these students will be mainstreamed with the rest of their respective populations to the greatest degree possible, with individualized special education services provided in a separate environment when appropriate. The School Facilities Branch has indicated that existing Hickey School facilities are not appropriate for the special education programming and is exploring using relocatable classrooms as special education sites.

MSDE will consider special education students at Hickey School as nonpublic placement students. Chapter 53 authorizes MSDE to use funds from the nonpublic placement budget for Hickey School students. The Headquarters allowance includes \$1.0 million for the special education contract, which MSDE estimates would normally be the local contribution for Hickey School students served as nonpublic placements. The nonpublic placements allowance also includes \$2.5 million for Hickey School students, bringing the total funding for the special education contract to \$3.5 million. This amount equates to per FTE spending of \$58,333. This cost is \$5,595, or 8.8% less than the statewide average cost for a residential nonpublic placement.

This figure seems high, considering that MSDE plans to provide some of the education services for these students through the regular education program. Additionally, some of the other costs normally associated with a residential nonpublic placement will be covered through the DJS operating contract at Hickey School. **MSDE should comment on how it developed this estimate**

**for special education services for these students and why it believes \$3.5 million is an appropriate amount for this contract.**

### **Transition Teams**

In order to ensure that students transition as seamlessly as possible between Hickey School and their home public schools, MSDE has developed transition teams in each jurisdiction. These transition teams will begin working with guidance counselors at Hickey when a student is admitted to Hickey School to develop a plan of educational services the student will receive while confined. Transition teams will promptly forward student records to Hickey School staff to help them assess remedial, developmental, and special education needs. Counselors at Hickey School will keep local school staff apprised of student progress while the student is detained. If the student will be returning to a public school, the transition team will ensure that the student receives appropriate credit for coursework completed while at Hickey and appropriate course placement upon return to the home school. Transition teams will monitor students after they return to their home schools to guarantee continuation of service.

### **Personnel and Equipment Needs**

#### **Personnel**

The fiscal 2005 allowance includes \$4.1 million for 68 new regular positions for operation of the Hickey School education program. Of these, 64 will be located onsite, with an additional 4 positions at MSDE Headquarters. The onsite personnel will include one principal, three assistant principals, 20 FTE academic and occupational teachers, 20 FTE teacher assistants, special education coordinators, career technology staff, and other specialized personnel. This level of onsite staffing equates to more than one staff person for every four students. The Headquarters staff will include three program coordinators and an administrative assistant. MSDE indicates that certain functions for the Hickey School operations such as human resources, budgeting, and procurement will be handled with existing MSDE staff. **MSDE should comment on how it developed its staffing projections based on estimated average daily populations and why it believes this level of staffing is necessary for this program. MSDE should also comment on whether it believes it can successfully recruit this staff cohort by July 2004.**

MSDE has indicated that it will have personnel needs in fiscal 2004 for Hickey School as well. In order to ensure that the program is ready to operate on schedule, MSDE wants to hire an advance team of critical personnel including the MSDE Headquarters staff as well as the principal and assistant principals to finalize the curriculum, purchase instructional materials, and hire the remaining personnel. MSDE estimates personnel costs of \$171,000 in fiscal 2004. No deficiency appropriation was made for this program, but MSDE indicates it is negotiating with the Department of Budget and Management to secure a supplemental deficiency appropriation through the Subcabinet Fund balance. **MSDE should update the committees on these negotiations and discuss how it will fund the advance team if a supplemental deficiency is not available.**

## **Equipment and Furniture**

The allowance includes \$1.3 million for various supplies, equipment and furniture. The allowance budgets \$611,000 for instructional supplies, including textbooks, library books, software, assessment materials, and other classroom instructional equipment. The allowance also includes \$714,000 for more durable equipment, including additional furniture, computers, and equipment for the occupational programs. MSDE has indicated that some furniture at Hickey School will convey and is in good repair, including some student and teacher desks. Other furniture, including administrators' and teachers' desks and chairs, bookcases, file cabinets, and media center furniture is unusable and will have to be replaced.

