

R00A02
Aid to Education
Maryland State Department of Education

Operating Budget Data

(\$ in Thousands)

	<u>FY 04</u> <u>Actual</u>	<u>FY 05</u> <u>Working</u>	<u>FY 06</u> <u>Allowance</u>	<u>FY 05-06</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$3,355,597	\$3,670,091	\$4,063,960	\$393,869	10.7%
Special Fund	248	241	0	-241	-100.0%
Federal Fund	655,171	712,314	743,266	30,951	4.3%
Reimbursable Fund	<u>362</u>	<u>309</u>	<u>392</u>	<u>83</u>	<u>26.9%</u>
Total Funds	\$4,011,377	\$4,382,955	\$4,807,618	\$424,662	9.7%
Contingent & Back of Bill Reductions			-5,800	-5,800	
Adjusted Total	\$4,011,377	\$4,382,955	\$4,801,818	\$418,862	9.6%

- The Governor has proposed a reduction of \$5.8 million in general funds contingent on legislation. The reduction would maintain the State's share of the cost of educating children with disabilities in the Non-Public Placement Program at 75%.
- Including the contingent reduction, the fiscal 2006 allowance increases by \$418.9 million, or 9.6% over the fiscal 2005 working appropriation.
- General funds increase by \$388 million, or 10.6%, nearly all of which is attributable to continued implementation of the Bridge to Excellence Act.
- Other general fund changes include increases in retirement and nonpublic placements offset by the elimination of Challenge grant funds.
- Federal funds are expected to increase for fiscal 2006 due to increases in grants for Educationally Deprived Children and children at risk, offset by a decrease in the foods services program and instruction.

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

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Analysis in Brief

Major Trends

Adequate Yearly Progress Not Met Despite Progress Over Prior Year Results: The State failed to meet federal standards of No Child Left Behind (NCLB) for the second consecutive year because special education students did not achieve target proficiency levels. **The Maryland State Department of Education (MSDE) should comment on efforts to work with local school systems to ensure that all students, especially those in subgroups that did not meet average yearly progress targets, achieve at the levels required by NCLB.**

Issues

Per Pupil Foundation Funding to Set Trigger Provision: The fiscal 2006 mandated State education aid exceeds 31.5% of general funds prompting the legislature to consider a resolution affirming full foundation funding. The issue will explore the provision and effects on mandated State aid to education.

Direct Education Aid Up 12% – Limiting the Increase to 11% Could Help Relieve Fiscal Pressure: Unless State revenues increase significantly above current forecasts, funding the final two years of the Bridge to Excellence Act will require further constraints in other general fund spending. **The Department of Legislative Services (DLS) recommends that aid to education be reduced by \$33.6 million through an early phase-out of extended elementary education funding and \$48 reduction in the per pupil foundation.**

Challenge Grants Not Funded in Fiscal 2006 Allowance: The fiscal 2006 allowance does not include funding for the Challenge Grants program. Funding for the program was eliminated on the basis that local school systems could provide the services of the grant through increased foundation funding. **MSDE should discuss the impact of the elimination of Challenge grants on the qualified schools and how these schools will continue and improve upon the benefits provided by the grants through mandated State aid.**

Master Plan Updates Submitted for Approval by MSDE: Fiscal 2005 marked the first year for local education agencies (LEAs) to submit annual master plan updates as mandated in the Bridge to Excellence Act. Audits of fiscal 2003 master plans and fiscal 2004 annual updates were also conducted by the Office of Legislative Audits (OLA). **The department should discuss the measures and steps it is taking to ensure that it is communicating to LEAs the requirements for annual master plan updates mandated in Chapter 148 of 2004. MSDE should also comment on other recommendations and comments made by OLA in regard to the master plan audits.**

Prince George's County School System Financial Audit: Since November 2004, MSDE has withheld 10% of Prince George's County Public Schools (PGCPS) State aid due to failure to comply with provisions of the Education Articles requiring each local school system to submit an annual

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audit. **MSDE should comment on the status of PGCPs’s annual audit and provide an estimate as to when it believes it will receive the document.**

Baltimore City Public School System Progress in Reducing Debt: The results of a 2004 financial audit revealed that Baltimore City Public School System (BCPSS) was \$58 million in debt due to overspending and mismanagement of funds. BCPSS ended fiscal 2004 with a small surplus for the first time in many years. Despite this accomplishment, the school system continues to deal with its deficit. **DLS recommends that MSDE update the committees on the steps being taken by the Baltimore City Public School System to eliminate its debt and return to solvency.**

Recommended Actions

	<u>Funds</u>
1. Add budget bill language to reduce Per Pupil Foundation by \$48.	
2. Add budget bill language to reduce the Early Elementary Education Program.	
3. Delete funds in the Science and Math Education Initiative.	\$ 883,139
Total Reductions	\$ 883,139

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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 recommended, and the legislature approved, altering and enhancing the distribution of State aid to education beginning in fiscal 2004 through 2008.

The Bridge to Excellence in Public Schools Act, commonly referred to as "Thornton," requires an estimated \$1.3 billion in enhanced funding between fiscal 2004 and 2008. School systems receive a basic per pupil funding amount through the foundation program. Additional funding formulas provide additional aid for students with special needs – students with disabilities, students eligible for free and reduced price meals, and students with limited English proficiency. State aid for student transportation also increases. Local jurisdictions receive broad flexibility in determining how to meet State goals for student achievement along with the enhanced funding. However, each school system will be held accountable for achieving goals and student outcome measurements outlined in its Comprehensive Master Plan.

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

Performance Analysis: Adequate Yearly Progress Not Met Despite Progress Over Prior Year Results

The federal No Child Left Behind (NCLB) Act requires 100% student proficiency by school year 2013 – 2014. NCLB requires that states develop intermediate targets progressing to 100% for each intermediate year. In order for a school, school system, or state to make Adequate Yearly Progress (AYP), all students and students in selected ethnic and special needs subgroups must achieve proficiency at the target rate. The law requires increasing penalties for schools and school systems that fail to meet AYP.

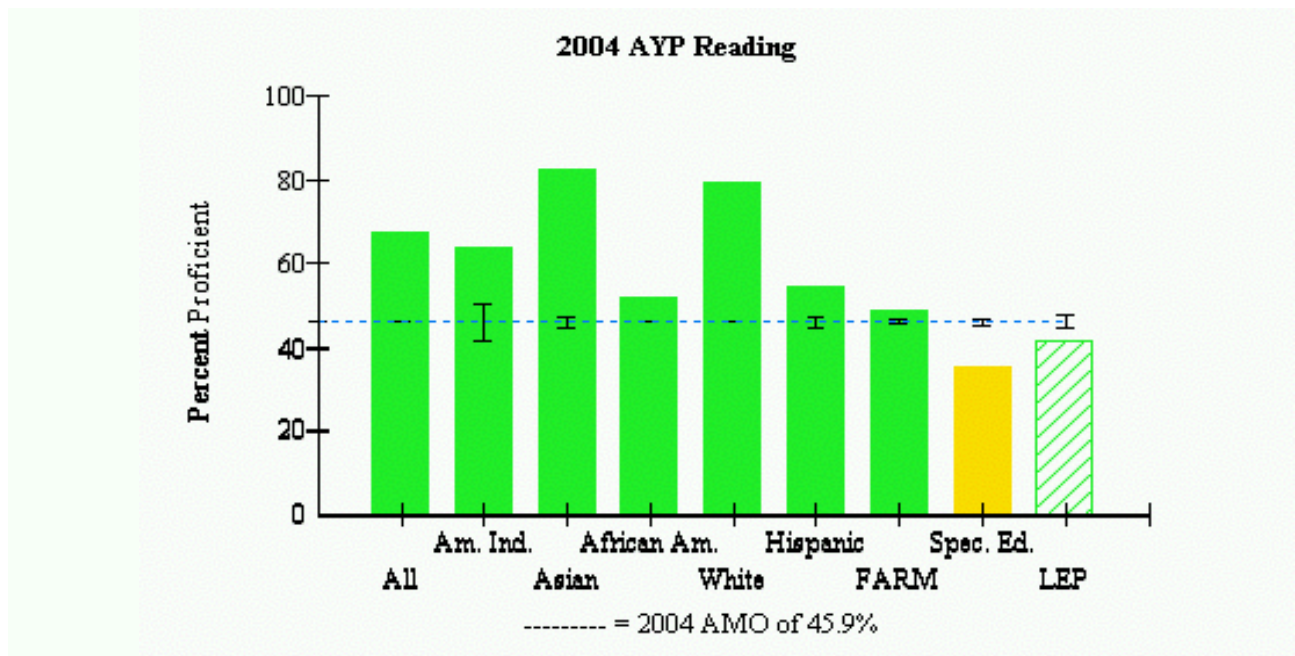
The 2003 – 2004 school year marked the second year for measuring AYP on the Maryland State Assessment (MSA) and the first time the test was administered for grades 3 through 8. The State target for the year was 45.9% proficiency in reading and 34.6% proficiency in mathematics. In the coming years, these targets will increase linearly towards 100%, meaning that students will have to consistently achieve at higher levels for the State to make AYP. For school year 2005 – 2006, targets

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will increase to 56.7% proficiency in reading and 44.1% proficiency in mathematics. Performance levels for the State, local school systems, and individual schools can be found on the Maryland State Department of Education’s (MSDE) Maryland Report Card web site at www.mdreportcard.org.

