

■ enhancing statewide data systems to track improvements in student learning, teacher performance, and college and career readiness.

States apply for funding from SFSF in two phases. Approximately 74% of the funds were made available in Phase I. Maryland submitted its Phase II application in January 2010 for the remaining 26%. The Phase I application required states to track progress, baseline data, and expenditure information for the four key areas of education reform. Phase II applications must indicate strategies for addressing the four areas of education reform. Specifically, states must provide data or comprehensive plans for 33 descriptors and indicators specified by USDE, with each indicator relating to one of the four reform areas.

SFSF is a one-time fund available for use in state and local budgets to help minimize reductions in essential services. The ARRA included \$48.6 billion for the fund, which is allocated to the states based on relative shares of school-aged and total population. States must direct 81.8% of the funds toward early childhood, elementary, secondary, and higher education and the remaining 18.2% to public safety and other government services. Maryland received \$990.8 million for education and \$160.1 million for government services.

Not Enough SFSF Remains to Cover Fiscal 2011 Aid Increases

The ARRA required states to use SFSF to fund primary and secondary and higher education beyond the amounts provided in fiscal 2008 and 2009. Maryland already met these two requirements, and so the State used the education stabilization funds for a third option: to finance programmed increases to its major State education aid formulas in fiscal 2010 and 2011. In fiscal 2010, \$295.9 million in education stabilization funds has been appropriated in support of the formulas, as shown in **Exhibit 10**. The largest shares go to the teacher retirement program (\$137.3 million) and the State share of the Foundation formula (\$110.3 million).

Another \$422.3 million in SFSF is budgeted for the formulas in 2011. However, State Aid formulas and teachers' retirement increase \$197.5 million, resulting in State funds increasing \$71.5 million to cover the statutory required funding levels. **Exhibit 11** shows the changes by fund source.

State Faces a Funding Cliff in 2012; Reductions Now Will Mitigate Effect

The ARRA funds are budgeted to provide more support for Aid to Education formulas in fiscal 2011 than in 2010, so the drop-off will be significant in 2012. To mitigate this effect, the State can reduce formula increases in 2011 to the extent that increases are not funded by SFSF. Accounting for the transportation reduction of \$4.3 million and other DLS recommended reductions, a reduction of at least \$60 million from Aid to Education is possible. This reduction amount would not affect the maintenance of effort requirements of the ARRA. **Therefore, DLS recommends that general funds be reduced by \$60 million.**

Exhibit 10
Use of the ARRA Funds in Aid to Education Programs
Fiscal 2010-2011
(\$ in Thousands)

	2010				2011			
	General Funds	ARRA	Other Federal, Special, and Reimbursable Funds	Total	General Funds	ARRA	Other Federal, Special, and Reimbursable Funds	Total
State Fiscal Stabilization Fund								
State Share of Foundation	\$2,752,477	\$110,334	\$39,300	\$2,902,111	\$2,735,995	\$108,098	\$85,543	\$2,929,637
Compensatory Education	914,367	26,313	0	940,681	977,147	62,681	0	1,039,829
Teacher and Librarian Retirement	637,023	137,307	0	774,331	638,623	228,067	0	866,689
Limited English Proficient	143,946	4,690	0	148,636	142,550	0	0	142,550
Transportation	225,078	17,259	0	242,337	225,078	23,494	0	248,572
Subtotal for Aid to Education Formulas	\$4,672,892	\$295,902	\$39,300	\$5,008,094	\$4,719,394	\$422,340	\$85,543	\$5,227,277
Title I Funds to LEAs	0	175,689 ¹	197,710	373,399	0	0	216,319	216,319
Special Education/IDEA Funds to LEAs	0	229,334 ²	195,788	425,122	0	0	201,626	201,626
Other								
At Risk Youth	4,000	431	15,962	20,393	6,000	0	24,561	30,561
School Technology	0	8,564 ³	3,234	11,798	0	4,051	3,283	7,334
Total	\$4,676,892	\$709,920	\$451,994	\$5,838,806	\$4,725,394	\$426,390	\$531,331	\$5,683,116

ARRA: American Recovery and Reinvestment Act of 2009

IDEA: Individuals with Disabilities Education Act

LEA: local education agency

¹ Includes \$19.2 million in unappropriated ARRA funds.

² Includes a proposed fiscal 2010 deficiency appropriation of \$103.6 million and additional unappropriated funds of \$18.4 million.

³ Includes a proposed fiscal 2010 deficiency appropriation of \$3.8 million and additional unappropriated funds of \$400,000.