MSDE intends to purchase this furniture and equipment via a lease-purchase agreement through the Treasurer's office after the fiscal 2005 appropriations are finalized. MSDE argues that this equipment must be in place by July 1, 2004, for the program to be functional. By using a lease-purchase agreement, MSDE can borrow the funds to procure the equipment in fiscal 2004 and make payments on the loan in fiscal 2005. MSDE is still determining whether all of the necessary furniture and equipment will be eligible for the lease-purchase financing. **MSDE should comment on whether the lease-purchase agreement will increase the total costs of the equipment, and if so, provide an estimate of the increase.**

## **Facilities**

Many of the facilities at Hickey School are in considerable disrepair and are unsuitable learning environments. DJS is requesting \$2.7 million in capital funding in fiscal 2005 to begin significant capital improvements to the educational facilities. The fiscal 2005 funding would provide for the design of three projects and the renovation of the Gary Hall facility which will house the occupational laboratory and the Impact population program. An estimated \$3.3 million is requested for future years to build a new classroom building for the Detained/Committed Pending Placement program and to renovate the Thurgood Marshall Academy building for the Secure Placement program.

Obviously, these renovations will not be complete by the time MSDE takes over the educational program. For the transition period, MSDE plans to use relocatable classrooms. MSDE will need approximately 4,400 square feet in relocatable facilities for the Detained/Committed Pending Placement population beginning July 1, 2004. These students are currently receiving services in their residential facility, which is not an appropriate educational environment. Again, MSDE plans to procure this facility through a lease-purchase agreement with the Treasurer. MSDE will still need funds in fiscal 2004, and is requesting an additional \$125,000 supplemental deficiency appropriation from the Subcabinet Fund balance. This \$125,000 includes the first of three payments on a three-year lease (\$45,000), utility hookups (\$35,000), a restroom facility (\$20,000), and an extra \$25,000 for any additional expenses for this facility including site design, interior partitions, or any additional security features. MSDE will continue to make annual lease payments of \$45,000 on this facility until the new classroom facility is complete, scheduled for May 2007.

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Looking forward, MSDE will need an additional 5,800 square feet in relocatable space beginning in January 2005 when the Gary Hall renovation begins. In April 2005 when the Thurgood Marshall Academy renovations are scheduled to begin, MSDE will need an additional 8,600 square feet. Leases for both these facilities are estimated to be 24 months during these renovations.

The allowance includes \$974,000 for relocatable facilities in fiscal 2005. Given MSDE's estimate that 4,400 square feet will cost approximately \$45,000 with an additional \$80,000 in one-time set up costs, this amount seems out of line with projected fiscal 2005 relocatable needs. If the remaining two clusters have similar costs per square foot and for start-up, the Gary Hall relocatables would cost \$136,250 in the first year and the Thurgood Marshall relocatables would cost \$167,955 in the first year. **Exhibit 2** provides the calculations and assumptions that yield this estimate. Adding in the second year lease payment for the first cluster would total only \$349,205 for relocatables for fiscal 2005. **MSDE should comment on how it developed the estimate of \$974,000 for relocatables in fiscal 2005.**

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**Exhibit 2**  
**Estimated Costs for Relocatable Classroom Facilities**  
**Fiscal 2004 and 2005**

<u>Fiscal Year</u>	<u>Square Feet</u>	<u>Cost per Square Foot</u>	<u>Annual Cost</u>	<u>First Year Start-up Costs</u>	<u>Total</u>
FY 2004					
<i>Detained/ CPP</i>	4,400	\$10.23	\$45,000	\$80,000	\$125,000
FY 2005					
<i>Gary Hall</i>	5,500		56,250	80,000	136,250
<i>Thurgood Marshall</i>	8,600		87,955	80,000	167,955
<i>Detained/ CPP</i>	4,400		45,000		45,000
<b>DLS Estimated FY 05 Total</b>					<b>\$349,205</b>
FY 05 Allowance					973,594
<b>Difference</b>					<b>\$624,389</b>

Source: Maryland State Department of Education, Department of Legislative Services

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## In Perspective

MSDE's proposal for Hickey School represents significant improvement over the current educational services provided at this facility. It also represents significantly increased costs. **Exhibit 3** provides a breakdown of the proposed fiscal 2005 expenditures for the Hickey School program.