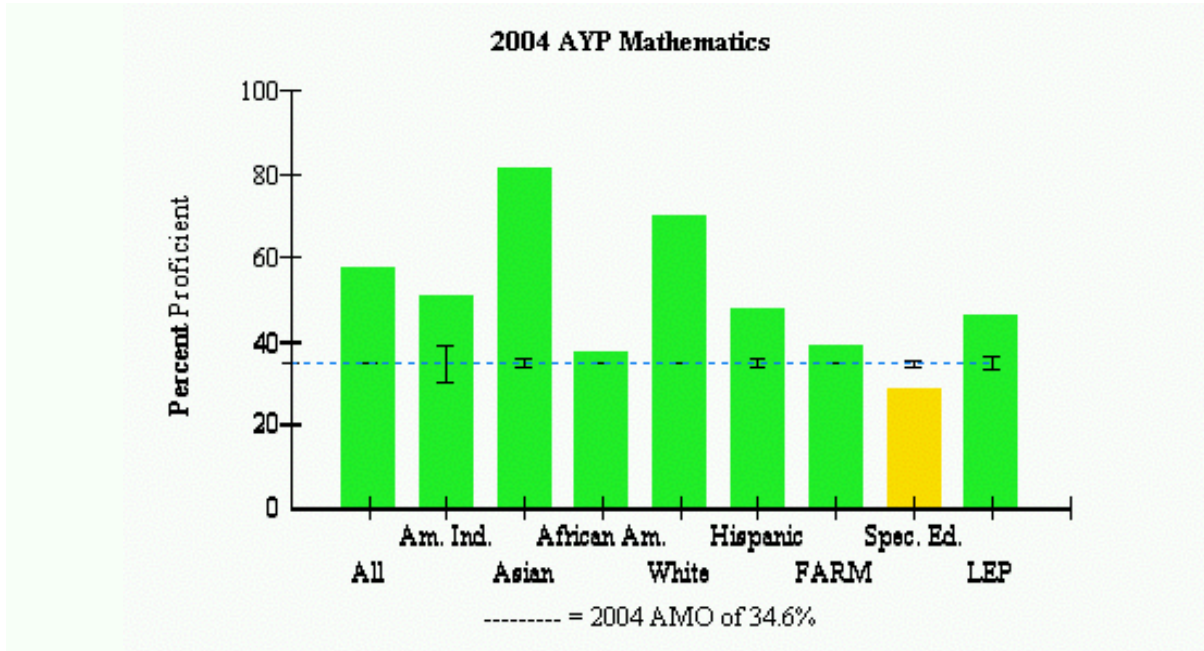
As shown in **Exhibits 1 and 2**, the State failed to make the standard of AYP for the second consecutive year primarily because special education students did not achieve target proficiency levels. Under NCLB, AYP must be made among all subgroup categories in addition to all students. Statewide, subgroups in both math and reading showed improvement in 2004 from the prior year, particularly African Americans and students eligible for free and reduced price meals (FRPM) who failed to meet targets last year.

**Exhibit 1
2004 AYP Reading**



Source: Maryland Report Card

**Exhibit 2
2004 AYP Mathematics**



Source: Maryland Report Card

Individual Schools and School Systems Show Improvement Over Prior Year

School systems and schools had similar results. According to MSDE, approximately one-half of schools that did not make AYP fell short due to special education reading or math results. Statewide, 280 schools failed to meet AYP targets compared to 473 schools that failed to meet AYP targets last year. A school system that fails to meet AYP is placed in a school improvement category. If a school under school improvement fails to meet AYP for two consecutive years that school is placed into what is called corrective action. If a school in corrective action fails to meet AYP the following year (i.e., three consecutive years), the school is identified for restructuring under NCLB. Baltimore City is currently under corrective action, and the other eight local school systems that did not meet AYP are school systems in school improvement. Statewide, 18.2% of schools are categorized under school improvement.

Whereas all 24 local school systems failed to meet AYP last year, this year 15 local school systems met AYP targets. Of the 9 school systems that failed to meet AYP this year, 5 school systems missed the target on special education alone. **Exhibit 3** shows the areas in which school systems failed to meet AYP.

Exhibit 3
Schools Systems Failing to Meet AYP Target

<u>African American Math and Reading</u>	<u>Special Education Math and Reading</u>	<u>FRPM Math and Reading</u>	<u>LEP Math and Reading</u>
Dorchester	Allegany	Dorchester	Baltimore City
Kent	Baltimore City ¹	Prince George's ³	
	Cecil		
	Charles		
	Dorchester		
	Prince George's		
	Somerset		
	St. Mary's ²		

¹ Baltimore City also failed to meet AYP target for attendance and graduation.

² Failed to meet target for reading only.

³ Failed to meet target for math only.

Source: Maryland State Department of Education

MSDE should comment on efforts to work with local school systems to ensure that all students, especially those in subgroups that did not meet AYP targets, achieve at the levels required by NCLB. MSDE should discuss with the committees the challenges that are faced to achieve the AYP target among subgroups, particularly special education students.

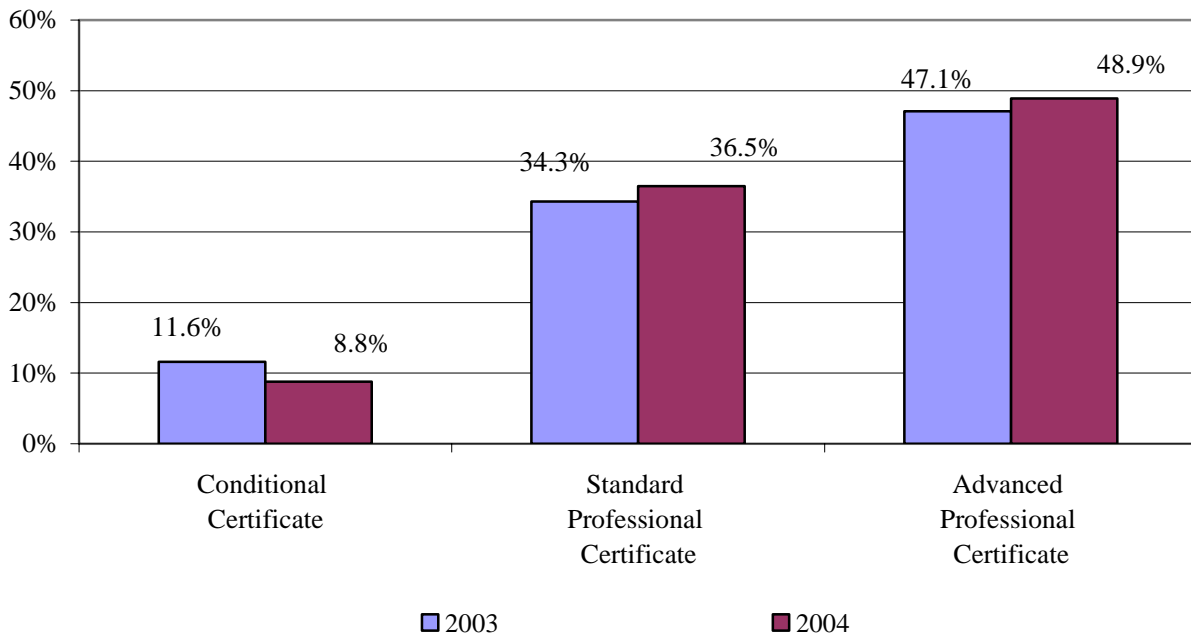
Teacher Qualifications

Another major mandate of NCLB is the requirement that all teachers be highly qualified by the end of school year 2005 – 2006. Under NCLB, a teacher who is highly qualified must:

- possess a bachelor's degree;
- hold a valid Standard Professional Certificate, Advanced Professional Certificate, or Resident Teacher Certificate; and
- demonstrate appropriate content knowledge in all grades and subjects taught.

As shown in **Exhibit 4**, the percentage of teachers holding conditional certificates and, therefore, not certified under NCLB has declined from 11.6% to 8.8%, while the percentage of teachers with standard certificates has increased from 34.3% to 36.5%. In Baltimore City and Prince George’s County the percentage of teachers not fully certified has also declined to 23.6% and 16.4%, respectively. Teachers with advanced certificates have also increased approximately one percentage point to 48.9%. The percentage of teachers with resident certificates (not shown) increased from 0.1% to 0.7%.