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### Exhibit 3 Proposed Spending for Education Programs at Hickey School

#### Fiscal 2005 Proposal

Personnel	\$4,121,585
Facilities	973,594
Furniture and equipment	713,521
Educational supplies	654,627
Special education	3,500,000
Miscellaneous operating	104,647
<b>Total</b>	<b>\$10,067,974</b>

Ongoing costs	\$8,380,859
Start-up/temporary costs	1,687,115

Estimated average daily population (ADP)	240
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#### **Per Pupil Expenditures**

Proposed Hickey ongoing education spending/ADP	\$34,920
Current YSI contract	7,917
DJS operated facilities	10,967

Source: Department of Juvenile Services; Maryland State Department of Education; Department of Legislative Services

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As shown in the exhibit, the ongoing costs in the MSDE proposal will more than quadruple current spending per pupil for education services at Hickey School. The proposal would be approximately triple agencywide spending for education throughout DJS. This calculation does not include the costs for lease of the relocatable classrooms or the investments MSDE will make in equipment at the facility. Nor does this calculation take into consideration the significant capital improvements proposed to support the enhanced educational program. MSDE's proposal would represent a significant departure from current practice both statewide and at Hickey School.

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While clearly it is important to ensure that juvenile offenders receive appropriate educational opportunities and life skills training while under the care of the State, the impact of this proposal must be considered carefully and in the context of the rest of the operations at Hickey School and the entire juvenile justice system. The Department of Legislative Services (DLS) raises several outstanding concerns regarding this level of investment at Hickey School.

- The education program cannot be considered to operate independently of the rest of the environment at Hickey. The level of care that students receive when they are not in educational programming will have a profound impact on their ability to learn. The State must be certain that the services provided to students through the new Hickey School operating contract will meet their non-educational needs sufficiently to enable them to benefit from enhanced educational opportunities. In keeping with this concern, while significant improvements are proposed for education facilities at Hickey School, no similar improvements are planned for residential, dining, or recreation facilities.
- The programming proposed through both the revised operating Request for Proposal and the education program, while improved, does not fit with the small, community-based models prevalent in juvenile justice literature and espoused by the current administration. Hickey School will remain a large, institution-based program. The State should carefully consider whether it wants to make significant operating and capital investments in these types of facilities moving into the future, or whether it wants to move towards a different model of juvenile justice programming.
- The proposed expenditures at Hickey School compared to expenditures at other DJS facilities pose significant equity issues. DLS estimates that raising spending to a comparable level at other facilities could cost between \$14 million and \$15 million.

**DLS continues to believe that spending \$10.1 million in total operating funds for educational services at the Hickey School constitutes an unwise use of resources. DLS recommends reducing funds by \$2.3 million. This reduction would provide \$5.2 million for operations at the Hickey School. Exhibit 4 provides the derivation of this estimate.**

**This funding level includes an estimated \$2.2 million for special education services. DLS derived this figure by providing per pupil special education funding consistent with nonpublic day placement costs. Residential and security costs for these students will be provided through the DJS contract; therefore, DLS believes a day placement rate for special education students would be more appropriate. DLS also recommends prohibiting the funding in the nonpublic placements budget for the Hickey School to be expended on special education students at Hickey. The nonpublic placements program is likely to face significant deficits in fiscal 2004 and 2005, and DLS recommends using this funding to support existing nonpublic placement obligations.**

The DLS recommended funding would also include an estimated \$2.0 million for the education of non-special education students at the Hickey School. This funding level is consistent with average per pupil expenditures at other DJS facilities.

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**Exhibit 4**  
**DLS Recommended Funding for Hickey School Operations**

FY 2003 Average Nonpublic Day Placement Cost	\$36,675
Hickey Special Education Pupils	60
<b>Special Education Costs</b>	<b>\$2,200,500</b>
DJS Spending Per Pupil	\$10,967
Hickey Non-special Education Pupils	180
<b>Non-special Education Costs</b>	<b>\$1,974,060</b>
<b>Equipment and Supplies</b>	<b>\$713,521</b>
<b>Relocatable Classroom Funding</b>	<b>\$350,000</b>
<b>Total</b>	<b>\$5,238,081</b>

Source: Department of Legislative Services

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The \$5.2 million total would also include \$350,000 for lease of relocatable classrooms in fiscal 2005. DLS believes this is a more realistic estimate of these costs for the fiscal year. This funding level also includes MSDE's estimate of \$714,000 for one-time furniture and equipment costs.

## **2. \$20 Million in Medicaid School-based Health Services Funding Contested**

In 2002 the U.S. Department of Health and Human Services' (HHS) Office of the Inspector General (OIG) conducted an audit of Maryland's school-based health services in eight jurisdictions: Allegany, Anne Arundel, Baltimore, Harford, Montgomery, Prince George's, and Wicomico counties and Baltimore City. These eight jurisdictions represent the highest reimbursed local education agencies. The audit reviewed Medicaid payments for 100 randomly selected recipient-months between July 1999 and June 2000.

OIG found that the jurisdictions had requested Medicaid payment for services that were ineligible for reimbursement for a variety of reasons. OIG found ineligible payments in five jurisdictions totaling \$9,886.50 in its sample of 100 records, and extrapolated from that figure total overpayment of \$20 million to those jurisdictions. Total Medicaid reimbursements to these jurisdictions were \$40.7 million for the period in question. OIG assigned each jurisdiction its obligation of the total

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reimbursement based on the percent of the sample error found in that jurisdiction. **Exhibit 5** shows the distribution of these payments among the jurisdictions. In its final report, OIG included in its recommendations that the State refund via withheld future Medicaid payments the \$20 million in inappropriate payments identified in the audit.

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**Exhibit 5**  
**OIG Findings Against Local Education Agencies**

<u>Agency/LEA</u>	<u>Students in Sample</u>	<u>Percent of Sample per LEA</u>	<u>Dollar Amount of Findings</u>	<u>Percent of Error</u>	<u>Total Amount Based on Percent of Error</u>
DHMH	n/a	n/a	\$1,125	11.4%	\$2,270,704
Allegany	2	2.0%	0	0.0%	0
Anne Arundel	10	10.0%	785	7.9%	1,584,447
Baltimore City	62	62.0%	6,078	61.5%	12,266,846
Baltimore County	15	15.0%	1,485	15.0%	2,997,329
Harford	1	1.0%	0	0.0%	0
Montgomery	2	2.0%	0	0.0%	0
Prince George's	3	3.0%	75	0.8%	151,380
Wicomico	5	5.0%	339	3.4%	684,239
<b>Total</b>	<b>100</b>	<b>100.0%</b>	<b>\$9,887</b>	<b>100.0%</b>	<b>\$19,954,944</b>

Source: Maryland State Department of Education

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The State Department of Health and Mental Hygiene (DHMH) submitted a response to Centers for Medicare and Medicaid Services (CMS) on June 20, 2003. DHMH agreed with all of OIG recommendations except the repayment. DHMH expressed concerns with the validity of the sample errors cited by OIG and the sampling methods used to extrapolate the refund amount. DHMH noted that many of the errors cited were technicalities, and that in all cases, students had received services. DHMH provided additional documentation to refute some of the errors cited in the OIG report. OIG responded that the documentation was not sufficient to change its findings.

Additionally, in May 2003 the Governor wrote a letter to HHS Secretary Tommy Thompson requesting that the Secretary waive the recommendation that Maryland repay the contested funds. Maryland Senators Paul Sarbanes and Barbara Mikulski also wrote a letter to Secretary Thompson requesting that Maryland not be required to repay the funds. In July 2003 Secretary Thompson responded to Governor Ehrlich's letter reiterating that CMS would continue to negotiate with Maryland and that concerns over the impact of the \$20 million repayment would be considered before a final settlement is reached.

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In response to the OIG audit findings, MSDE has taken several steps to avoid such findings in the future. MSDE is revising its provider rates to be consistent with federal guidelines, implementing an Interagency Monitoring Team to monitor all school systems for problem areas and to issue corrective action plans, requiring school systems to submit self-review reports, providing technical assistance to schools and school systems on Medicaid requirements, and obtaining approval from CMS on a revised State Medicaid plan.