Exhibit 4
Percentage of State Certified Teachers



Source: Maryland Report Card

Statewide, MSDE reports that 33.5% of all classes are not taught by highly qualified teachers. As shown in **Exhibit 5**, Baltimore City and Prince George’s County have the highest percentage of classes not taught by certified teachers at 65.7% and 51.4%, respectively. In contrast, Washington and Carroll counties have the lowest percentage at 12.8% and 13.1%. In low poverty areas, 21.9% of

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classes are not taught by highly qualified teachers compared to 54.3% in high poverty areas. **MSDE should comment on the status of meeting the NCLB mandate to ensure that all teachers are fully certified by the 2006 deadline. Furthermore, MSDE should discuss the disparity among classes not taught by highly qualified teachers in high and low poverty areas.**

Exhibit 5
Percentage of Classes Not Taught by Highly Qualified Teachers
2003 – 2004 School Year

<u>LEA</u>	<u>Number of Classes</u>	<u>Total Classes</u>	<u>Percentage</u>
Allegany	276	1,834	15.0%
Anne Arundel	1,910	10,716	17.8%
Baltimore City	9,761	14,803	65.7%
Baltimore	7,265	19,356	37.5%
Calvert	735	3,284	22.3%
Caroline	233	913	25.5%
Carroll	444	3,370	13.1%
Cecil	452	2,026	22.3%
Charles	3,353	6,838	49.0%
Dorchester	568	205	36.0%
Frederick	2,348	6,802	34.5%
Garrett	116	773	15.0%
Harford	1,534	7,693	19.9%
Howard	2,927	15,935	18.3%
Kent	93	344	27.0%
Montgomery	7,922	31,119	25.4%
Prince George's	11,746	22,850	51.4%
Queen Anne's	242	866	27.9%
St. Mary's	707	2,428	29.1%
Somerset	163	412	39.5%
Talbot	106	532	19.9%
Washington	447	3,492	12.8%
Wicomico	1,501	6,862	21.8%
Worcester	191	921	20.7%
Total	55,040	164,374	33.5%

Source: Maryland Report Card

Governor's Proposed Budget

The Governor's allowance contains a total of \$4.8 billion, an increase of \$424.7 million, or 9.7% over the fiscal 2005 working appropriation. **Exhibit 6** shows how this increase is attributable to mandated and discretionary programs under the Bridge to Excellence in Public Schools Act and other programs funded with general, federal, special, and reimbursable funds.

Exhibit 6
Governor's Proposed Budget
MSDE Aid to Education
(\$ in Thousands)

How Much It Grows:	General Fund	Special Fund	Federal Fund	Reimbursable Fund	Total
2005 Working Appropriation	\$3,670,091	\$241	\$712,314	\$309	\$4,382,955
2006 Governor's Allowance	4,063,960	0	743,266	392	4,807,618
Contingent & Back of Bill Reductions	<u>-5,800</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>-5,800</u>
Adjusted Allowance	\$4,058,160	\$0	\$743,266	\$392	\$4,801,818
Amount Change	\$388,069	-\$241	\$30,951	\$83	\$418,862
Percent Change	10.6%	-100.0%	4.3%	26.9%	9.6%

Where It Goes:

General Fund Changes Attributable to Bridge to Excellence

Foundation	\$193,741
Compensatory education including Extended Elementary Education	121,471
Special education	35,844
Limited English proficiency	16,484
Guaranteed tax base	19,610
Transportation	11,589
Baltimore City Partnership	-7,047

Other General Fund Changes

Teachers' and librarians' retirement contributions	3,672
Formula for specific populations	412
State library network and public library aid.....	395
Adult education.....	-80
Innovative programs	-105
Challenge Grants.....	-3,789
School Technology	-4,000
Other	-128

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Where It Goes:

Federal Fund Changes

Students with Disabilities	28,068
Educationally Deprived Children.....	24,838
Children at Risk	4,147
School Technology	-1,079
Innovative Programs	-1,901
Education and Human Resources Grant	-3,614
Food Services Program	-21,334
Miscellaneous federal grant programs	1,826

Special and Reimbursable Fund Changes

DHMH Community Health Administration Funding	220
Innovative Programs – Division of Workforce Development	-137
East Coast Migrant Head Start.....	-241

Total **\$418,862**

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

Changes in Education Aid Primarily Attributable to Bridge to Excellence

Chapter 288, Acts of 2002 commonly known as “Thornton,” dramatically changed the funding of State education aid beginning in fiscal 2004. Changes attributable to the funding formulae and targets outlined in Thornton are detailed below.

- **Foundation Formula (\$193,740,735 Increase):** The foundation formula ensures a minimum funding level per pupil and requires counties to provide a local match. The formula is calculated based on a per pupil amount and student enrollment. The \$193.7 million, or 9.2% increase is attributable to the fiscal 2006 per pupil amount of \$5,497, a 9.3% increase over the fiscal 2005 per pupil amount of \$5,029.

- **Compensatory Education (\$121,470,874 Increase):** The compensatory education formula provides additional funding based on the number of economically disadvantaged students. The formula recognizes disparities in local wealth by adjusting the grants per eligible student by local wealth. The formula is calculated based on 97% of the per pupil amount in the foundation formula and the number of students eligible for free and reduced price meals (FRPM) in the prior fiscal year. The increase in the per pupil foundation and an increase in FRPM students resulted in most of the 24.1% increase. Funding for extended elementary increases by \$2.4 million.

- **Special Education (\$35,844,468 Increase):** The special education formula provides additional aid based on the number of students with disabilities. The special education formula is calculated based on 74% of the annual per pupil foundation amount and the number of special education students enrolled in the prior year. For fiscal 2006, formula funding increases by \$33.7 million,

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or 21.3%. Special education also includes funds for nonpublic placements which increase \$2.2 million, or 2.0% after accounting for the \$5.8 million contingent reduction proposed by the Governor.

- ***Guaranteed Tax Base (\$19,609,715 Increase):*** The Bridge to Excellence in Public Schools Act included an add-on grant for jurisdictions with less than 80% of statewide per pupil wealth that contributed more than the minimum required local share under the foundation program in the prior fiscal year. The grant equals the difference between actual and required spending per pupil, up to 20% of the per pupil foundation amount. The grants are phased in, beginning at 25% in fiscal 2005 and ending at 100% in fiscal 2008. For fiscal 2006 ten jurisdictions will qualify for guaranteed tax base grants.
- ***Limited English Proficiency (\$16,484,073 Increase):*** The State provides additional grants based on the number of non- and limited-English proficient (LEP) students. The LEP formula is based on 99% of the annual per pupil foundation amount and LEP enrollment. The fiscal 2006 grant increases by \$389 per LEP. A 2,138 increase in the LEP count also contributes to the growth in spending.
- ***Student Transportation Grants (\$11,589,201 Increase):*** The State also provides grants to assist jurisdictions in transporting their students to school. The grant consists of three components: regular student ridership funds, special education student ridership funds, and additional enrollment funds. The regular student ridership funds are based on the prior year's appropriation, adjusted by the greater of the consumer price index (CPI), or 3.0%, whichever is greater, with no more than an 8.0% increase. The special education grant provides a grant of \$600 per student requiring special transportation services. Districts experiencing enrollment growth also receive an additional adjustment equal to the increase in student enrollment over the prior year multiplied by the prior year's aid per pupil. The \$11.6 million increase consists of a \$2.2 million increase due to a change in the special education per pupil amount from \$700 to \$800, an increase of \$8.4 million due to a 5.4% increase in the CPI index, and a \$930,462 increase for additional enrollment.
- ***Baltimore City/State Partnership (\$7,046,508 Decrease):*** The State provides additional funding to support the restructuring and improvement of the academic achievement and management of Baltimore City schools. The Bridge to Excellence phases out this funding by fiscal 2007.
- ***School Quality Grants (\$3,788,827 Decrease):*** The decrease in school quality grants is attributable to the elimination of Challenge Grants (see Issue 2 for more information).

Other General Fund Changes in Education Aid

- ***Teachers' and Librarians' Retirement (\$3,671,626 Increase):*** The State pays 100% of the employers' share of retirement costs for school system and library employees in the Teachers' Retirement and Pension Systems maintained by the State. Rather than distributing the aid to the school and library boards and billing them for the retirement contributions, the State appropriates a lump-sum payment to the retirement system "on behalf of" the local school boards. The appropriation is calculated by increasing the second prior year's salary base by 5.0% and applying the contribution rate established by the retirement system's actuary.
- ***State Library Network and Library Formula Aid (\$395,484 Increase):*** The State provides funding for the Enoch Pratt Central Library, which is designated as the State Library Resource Center, regional libraries, metropolitan cooperative libraries, and interlibrary loans. The State also provides assistance to public libraries through a formula that determines State and local shares of a minimum per capita library program. All of these programs are funded through minimum per capita grants. The increase consists of a \$389,477, a 1.3% increase for local library funding and a \$6,007 increase for the State Library Network.
- ***Adult Education (\$80,000 Decrease):*** MSDE receives and administers a federal grant to initiate educational programs for out of school youth and adults at least 16 years old with the inability to read and write the English language. A 25% state/local matching contribution is required for the Federal grant. The decrease is attributable to a cut in the Center for Art and Technology grant.
- ***Programs for Specific Populations (\$411,957 Increase):*** The State provides funding for programs for the basic support of specific student populations. The funds included in this program and the relevant statutory citations are children in out-of-county living arrangements (Section 4-122) and schools near the boundary of two counties (Section 4-121 of the Education Article).

Special, Federal, and Reimbursable Fund Changes

- ***Students with Disabilities (\$28,068,375 Increase):*** The increase reflects additional funds provided for education grant to states attributable to an increase in enrollment in the program.
- ***Federal Title I Funding for Disadvantaged Students (\$24,837,967 Increase):*** Title I funds to local education agencies are one of the major sources of federal education aid. These funds provide assistance to local education agencies in educating economically disadvantaged students. The fiscal 2006 allowance indicates an increase of \$24.8 million in Title I funds.

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- ***Other Federal Fund Sources (\$26,102,246 Decrease):*** The fiscal 2006 allowance includes several other federal fund changes. Nutrition programs, including the School Breakfast Program, the School Lunch Program, the School Milk Program, and others, are expected to decrease \$21,333,855 million. Innovative Programs decrease \$1,900,923 due to the termination of Title V grants. Federal aid for school technology decreases by \$1,079,336 over the fiscal 2005 working appropriation. Science and Mathematics Education Initiative decreases by \$3,613,806 due to an unrealized grant in fiscal 2005.
- ***Reimbursable Funds (\$83,000 Increase):*** Major changes in reimbursable funds include a reduction of \$137,000 in reimbursable funds from the Division of Workforce Development in the Department of Labor, Licensing, and Regulation, offset by an increase of \$220,000 in a Community Health Administration grant at the Department of Health and Mental Hygiene.
- ***Special Funds (\$241,374 Decrease):*** The decrease is attributable to the elimination of the East Coast Migrant Head Start Grant. The Division of Student and School Services made the decision not to apply for the grant in fiscal 2006 because of the large paper work requirements, the low dollar amount of the grant, and higher departmental priority projects such as Bridge to Excellence and other Federal Title I programs. MSDE will continue to receive annual Title I, Part C-Migrant Education grants on a formula basis. K-12 students on the Eastern Shore will continue to receive educational grants every summer.

Governor's Cost Containment on Nonpublic Placement Funding

The Governor's allowance includes a \$5.8 million reduction in general funds contingent on legislation to maintain the State's share of the cost of educating children with disabilities in the nonpublic placement program. The reduction would continue the revision instituted in fiscal 2005 where for each nonpublic placement a local school system pays its respective local share of the basic cost of education plus two times the total basic cost of education (commonly referred to as the 300% rule) and 25% of any expense above that sum. The State in turn pays for the remaining 75% of the excess. Without the reconciliation provision, the State would pay 80%, and the local school systems would pay 20% of the amount above the 300% rate.

Nonpublic placement costs are difficult to estimate. MSDE has had to request deficiencies in this program in past fiscal years due to higher than anticipated spending. As shown in **Exhibit 7**, MSDE closed fiscal 2002 and 2003 with a deficit. This problem was corrected in fiscal 2004 when costs surprisingly declined. **MSDE should comment on the reason for the decline in costs for fiscal 2004.**

An analysis by the Department of Legislative Services (DLS) in 2004 found that the State and local school systems' share of the total cost of nonpublic placements has remained relatively constant from fiscal 1998 to 2003 with the State's share at about 52% and the local share at 48%. In fiscal 2004 the State's share of the \$190.4 million total nonpublic placement spending is 54% and the local share is 46%.

Exhibit 7
Appropriation versus Expenditure for Nonpublic Placements
Fiscal 2002 – 2006

	<u>Actual</u> <u>FY 2002</u>	<u>Actual</u> <u>FY 2003</u>	<u>Actual</u> <u>FY 2004</u>	<u>Estimate</u> <u>FY 2005</u>	<u>Estimate</u> <u>FY 2006**</u>
Funds Available	\$94,858,691	\$104,554,428	\$110,951,275	\$ 108,762,301	\$110,967,728
Expenditure*	-99,221,889	-107,174,672	-102,741,654	-105,262,301	-111,337,347
Subtotal	-\$4,363,198	-\$2,620,244	\$8,209,621	\$3,500,000	-\$369,619
Prior Year Deficit	\$0	-\$4,363,198	-\$6,983,442		
Total	-\$4,363,198	-\$6,983,442	\$1,226,179	\$3,500,000	

*The fiscal 2005 and 2006 expenditure includes RICAs. Expenditures are presented on a service year basis.

**Fiscal 2006 reflects the allowance after the \$5.8 million contingent reduction.

Source: Maryland State Department of Education

For fiscal 2005, there will be an estimated surplus of \$3.5 million which MSDE intends to utilize to cover a shortfall in funding for the Autism Waiver. For fiscal 2006, the State may incur a deficit in nonpublic placements of approximately \$0.4 million.

Regional Institute for Children and Adolescents (RICA) are an addition to nonpublic placement funding beginning in fiscal 2005 due to a provision in the Budget Reconciliation and Financing Act of 2004. According to MSDE, fiscal 2005 State costs for the program total \$2.5 million and no additional funds were built into the fiscal 2006 allowance. Under current law, RICA will continue to be part of the total cost of nonpublic placement in the future.

Total costs are determined by both the number of children receiving nonpublic placements and the level of service these children require. MSDE has estimated in the past that State costs for nonpublic placements will increase approximately 6.0% per year under current statute. Estimating local costs is more difficult, because cost is directly related to the number of placements and the percent local share of basic costs in the jurisdiction. MSDE does not project the total number of placements that will be required, either statewide or by jurisdiction.

Funding for the Autism Waiver is no longer included in nonpublic placement amounts, allowing for better accounting of the program. In the past, concerns have been raised over the management of funds in nonpublic placement. It is unclear how funds for the Autism Waiver and nonpublic students were accounted for since money for both programs were located in the same allowance.

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DLS recommends accepting the cost share formula in the Budget Reconciliation Act of 2005 and the contingent reduction of \$5.8 million in nonpublic placements. Reducing the State’s share from 80% to 75% of costs in excess of the local contribution will move the State and local share of total costs closer to about 50% each. Furthermore, DLS recommends that MSDE find improved measures to anticipate nonpublic placement costs in out-years to avoid deficits in the program.

Issues

1. Per Pupil Foundation Funding to Set Trigger Provision

The Bridge to Excellence legislation included a provision that would have limited growth in State education spending to 5% per year unless the General Assembly affirmed by joint resolution that the funding increases mandated in the Act were affordable. This action, or trigger provision, was repealed by House Bill 345 of 2004 on the advice of the Attorney General, who concluded that the provision could have been deemed unconstitutional because it did not give the Governor an opportunity to take part in the decision-making process (i.e., legislative veto). A second affordability trigger has been in statute since 1984 that requires the General Assembly to examine State education spending if aid exceeds 31.5% of general funds. If a joint resolution affirming the affordability of education aid is not passed, the per pupil foundation level for the fiscal year is limited to 8% growth.

As shown in **Exhibit 8**, mandated State education aid is projected to exceed the 31.5% threshold for the foreseeable future. For fiscal 2005, 2007, and 2009 the increase in per pupil funding will have no impact on mandated State aid. While the 31.5% threshold is surpassed for those years, the increase in per pupil foundation amount is below 8% and passing a joint resolution, therefore, would have no impact on mandated State aid. However, education aid will not only exceed 31.5% of general funds but also the per pupil funding will increase by 9.3% from \$5,029 in fiscal 2005 to \$5,497 in fiscal 2006. By law, the General Assembly must pass a joint resolution or the increase in the foundation amount could be reduced to \$5,431, an 8% increase. Limiting per pupil funding to an 8% increase projected would reduce education aid by approximately \$37.3 million in fiscal 2006. Per pupil funding is projected to exceed 8% again in fiscal 2008.