Loss of future Medicaid funding will have an adverse impact on the ability of the affected school systems to provide effective and appropriate health services to special education students. **MSDE should comment on the status of negotiations with CMS regarding the findings and the repayment recommendation. MSDE should also comment on whether it has developed a repayment schedule and how such a schedule would be phased in.**

## ***Recommended Actions***

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	<b><u>Amount Reduction</u></b>		<b><u>Position Reduction</u></b>
1. Delete funding and PINs for charter school program administration. These positions do not meet the recommendations of the Spending Affordability Committee that new positions be limited to critical public safety and homeland security needs, facilities scheduled to open in fiscal 2005, and addressing workload increases and essential services at 24-hour facilities.	\$ 78,501	GF	2.0
2. Reduce funds for the education program at the Charles H. Hickey, Jr. School. This reduction would provide per student funding for special education students consistent with nonpublic day placement costs, per student funding for non-special education students consistent with funding at other DJS facilities, funding for furniture and equipment, and \$350,000 for lease of relocatable facilities.	2,329,893	GF	
3. Delete funds for administration of the nonpublic textbook program. This recommendation is consistent with the recommendation to delete funds for this program in the Funding for Educational Organizations budget. This program falls outside the core mission of Maryland State Department of Education to provide effective systems of public education. Due to the current fiscal crisis, funds for this program should be deleted. The Cigarette Restitution Funds budgeted for the program should be transferred to the general fund through the budget reconciliation legislation.	90,000	SF	
4. Reduce funding for purchase and lease of vehicles. Due to the ongoing structural deficit, vehicle purchases should be restricted to the fiscal 2003 actual level. This reduction should be distributed throughout the agency.	41,352	GF	

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<b>Total Reductions</b>	<b>\$ 2,539,746</b>	<b>2.0</b>
<b>Total General Fund Reductions</b>	<b>\$ 2,449,746</b>	
<b>Total Special Fund Reductions</b>	<b>\$ 90,000</b>	

## *Current and Prior Year Budgets*

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### Current and Prior Year Budgets MSDE – Headquarters (\$ in Thousands)

	<b>General Fund</b>	<b>Special Fund</b>	<b>Federal Fund</b>	<b>Reimb. Fund</b>	<b>Total</b>
<b>Fiscal 2003</b>					
Legislative Appropriation	\$87,188	\$6,009	\$86,253	\$749	\$180,199
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	-1,050	2,110	29,952	68	31,079
Cost Containment	-4,223	0	0	0	-4,223
Reversions and Cancellations	-2,677	-1,969	-14,413	-415	-19,474
<b>Actual Expenditures</b>	<b>\$79,238</b>	<b>\$6,150</b>	<b>\$101,791</b>	<b>\$402</b>	<b>\$187,582</b>
<b>Fiscal 2004</b>					
Legislative Appropriation	\$83,414	\$5,233	\$106,937	\$824	\$196,408
Cost Containment	-1,066	0	0	0	-1,066
Budget Amendments	0	90	250	0	340
<b>Working Appropriation</b>	<b>\$82,348</b>	<b>\$5,323</b>	<b>\$107,187</b>	<b>\$824</b>	<b>\$195,683</b>

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

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## **Fiscal 2003**

The fiscal 2003 legislative appropriation was amended by a net of \$7.4 million throughout the fiscal year. General funds decreased by a total of \$7.9 million, special funds increased by \$141,000, and federal funds increased by a net of \$15.5 million.

Fiscal 2003 cost containment reduced the general fund appropriation by \$4.2 million. Reductions included \$2.1 million from funds for administration and scoring of assessments, shifting expenses to federal funds, reductions to the Juvenile Justice Alternative School, reduced services to inmates, program delays, reduced technical assistance for and contractual positions serving reconstitution schools, reduced Character Education grants, reductions to various administrative expenses, and the reversion of funds for employee transit ridership. \$1.0 million for the Juvenile Justice Alternative program was transferred to the Aid to Education budget, as was \$50,000 for the Head Start program.

General fund reversions resulted primarily from hiring freeze savings. The Division of Correctional Education reverted approximately \$928,000 primarily due to extended vacancies, and the Division of Library Development and Services had reversions of \$422,000 also due to extended vacancies. The Division of Student and School Support achieved savings of \$478,000 through restricted guidance funds for alternative schools, and the Division of Special Education saved approximately \$552,000 through restriction of equipment in the Hearing Aid Loaner Bank program.

Special fund changes included an additional \$415,000 in revenues in the Blind Business Enterprise program. These revenues are paid back out to the vendors. MSDE also received \$888,000 from the Gates Foundation for professional development. MSDE Headquarters also received revenue for administration of various special funded programs including the High School Improvement Institute, the Maryland Technology Consortium, the Public Education Partnership, Christa McAuliffe Scholarships, and GED training programs. Some of these funds were carried forward for future expenditure. MSDE also transferred \$112,500 in special funds to the headquarters budget for administration of the nonpublic textbook program.

Federal fund changes accounted for most of the alteration in this budget. Major changes included the following:

- \$6.9 million in No Child Left Behind funding for development of assessments;
- \$4.0 million in additional Title I funds for educationally deprived children;
- \$2.2 million in Reading Excellence grants;
- \$2.2 million in Social Security Disability Insurance;
- \$2.2 million in teacher quality grant programs;

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- \$2.0 million for the GEAR UP college readiness program; and
- \$1.9 million for special education programs.

MSDE also attained several million dollars for administration of various federal grant programs including adult and vocational education, career technology, school improvement and reform, teacher recruitment, training, and development, correctional education, Even Start, nutrition programs, Advanced Placement, technology literacy, language assistance, career training, and homeless student education. \$14.4 million in reversions represents funds that were either not attained or are allowed to be carried forward into future years.

### **Fiscal 2004**

Fiscal 2004 cost containment reduced the general fund appropriation by \$1.1 million. MSDE eliminated 8.0 non-essential regular positions, 5.0 of which were filled, and vacant contractual positions. MSDE also reduced the use of contractual services, administrative funds for the Juvenile Justice Alternative Education Program, and various operating expenses. MSDE substituted federal funds for general funds in the Hearing Aid Loaner Bank program.

MSDE transferred \$90,000 in special funds from the Nonpublic Textbook Program for administrative costs. MSDE also received an additional \$250,000 in federal funds for refugee resettlement.

**Object/Fund Difference Report  
MSDE – Headquarters**

<u>Object/Fund</u>	<u>FY03 Actual</u>	<u>FY04 Working Appropriation</u>	<u>FY05 Allowance</u>	<u>FY04 - FY05 Amount Change</u>	<u>Percent Change</u>
<b>Positions</b>					
01 Regular	1440.50	1328.80	1398.80	70.00	5.3%
02 Contractual	118.35	116.60	130.76	14.16	12.1%
<b>Total Positions</b>	<b>1558.85</b>	<b>1445.40</b>	<b>1529.56</b>	<b>84.16</b>	<b>5.8%</b>
<b>Objects</b>					
01 Salaries and Wages	\$ 83,314,349	\$ 81,009,804	\$ 86,106,244	\$ 5,096,440	6.3%
02 Technical & Spec Fees	31,324,139	29,694,963	35,397,971	5,703,008	19.2%
03 Communication	1,837,602	1,736,384	1,652,231	-84,153	-4.8%
04 Travel	1,128,099	1,251,718	1,179,613	-72,105	-5.8%
06 Fuel & Utilities	731,043	867,093	937,838	70,745	8.2%
07 Motor Vehicles	656,339	565,184	762,164	196,980	34.9%
08 Contractual Services	44,506,097	53,001,965	55,971,564	2,969,599	5.6%
09 Supplies & Materials	2,557,049	2,834,596	3,288,287	453,691	16.0%
10 Equip - Replacement	1,802,095	625,162	730,019	104,857	16.8%
11 Equip - Additional	1,318,384	1,772,265	1,397,791	-374,474	-21.1%
12 Grants, Subsidies, Contracts	14,501,340	18,762,823	17,352,921	-1,409,902	-7.5%
13 Fixed Charges	3,468,418	3,503,887	3,643,139	139,252	4.0%
14 Land & Structures	436,703	56,801	1,066,486	1,009,685	1777.6%
<b>Total Objects</b>	<b>\$ 187,581,657</b>	<b>\$ 195,682,645</b>	<b>\$ 209,486,268</b>	<b>\$ 13,803,623</b>	<b>7.1%</b>
<b>Funds</b>					
01 General Fund	\$ 79,238,168	\$ 82,348,492	\$ 90,399,629	\$ 8,051,137	9.8%
03 Special Fund	6,150,255	5,323,468	5,027,989	-295,479	-5.6%
05 Federal Fund	101,791,462	107,186,709	113,877,595	6,690,886	6.2%
09 Reimbursable Fund	401,772	823,976	181,055	-642,921	-78.0%
<b>Total Funds</b>	<b>\$ 187,581,657</b>	<b>\$ 195,682,645</b>	<b>\$ 209,486,268</b>	<b>\$ 13,803,623</b>	<b>7.1%</b>

Note: The fiscal 2004 appropriation does not include deficiencies, and the fiscal 2005 allowance does not reflect contingent reductions.