Exhibit 8
Percentage of Education Aid to General Fund (GF) Revenues
and Change in Per Pupil Foundation Funding
Fiscal 2004-2009

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Education Aid as % of GF Revenues	33.2%	33.0%	36.1%	34.9%	41.5%	41.2%
Per Pupil Foundation	\$4,766	\$5,029	\$5,497	\$5,840	\$6,314	\$6,451
% Change in Per Pupil		5.5%	9.3%	6.2%	8.1%	2.2%

Source: Department of Legislative Services

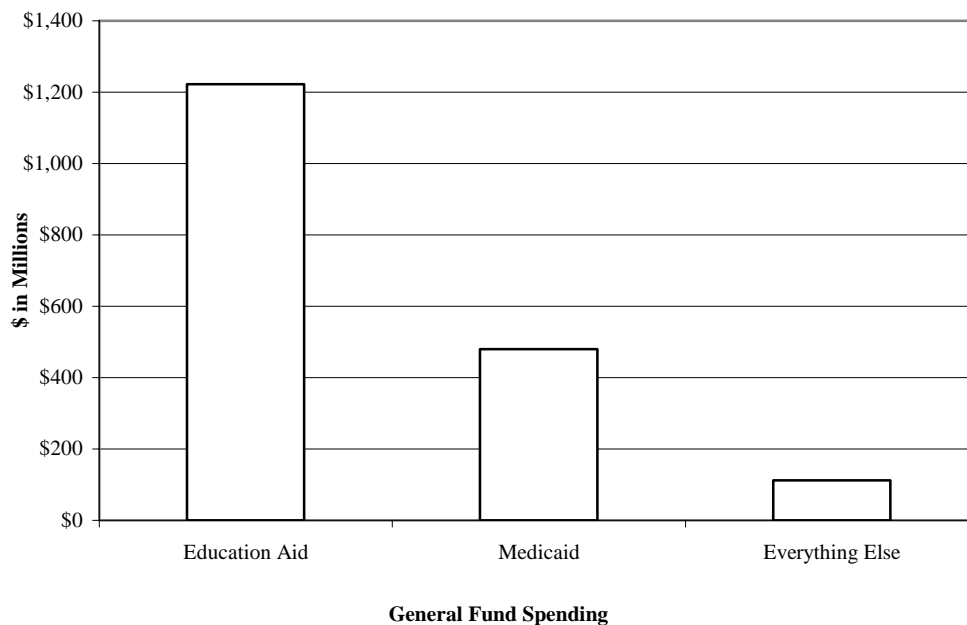
The Attorney General's Office has advised that this trigger provision could also be unconstitutional for the same reason as the Bridge to Excellence trigger. Legislation has been introduced in the 2005 session (HB 560/SB 939) to repeal the trigger.

MSDE should discuss the impact on limiting the growth of State aid to education to 8% under the mandated trigger provision.

2. Direct Education Aid Up 12% – Limiting the Increase to 11% Could Help Relieve Fiscal Pressure

Since the Bridge to Excellence in Public Schools Act of 2002 was enacted, State support for public schools has clearly been the highest budget priority, especially with respect to the general fund budget. General fund revenues actually declined in fiscal 2002 and 2003, and a structural imbalance between ongoing revenues and ongoing spending continues to persist; however, assuming no change to the fiscal 2006 allowance, education aid will have increased 8.7% per year since fiscal 2002. As shown in **Exhibit 9**, based on the fiscal 2006 allowance, general funded education aid in fiscal 2006 is up \$1.2 billion from fiscal 2002. Excluding Medicaid, the rest of the general fund budget is only up \$112 million. General fund support for higher education in fiscal 2006 remains below fiscal 2002 levels, and State agency general fund spending has increased only 7.8% since fiscal 2002.

Exhibit 9
General Fund Budget Growth
Fiscal 2002 – 2006



Source: Department of Legislative Services

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Unless State revenues increase significantly above current forecasts, funding the final two years of the Bridge to Excellence Act will require further constraints in other general fund spending. Fiscal 2006 is the fourth year of the six-year phase-in of funding under the Bridge to Excellence Act. Direct education aid to the school boards, excluding State payments for teacher's retirement, increases \$389 million, or 12.1%. In fiscal 2007 and 2008, the final two years of the phase-in, the estimated increases in direct aid are slightly lower at 10.5% and 11.2%, respectively. Funding these increases would consume 86% of the estimated general fund revenue growth between fiscal 2006 and 2008.

The Spending Affordability Committee recommendation that State spending growth be limited to 6.7% will require reductions of \$145.7 million. **Considering the 12% increase in direct education aid and the already constrained budgets of many State agencies, DLS recommends that aid to education be reduced by \$33.6 million through an early phase-out of extended elementary education funding and a \$48 reduction in the per pupil foundation. This is in addition to the \$5.8 million reduction in the nonpublic placement program proposed by the Governor which is already reflected in the 12% increase in direct aid. With these proposed reductions direct education aid will still increase 11% above fiscal 2005. All reductions to mandated education aid will require the enactment of legislation to implement.**

The Extended Elementary Education Program (EEEP) funding is scheduled to expire in fiscal 2008 when the Bridge to Excellence Act is fully phased in. DLS recommends that the phase-out be accelerated over the next three years by reducing the funding by 33% in fiscal 2006 and 66% in fiscal 2007. The General Assembly reduced the program by \$2.4 million in fiscal 2005 for one year only; consequently, a 33% reduction in fiscal 2006 would equate to a \$6.4 million reduction versus the allowance but would actually be a \$4 million reduction versus the fiscal 2005 appropriation. This action would not impact the requirement under the Bridge to Excellence Act that all school systems make pre-kindergarten programs available to all low income four-year-old children by the 2007–08 school year.

A \$48 per pupil reduction to the foundation equates to \$27.2 million. With this reduction the foundation increases 8.4% from \$5,029 in fiscal 2005 to \$5,449 in fiscal 2006. Unless the foundation amounts for fiscal 2007 are also lowered to constrain spending growth in subsequent years there will be no impact on the fiscal 2007 and 2008 aid amounts under the Bridge to Excellence Act.

Exhibit 10 shows the impact of the EEEP and foundation reductions on a county-by-county basis.

Exhibit 10
Impact of Department of Legislative Services Recommended
Fiscal 2006 Reductions
(\$ in Thousands)

<u>County</u>	<u>Allowance Increase</u>	<u>EEEP Reduction</u>	<u>Foundation Reduction</u>	<u>Total Reduction</u>	<u>Proposed Increase</u>	<u>Percent Increase</u>
Allegany	\$8,781	\$115	\$440	\$555	\$8,226	15.9%
Anne Arundel	14,539	427	1,566	1,994	12,545	6.4%
Baltimore City	53,599	1,364	4,910	6,274	47,325	7.5%
Baltimore	41,106	393	2,970	3,363	37,743	10.9%
Calvert	6,878	150	528	678	6,200	10.4%
Caroline	3,422	116	235	351	3,071	10.8%
Carroll	11,060	57	880	936	10,123	10.0%
Cecil	8,370	267	592	859	7,512	11.1%
Charles	14,699	353	874	1,227	13,472	13.8%
Dorchester	2,412	136	183	319	2,093	9.7%
Frederick	20,283	268	1,224	1,492	18,791	14.3%
Garrett	1,233	103	159	262	971	4.8%
Harford	20,044	281	1,314	1,595	18,450	12.7%
Howard	14,682	84	1,084	1,168	13,514	10.7%
Kent	601	92	58	151	450	5.5%
Montgomery	30,799	418	2,254	2,671	28,128	10.2%
Prince George's	87,426	571	5,541	6,112	81,314	12.9%
Queen Anne's	2,324	116	175	291	2,033	9.6%
St. Mary's	9,344	288	556	845	8,500	13.8%
Somerset	3,036	102	139	241	2,795	17.5%
Talbot	663	104	68	172	492	5.4%
Washington	15,657	198	761	958	14,698	18.3%
Wicomico	10,106	261	584	845	9,261	13.9%
Worcester	979	93	105	198	780	5.6%
Unallocated	6,697	0	0	0	6,697	29.3%
Total	\$388,740	\$6,357	\$27,201	\$33,557	\$355,182	11.0%

Source: Department of Legislative Services

3. Challenge Grants Not Funded in Fiscal 2006 Allowance

The fiscal 2006 allowance does not include funding for the Challenge Grant program. Funding for the program was eliminated on the basis that local school systems could provide the services of the grant through increased foundation funding. The program is not established in statute.

Challenge grants are distributed by MSDE for use in accountability of low-performing schools for school improvement. MSDE, with the concurrence of county boards, selects the public schools eligible to receive Challenge grants. Schools receiving the grant are identified as having a low percentage of average daily attendance, high percentage of dropouts, and a low percentage of students passing State administered testing. Funds provided through the grants are used to implement research-based school improvement strategies that lead to sustained improvement in school and student achievement.

The fiscal 2005 budget included new budget language that required MSDE to develop a plan to distribute Challenge grants in a manner consistent with the State's new accountability standards and NCLB. Under the revised program, Challenge funds were awarded to the nine original counties but to a different set of schools identified as in need of additional resources to increase student achievement. As shown in **Exhibit 11**, a total of 38 schools received a total of approximately \$3.8 million in Challenge grant funds during the 2004 – 2005 school year. The largest concentration of schools is found in the Annapolis Feeder schools where a total of 11 schools received grants in the amount of \$558,097. Along with a shift to move students from the basic level of achievement in reading and mathematics into proficient levels and beyond, Challenge grants are used to enhance the skills of teachers at identified schools.