**Fiscal Summary  
MSDE – Headquarters**

<u>Unit/Program</u>	<u>FY03 Actual</u>	<u>FY04 Legislative Appropriation</u>	<u>FY04 Working Appropriation</u>	<u>FY03 - FY04 % Change</u>	<u>FY05 Allowance</u>	<u>FY04 - FY05 % Change</u>
01 Office of the State Superintendent	\$ 7,473,076	\$ 8,317,950	\$ 8,391,138	12.3%	\$ 11,095,335	32.2%
02 Div. of Business Services	11,622,253	9,385,847	9,314,561	-19.9%	9,434,000	1.3%
03 Div. of Professional and Strategic Development	5,075,572	3,999,361	3,743,061	-26.3%	3,283,883	-12.3%
04 Div. of Planning, Results, and Info. Management	33,496,767	35,799,862	35,427,120	5.8%	35,567,138	0.4%
05 Office of Information Technology (IT)	179,564	2,669,688	2,669,688	1386.8%	2,587,271	-3.1%
06 Major IT Dev. Projects	1,499,973	0	0	-100.0%	0	0%
11 Div. of Instruction and Staff Development	9,925,886	12,081,685	12,313,783	24.1%	10,099,401	-18.0%
12 Div. of Student and School Services	6,068,598	14,551,554	14,491,454	138.8%	12,939,575	-10.7%
13 Div. of Special Education	9,246,303	7,669,011	7,584,422	-18.0%	8,305,813	9.5%
14 Div. of Career Technology and Adult Learning	5,100,278	5,433,837	5,432,737	6.5%	5,780,701	6.4%
15 Div. of Correctional Education	15,077,955	14,815,305	14,664,021	-2.7%	22,328,861	52.3%
17 Div. of Library Development and Services	1,946,998	2,383,898	2,383,898	22.4%	2,446,377	2.6%
18 Div. of Certification and Accreditation	5,072,849	3,474,988	3,471,288	-31.6%	3,701,100	6.6%
20 Div of Rehab Serv. – Program & Admin. Support	10,688,655	11,705,692	11,691,330	9.4%	11,976,438	2.4%
21 Div of Rehabilitation Services - Client Services	33,237,722	43,802,041	33,212,887	-0.1%	36,173,601	8.9%
22 Div. of Rehab. Serv. Workforce & Tech. Ctr.	10,264,093	0	10,573,570	3.0%	11,215,643	6.1%
23 Div of Rehab Serv. - Disability Determination Svcs.	21,605,115	20,317,687	20,317,687	-6.0%	22,551,131	11.0%
25 Ordinary Clearing Account - Nonbudgeted	0	5,641,794	0	0%	0	0%
Funds - Headquarters						
<b>Total Expenditures</b>	<b>\$ 187,581,657</b>	<b>\$ 202,050,200</b>	<b>\$ 195,682,645</b>	<b>4.3%</b>	<b>\$ 209,486,268</b>	<b>7.1%</b>
General Fund	\$ 79,238,168	\$ 83,414,252	\$ 82,348,492	3.9%	\$ 90,399,629	9.8%
Special Fund	6,150,255	5,233,467	5,323,468	-13.4%	5,027,989	-5.6%
Federal Fund	101,791,462	106,936,708	107,186,709	5.3%	113,877,595	6.2%
Nonbudgeted Fund	0	5,641,794	0	0.0%	0	0.0%
<b>Total Appropriations</b>	<b>\$ 187,179,885</b>	<b>\$ 201,226,224</b>	<b>\$ 194,858,669</b>	<b>4.1%</b>	<b>\$ 209,305,213</b>	<b>7.4%</b>
Reimbursable Fund	\$ 401,772	\$ 823,976	\$ 823,976	105.1%	\$ 181,055	-78.0%
<b>Total Funds</b>	<b>\$ 187,581,657</b>	<b>\$ 202,050,200</b>	<b>\$ 195,682,645</b>	<b>4.3%</b>	<b>\$ 209,486,268</b>	<b>7.1%</b>

Note: The fiscal 2004 appropriation does not include deficiencies, and the fiscal 2005 allowance does not reflect contingent reductions.