Fiscal 2005 marked the first time Challenge grant funding was altered since fiscal 2002. As shown in **Exhibit 12**, in fiscal 2002 through 2004, a total of approximately \$6.8 million was budgeted for Challenge grants each fiscal year. Of this total, approximately \$5.8 million was divided among qualifying schools and the remaining \$1 million was distributed to Annapolis feeder schools. In the Governor's fiscal 2005 allowance, Challenge grant funding was reduced by half with no money set aside for the Annapolis feeder schools. Budget bill language in fiscal 2005 assured that funding for the Challenge grant was proportional to grants received in fiscal 2004. This allowed Annapolis feeder schools to receive \$558,000 in grants in fiscal 2005.

Exhibit 11
Schools Participating in the Challenge Grant Program
School Year 2004 – 2005

Allegany County (2)	Charles County (1)
Washington MS	General Smallwood MS
Westmar MS	
Grant Award \$139,524	Grant Award \$160,174
Anne Arundel County (3)	Dorchester County (2)
MacArthur MS	North Dorchester MS
Meade MS	Maces Lane MS
Old Mill Middle North MS	
Grant Award \$318,116	Grant Award \$145,009
Annapolis Cluster (11)	Montgomery County (6)
Annapolis ES	Argyle MS
Annapolis MS	Earle B. Wood MS
Eastport ES	Montgomery Village MS
Georgetown East ES	Neelsville MS
Germantown ES	Silver Spring International MS
Hillsmere ES	White Oak MS
Mills-Parole ES	
Rolling Knolls ES	Grant Award \$669,717
Tyler Heights ES	Prince George's County (7)
West Annapolis ES	Benjamin Tasker MS
Wiley H. Bates MS	Dwight D. Eisenhower MS
Grant Award \$558,097	Ernest Everett Just MS
Baltimore County (2)	Eugene Burroughs MS
General John Stricker	Kettering MS
Southwest Academy	Oxon Hill MS
Grant Award \$83,715	Walker Mill MS
Caroline County (2)	Grant Award \$1,233,395
Colonel Richardson MS	Washington County (2)
Lockerman MS	E. Russell Hicks MS
Grant Award \$320,906	Northern MS
	Grant Award \$160,174
	Total Grant \$3,788,827

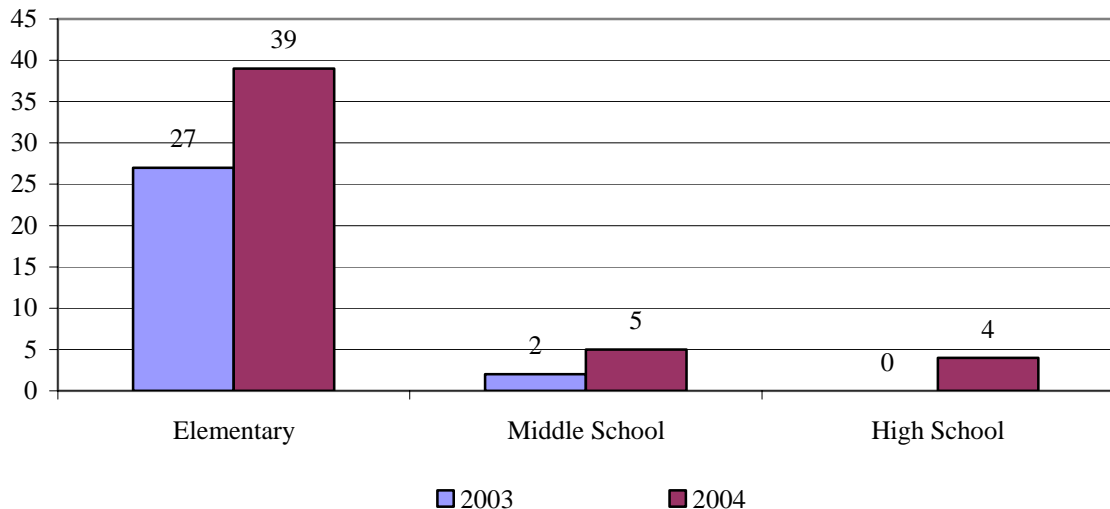
Exhibit 12
History of Challenge Grant Program
Annual Funding

	<u>Fiscal</u> <u>2002-2004</u>	<u>Fiscal</u> <u>2005</u>
Challenge Grants	\$5,788,827	\$3,230,827
Grants to Feeder Schools	1,000,000	558,000
Total	\$6,788,827	\$3,788,827

Source: 2006 Governor’s Budget Books

Exhibit 13 shows a comparison of the total number of schools that made AYP in 2003 and 2004. As shown in the exhibit, 48 Challenge schools made AYP in 2004, an increase of 19 schools over 2003. Elementary schools made significant gains over the prior year, from 27 schools making AYP to 39 in 2004. High schools showed improvement as well with all four schools making AYP in 2004 compared to zero making it in 2003.

Exhibit 13
Comparison of Total Number of Schools Meeting AYP
Challenge Grant Schools



Source: MSDE, “Increasing Proficiency for All Students I-Pas/Challenge Initiative through the 2004 MSA.”

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Gains were also made across all subgroup levels. Among African-Americans, test scores improved more in math. FRPM students also made gains in mathematics, but the bigger gains were made in reading. LEP students made bigger gains in reading while special education students still struggled in math despite minimal gains.

MSDE should discuss the impact of the elimination of Challenge grants and how these schools will continue to improve upon the benefits provided by the grant through mandated State aid.

4. Master Plan Updates Submitted for Approval by MSDE

Fiscal 2005 marked the first year for Local Education Agencies (LEAs) to submit annual master plan updates as mandated in the Bridge to Excellence Act. The Education Fiscal Accountability and Oversight Act of 2004 (Chapter 148), modified the requirements for the annual master plan updates to include information on how LEA expenditures align with master plan and updates. The master plan submission deadline was extended to August 15, 2004, in order to collect more data and budgetary information on how the budgeted increase in expenditures was consistent with the master plan. By October 1, each school system submitted final supplemental data to reflect actual revenues and expenditures from the prior fiscal year. In January 2005, MSDE submitted the results of the budget review to the Governor, General Assembly, and local officials.

In reviewing the master plan updates for approval this year, MSDE used a peer review system similar to the review process for the original master plan submissions. LEAs were required to submit written responses to specific questions regarding the implementation of their master plans. Several school systems, particularly the smaller school systems, faced the challenge of providing adequate services to students despite a shortage in administrative and teaching staff. Other school systems had difficulty in retaining and recruiting teachers which hampered the development of the master plan. The challenge of aligning a local school system budget with the goals of the master plan was also expressed during the review sessions.

The review of master plan updates was completed in September 2004. At the time, the State Board of Education approved 21 of 23 updates. (Baltimore City's initial master plan was still pending approval.) Master plans for Prince George's and Somerset counties received approval following adjustment to their plans pertaining to aligning expenditures with goals in their plans. Both of these school systems are labeled as 'school improvement' under No Child Left Behind.

Exhibit 14 shows a summary of how each school system allocated its aid increases from fiscal 2004 to 2005. LEAs were directed by MSDE to identify spending changes among five categories: mandatory increases; new positions; new initiatives; revised strategies; and redirected/reduced funding. Each LEA itemized its increase in one of these five categories shown in the exhibit.

Exhibit 14
LEA Spending Summary of Fiscal 2005 State Aid Increase
(\$ in Thousands)

LEA	Mandatory Costs	%	New Initiatives	%	Additional Positions	%	Other*	%	Total	Total % Over FY 04
Allegany	\$3,785	60.2%	\$2,253	35.9%	\$245	3.9%		0.0%	\$6,283	6.2%
Anne Arundel	33,987	87.2%		0.0%	4,969	12.8%		0.0%	38,956	5.2%
Baltimore City	42,440	51.7%	40,493	49.4%		0.0%	-\$896	-1.1%	82,037	3.7%
Baltimore County	31,205	50.6%	27,646	44.8%	3,498	5.7%	-632	-1.0%	61,717	5.5%
Calvert	6,200	61.3%	3,000	29.6%		0.0%	319	3.2%	10,119	6.9%
Caroline	1,252	51.4%		0.0%	1,184	48.6%		0.0%	2,436	0.2%
Carroll	15,573	82.9%	2,092	11.1%	1,117	5.9%		0.0%	18,782	8.4%
Cecil	7,000	68.4%	181	1.8%	2,861	28.0%	186	1.8%	10,228	6.4%
Charles	14,776	72.4%	1,281	6.3%	4,282	21.0%	62	0.3%	20,401	9.4%
Dorchester	1,509	73.9%	395	19.3%	26	1.3%	113	5.5%	2,043	4.9%
Frederick	17,926	82.4%		0.0%	3,425	15.7%	415	1.9%	21,766	5.6%
Garrett	1,174	71.9%	58	3.5%	356	21.8%	45	2.8%	1,633	4.0%
Harford	16,512	89.6%	175	0.9%	290	1.6%	1,447	7.9%	18,424	6.2%
Howard	32,555	79.3%	1,330	3.2%	2,500	6.1%	2,249	5.5%	41,034	9.0%
Kent	396	73.8%		0.0%	141	26.2%		0.0%	537	2.0%
Montgomery	101,626	89.5%	9,553	8.4%		0.0%	2,360	2.1%	113,539	7.5%
Prince George's	51,800	32.7%	72,666	45.9%		0.0%	34,000	21.5%	158,465	8.7%
Queen Anne's	2,780	85.7%		0.0%	465	14.3%		0.0%	3,245	3.9%
St. Mary's	6,604	72.5%	190	2.1%	1,124	12.3%	1,195	13.1%	9,113	7.5%
Somerset	1,040	49.3%	161	7.6%	623	29.6%	284	13.5%	2,109	5.4%
Talbot	1,382	100.0%		0.0%		0.0%		0.0%	1,382	3.2%
Washington	6,436	46.9%	254	1.8%	2,937	21.4%	4,092	29.8%	13,719	5.9%
Wicomico	4,691	53.7%	1,255	14.4%	1,336	15.3%	1,460	16.7%	8,742	6.7%
Worcester	3,488	58.0%	1,233	20.5%	811	13.5%	483	8.0%	6,015	9.1%
Average	\$406,137	62.2%	\$164,215	25.2%	\$32,191	4.9%	\$47,181	7.2%	\$652,724	6.6%

*Includes Revised Strategies. Redirect/Reduction category not shown.

Note: Some figures may not total to 100% due to rounding.

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

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As shown in the exhibit, LEAs spent \$406.1 million, or 62.2% of their increase on mandatory costs such as salary and benefits for existing staff; employee health insurance; measures to accommodate increasing enrollment; nonpublic placements; and deficit reduction. Among all LEAs, Montgomery, Harford, and Talbot counties spent about 90% or more of their increase on mandatory costs. A total of \$164.2 million, or 25.2% of increases was spent on new initiatives such as the implementation of full-day kindergarten and pre-kindergarten as required by the Bridge to Excellence and other initiatives pertaining to school improvement. Prince George's County, Baltimore City, and Baltimore County spent the most out of all LEAs in this category. In the case of Prince George's County, the majority of its total increase, 45.9%, was spent in new initiatives such as class size reduction, expanded learning opportunities, strategic planning and school support, and technology improvements.

Sixteen school systems redirected funding to ensure the implementation of the goals, objectives, and strategies of their master plan. Baltimore City and Prince George's County redirected the largest amount of funds among LEAs at \$49.1 million and \$57.1 million, respectively. For Baltimore City, funds were redirected from increasing class size and central office budget positions. The school district also used all of its mandatory increases for deficit and debt service payments. Prince George's County redirected the largest amount of funds from its deficit reserve and 200 frozen full-time equivalent (FTE) vacancies.

The five categories by which LEAs identify their changes in spending are broad. For example, one LEA identified the implementation of pre-kindergarten as a mandatory increase while another categorized the spending as a new initiative. The Office of Legislative Audits (OLA) pointed out in its audit review of master plans that MSDE lacked clear guidance in assisting LEAs in their annual updates. The inconsistency in categorizing spending increases is an example of the lack of direction given to LEAs. MSDE states that improvements to their guidance in assisting LEAs will be in place for the submission of the 2005 annual updates.

DLS recommends MSDE comment on the procedures being implemented to provide better guidance to LEAs. The department should also discuss measures being taken to specify the five spending categories.

Baltimore City Master Plan Finally Approved

On October 27, 2004, the State Board of Education approved a revised Master Plan II and update of the Baltimore City Public School System (BCPSS). This approval comes after two previous master plan submissions were not approved due to missing data and unsatisfactory content. The State Board's approval comes with a requirement that the Chief Executive Officer report each month on the ability of BCPSS to implement and carry out the goals, objectives, and strategies detailed in the plan and the congruence of the restructuring plans and corrective action plans of the 15 schools on probationary status under the Unsafe Schools Choice Option, 6 of which are implementing a restructuring plan.

Office of Legislative Audits Finds That LEAs Generally Complied with Master Plan Requirements

Chapter 148 of 2004 established a legislative audit requirement for LEAs. Over the next six years, the Office of Legislative Audits (OLA) will conduct an audit of each LEA to evaluate the effectiveness and efficiency of the financial management practices. LEAs with a negative general fund balance of 1% or more in either of the prior two fiscal years must be included in the first group of audits. Thereafter, OLA must give priority to any LEA that fails to comply with the requirements of Chapter 148. The first two audits are presently underway in Baltimore City and Prince George's County.

Chapter 148 also required OLA to conduct a comprehensive performance audit of all LEA master plans and the 2004 annual update. OLA submitted the performance audit report in January 2005. OLA found that the LEAs generally complied with the master plan requirements contained in the Bridge to Excellence, Chapter 148, and additional requirements established by MSDE. All 24 approved master plans included at least some information addressing each of the 8 requirements contained in the Bridge to Excellence law as well as the 5 additional requirements established by MSDE. In addition, the approved annual master plan updates also generally included information in compliance with State law and MSDE requirements.

Although the approved master plan and updates were found to be compliant with State law and MSDE requirements, OLA found some instances where certain information was not provided in master plan updates. OLA noted that most of the updates did not document how fiscal 2004 expenditures were aligned with strategies, goals, and objectives contained in the original plan as required by State law. This omission was believed to be caused by a lack of clear guidance by MSDE to the LEAs. OLA concluded that improved guidance by MSDE will prevent a reoccurrence.

The department should discuss the measures and steps it is taking to ensure that it is communicating to LEAs the requirements for annual master plan updates mandated in Chapter 148 of 2004. MSDE should also comment on other recommendations and comments made by OLA in regard to the master plan audits.

5. Prince George's County School System Financial Audit

Since November 2004, MSDE has withheld 10% of PGCPS State aid due to failure to comply with Section 5-109 of the Education Article requiring each local school system to submit an annual audit. The audit, due on September 30, 2004, details the financial transactions and accounts for fiscal 2004. To date, approximately \$10.4 million in State aid has been withheld from each of the November 2004 and January 2005 payments. MSDE has given the county a deadline of March 16, 2005, to submit a financial audit or face an additional 10% withholding of its March payment.

PGCPS has failed to submit its financial audit due to failure to comply with its external auditor, KPMG, in investigating alleged improper procurement transactions between the county's Chief

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Executive Officer, Dr. Andre Hornsby, and LeapFrog School House, and other educational software companies. The county school board has complied with KPMG's request and hired an outside auditor, Huron Consulting Group, to investigate the matter. However, last month the board announced it was firing KPMG and would hire another audit firm to conduct the fiscal 2004 audit.

Once the required audit is submitted and approved by MSDE, PGCPS is eligible to receive all withheld State funds retroactively. PGCPS is the first school district to be penalized under the 10% withholding statute. **MSDE should comment on the status of PGCPS's annual audit and provide an estimate as to when it believes it will receive the document.**

6. Baltimore City Public School System Progress in Reducing Debt

BCPSS is currently under a corrective action cost containment plan required by Bridge to Excellence for school systems that have a deficit fund balance in general funds of 1% or more of general fund revenues. Along with submitting a plan outlining strategies reducing its debt, BCPSS must file monthly status reports with the State Superintendent and city governing body demonstrating actions taken to close the deficit and eliminate the causes of the deficit and include information on the corrective action cost containment plan and the status of the deficit in the biannual financial status reports filed with the State Superintendent and Baltimore City.

The results of a 2004 financial audit revealed that BCPSS was \$58 million in debt due to overspending and mismanagement of funds. Later that year, the City of Baltimore provided \$42 million to the school system in order to keep BCPSS solvent. BCPSS has since paid off most of its loan from the city but remains approximately \$50 million in debt.

Further, BCPSS has additional outstanding issues. A corrective action plan for special education has yet to be approved by MSDE. Eleven Baltimore City schools in restructuring implementation status do not have school improvement plans. Seven schools in probationary status and labeled as "persistently dangerous" have correction plans that are not approved by MSDE. BCPSS has failed to implement plans in cooperation with the Interagency Committee on School Construction on plans to close schools as part of a cost saving measure to reduce the system's annual costs for school level staff, maintenance, and operations. BCPSS has also failed to meet AYP for the 2003 – 2004 school year, and as a result, the school system is in corrective action under NCLB. The failure to meet AYP targets may lead to additional sanctions and corrective actions as specified under the federal act.

BCPSS ended fiscal 2004 with a small surplus for the first time in several years. Despite this accomplishment, the school system continues to deal with its cumulative deficit. Recent actions to implement an aggressive repayment schedule, eliminate nearly 1,000 positions without cutting many programs, and the release of federal funds by MSDE to the school system have helped somewhat in alleviating some of BCPSS problems. BCPSS plans to pay off its debt to the City of Baltimore by the close of fiscal 2006.

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DLS recommends that MSDE update the committees on the steps being taken by BCPSS to eliminate its debt and the progress being made by the school system to pay back the City of Baltimore by the close of the fiscal year. Furthermore, MSDE should discuss the progress being made by BCPSS to address and remove itself from corrective action under NCLB and other sanctions imposed by MSDE.

Recommended Actions

1. Add the following language:

. provided that this appropriation shall be reduced by \$27,200,438 contingent upon legislation that would reduce the per pupil foundation amount for fiscal 2006 only. The Maryland State Department of Education is hereby authorized to allocate the reduction across various components of education aid consistent with the various education funding formulas.

Explanation: The language reduces the foundation appropriation by \$27,200,438. This action would result in a reduction in the per pupil foundation by \$48.

2. Add the following language:

. provided that this appropriation shall be reduced by \$6,356,625 contingent upon the enactment of legislation to reduce the appropriation for the Extended Elementary Education Program beginning in fiscal 2006.

Explanation: The language reduces the appropriation for the Extended Elementary Education Program by \$6,356,625. This recommendation would accelerate the phase-out of Extended Elementary Education over the next three years by reducing funding by 33% in fiscal 2006 and 66% in fiscal 2007.

	<u>Amount Reduction</u>	
3. Delete funds in the Science Math Education Initiative. The Department of Legislative Services believes that services of the grant could be provided for through increased foundation funding.	\$ 883,139	GF
Total General Fund Reductions	\$ 883,139	

Current and Prior Year Budgets

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

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2004					
Legislative Appropriation	\$3,353,261	\$250	\$682,553	\$563	\$4,036,627
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	6,983	0	36,293	-8	43,268
Cost Containment	-3,037	0	0	0	-3,037
Reversions and Cancellations	-1,611	-2	-63,675	-193	-65,481
Actual Expenditures	\$3,355,596	\$248	\$655,171	\$362	\$4,011,377
Fiscal 2005					
Legislative Appropriation	\$3,670,091	\$241	\$708,675	\$309	\$4,379,316
Budget Amendments	0	0	3,639	0	3,639
Working Appropriation	\$3,670,091	\$241	\$712,314	\$309	\$4,382,955

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

Fiscal 2004

Fiscal 2004 cost containment reduced the legislative general fund appropriation by \$3 million. All reductions were made in non-mandated programs with \$1.6 million of the total from the elimination of a grant to Annapolis Roads Middle School.

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Significant general fund reversions of note include \$953,436 of available balances from the Schools Near County Lines and Out of County Living Arrangements programs, \$594,032 for funds not paid for teachers stipends and signing bonuses due to lack of eligibility, and \$434,243 for payments to the Office of Children, Youth, and Families that were not needed.

The fiscal 2004 appropriation saw significant revision over the fiscal year, primarily in federal funds. Federal fund amendments totaled \$36,292,735. Major changes included the following:

- \$17.5 million increase for innovative programs primarily, the Reading First Program;
- \$1.3 million increase for the Children at Risk program;
- \$10.7 million increase in the Educationally Deprived Children Program; and
- \$1.8 million increase in the food services program.

Federal fund reversions and cancellations totaled \$63,774,573. The two most significant reasons for the reduction are due to grants that were budgeted but subsequently not received and for funds still in their grant period that are carried forward into fiscal 2005. Major cancellations included the following:

- \$10.5 million for the Reading Excellence program;
- \$11.4 million in grants for Reading First carried over to fiscal 2005;
- \$16.4 million in unrealized grants; and
- \$4.1 million in grants for Free and Reduced Priced Meals.

Audit Findings

Included in the analysis of the Maryland State Department of Education Headquarters.

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

<u>Object/Fund</u>	<u>FY04 Actual</u>	<u>FY05 Working Appropriation</u>	<u>FY06 Allowance</u>	<u>FY05 - FY06 Amount Change</u>	<u>Percent Change</u>
Objects					
02 Technical & Spec Fees	\$ 60,502	\$ 0	\$ 0	\$ 0	0.0%
04 Travel	33	0	0	0	0.0%
08 Contractual Services	2,815,029	0	0	0	0.0%
12 Grants, Subsidies, and Contributions	4,008,501,644	4,382,955,354	4,807,617,517	424,662,163	9.7%
Total Objects	\$ 4,011,377,208	\$ 4,382,955,354	\$ 4,807,617,517	\$ 424,662,163	9.7%
Funds					
01 General Fund	\$ 3,355,596,508	\$ 3,670,090,658	\$ 4,063,959,995	\$ 393,869,337	10.7%
03 Special Fund	247,951	241,374	0	-241,374	-100.0%
05 Federal Fund	655,170,749	712,314,322	743,265,522	30,951,200	4.3%
09 Reimbursable Fund	362,000	309,000	392,000	83,000	26.9%
Total Funds	\$ 4,011,377,208	\$ 4,382,955,354	\$ 4,807,617,517	\$ 424,662,163	9.7%

Note: The fiscal 2005 appropriation does not include deficiencies, and the fiscal 2006 allowance does not reflect contingent reductions.

**Fiscal Summary
MSDE – Aid to Education**

<u>Program/Unit</u>	<u>FY04 Actual</u>	<u>FY05 Wrk Approp</u>	<u>FY06 Allowance</u>	<u>Change</u>	<u>FY05 - FY06 % Change</u>
01 State Share of Basic Current Expenses	\$ 2,013,367,196	\$ 2,114,566,822	\$ 2,308,307,557	\$ 193,740,735	9.2%
02 Compensatory Education	370,081,986	504,952,151	626,423,025	121,470,874	24.1%
03 Aid for Local Employees Fringe Benefits	391,679,020	411,618,218	415,289,844	3,671,626	0.9%
04 Children at Risk	16,568,693	14,531,410	18,898,514	4,367,104	30.1%
05 Formula Programs for Specific Populations	5,809,607	7,263,043	7,675,000	411,957	5.7%
07 Students with Disabilities	232,410,527	271,608,437	313,252,771	41,644,334	15.3%
08 Assist State Educating Students with Disabilities	240,429,524	257,819,625	285,888,000	28,068,375	10.9%
09 Gifted and Talented	887,929	954,829	1,074,829	120,000	12.6%
10 Environmental Education	0	51,000	51,000	0	0%
11 Disruptive Youth	2,000,000	0	0	0	0%
12 Educationally Deprived Children	159,928,530	155,943,737	180,540,330	24,596,593	15.8%
13 Innovative Programs	18,885,770	24,110,571	21,967,648	-2,142,923	-8.9%
14 Adult Continuing Education	10,847,694	9,962,240	9,882,240	-80,000	-0.8%
15 Language Assistance	4,887,151	4,995,834	5,989,258	993,424	19.9%
18 Career and Technology Education	17,539,764	16,102,493	16,298,663	196,170	1.2%
20 Baltimore City Partnership Funding	28,186,032	21,139,524	14,093,016	-7,046,508	-33.3%
24 Limited English Proficiency	38,863,483	51,298,591	67,782,664	16,484,073	32.1%
25 Guaranteed Tax Base	0	19,131,737	38,741,452	19,609,715	102.5%
27 Food Services Program	146,070,788	182,281,941	160,948,086	-21,333,855	-11.7%
31 Public Libraries	28,769,515	29,679,432	30,068,909	389,477	1.3%
32 State Library Network	13,944,964	14,177,084	14,183,091	6,007	0%
39 Transportation	167,006,634	175,534,529	187,123,730	11,589,201	6.6%
52 Science And Mathematics Education Initiative	1,822,311	6,020,291	2,406,485	-3,613,806	-60.0%
53 School Technology	16,368,300	13,608,313	8,528,977	-5,079,336	-37.3%
54 School Quality, Accountability and Recognition of	19,782,544	15,568,427	11,779,600	-3,788,827	-24.3%
55 Teacher Development	46,365,460	46,460,075	46,847,828	387,753	0.8%
56 Governor's Teacher Salary Challenge Program	5,302,784	0	0	0	0%
57 Transitional Education Funding Program	10,571,002	10,575,000	10,575,000	0	0%
58 Head Start	3,000,000	3,000,000	3,000,000	0	0%
Total Expenditures	\$ 4,011,377,208	\$ 4,382,955,354	\$ 4,807,617,516	\$ 424,662,163	9.7%

General Fund	\$ 3,355,596,508	\$ 3,670,090,658	\$ 4,063,959,995	\$ 393,869,337	10.7%
Special Fund	247,951	241,374	0	-241,374	-100.0%
Federal Fund	655,170,749	712,314,322	743,265,522	30,951,200	4.3%
Total Appropriations	\$ 4,011,015,208	\$ 4,382,646,354	\$ 4,807,225,517	\$ 424,579,163	9.7%
Reimbursable Fund	\$ 362,000	\$ 309,000	\$ 392,000	\$ 83,000	26.9%
Total Funds	\$ 4,011,377,208	\$ 4,382,955,354	\$ 4,807,617,517	\$ 424,662,163	9.7%

Note: The fiscal 2005 appropriation does not include deficiencies, and the fiscal 2006 allowance does not reflect contingent reductions.