Source: Maryland State Department of Education

Exhibit 11
Aid to Education by Fund
Fiscal 2009-2011
(\$ in Millions)

<u>Aid to Education Formulas Funded with ARRA</u>	<u>2009</u>	<u>2010</u>	<u>2009-2010</u> <u>Difference</u>	<u>2011</u>	<u>2010-2011</u> <u>Difference</u>	<u>2009-2011</u> <u>Difference</u>
General Funds	\$4,773,213	\$4,672,892	-\$100,321	\$4,719,394	\$46,502	-\$53,819
Special Funds	0	39,300	39,300	85,543	46,243	85,543
Subtotal	\$4,773,213	\$4,712,192	-\$61,021	\$4,804,937	\$92,745	\$31,724
Federal ARRA Funds	\$0	\$295,902	\$295,902	\$422,340	\$126,437	\$422,340
Total, Formulas Funded with ARRA	\$4,773,213	\$5,008,094	\$234,882	\$5,227,277	\$219,183	\$454,064
<u>Other Aid to Education</u>						
General Funds	\$636,783	\$531,774	-\$105,009	\$509,498	-\$22,276	-\$127,285
Special Funds	1,395	1,932	538	2,988	1,055	1,593
Federal Funds	701,070	968,812	267,742	739,726	-229,086	38,656
Reimbursable Funds	782	665	-117	398	-266	-383
Total Other	\$1,340,029	\$1,503,183	\$163,154	\$1,252,610	-\$250,573	-\$87,419
Grand Total General and Special Funds	\$5,411,390	\$5,245,898	-\$165,492	\$5,317,423	\$71,525	-\$93,967
Grand Total All Funds	\$6,113,242	\$6,511,277	\$398,036	\$6,479,887	-\$31,390	\$366,645

ARRA: American Recovery and Reinvestment Act of 2009

Note: The fiscal 2011 figures do not include a contingent reduction of \$4.3 million in transportation grants.

Source: Governor's Budget Books, Fiscal 2011

Additional reductions could be made that may not violate the ARRA requirements. However, if reductions are made that reduce SFSF in Aid to Education programs, proportional cuts in higher education would be triggered by the ARRA or the SFSF would be distributed to LEAs through the Title I formula.

■ **Option 1: 7% Local Share of Retirement:** One option is to require local boards of education to pay 7% of the retirement costs for their employees. As shown in **Exhibit 12**, this option would save \$59.5 million. The State pays 100% of the retirement costs for professional school employees based on salaries negotiated at the local level. Annual retirement costs have increased by \$400 million (90%) since fiscal 2007 and are expected to continue to grow by \$50 million to \$100 million annually over the next several years. Local boards of education should help pay the costs associated with the salaries they set.

Operationally, this action could be executed through a general fund reduction to the foundation program grants or by reducing the general fund appropriation to employee fringe benefits and collecting special fund payments from school systems.

■ **Option 2: Eliminate Minimum Per Pupil Floors:** Another option is to eliminate the minimum per pupil floors on at-risk formulas, including compensatory education, special education, and limited English proficiency. As shown in **Exhibit 13**, this option would save \$61.2 million. The at-risk formulas are based on per pupil amounts, and the State pays 50% of the total formula costs. The formulas are wealth-equalized, meaning school systems in the less wealthy jurisdictions receive more than 50% of the per pupil cost from the State and school systems in the more wealthy jurisdictions receive less than 50%. However, the formulas include minimum floors to ensure that school systems in the wealthier jurisdictions do not receive less than 40% of the per pupil amounts.

The Department of Legislative Services recommends that general funds for Aid to Education formula increases be reduced by \$60 million, either by reducing the State's contribution to teachers' retirement or eliminating the minimum per pupil floors in at-risk formulas. This reduction would require action in the BRFA.

Locals Also Have a Funding Cliff in Title I and Special Education Funds

The ARRA included \$21.3 billion to enhance Title I (\$10.0 billion) and special education/IDEA (\$11.3 billion). Maryland received \$175.7 million in Title I funding and \$229.3 million in IDEA funding. All but \$19.2 million of the Title I funds have been appropriated. Assuming a proposed fiscal 2010 deficiency of \$103.6 million is approved, all but \$18.4 million of the IDEA funds are appropriated. The funds were available in two installments: the first 50% on April 1, 2009, and the second beginning September 2009.

In order to receive the second half, states had to submit information to USDE detailing how they will meet the accountability and reporting requirements of the ARRA. In addition, current regulatory requirements for IDEA and Title I apply to the ARRA funds. Congress and USDE have indicated funding preferences for Title I funds. It is the intent of the Congress that 40% of the Title I funds be directed to middle and high schools, while the U.S. Secretary of Education indicated a preference for extended time in school.

Exhibit 12
Option 1: Reduction in State Support for
Teachers' Retirement Payments
(\$ in Thousands)

School System	Reduction	Per Pupil Reduction	FY 2010-2011 Change in Total Aid with Reduction
Allegany	-\$633	-\$73	-\$1,916
Anne Arundel	-5,012	-69	21,271
Baltimore City	-5,717	-73	32,005
Baltimore	-6,475	-65	14,482
Calvert	-1,193	-72	1,312
Caroline	-343	-66	319
Carroll	-1,796	-65	-232
Cecil	-1,039	-66	3,404
Charles	-1,707	-66	2,105
Dorchester	-302	-68	1,631
Frederick	-2,604	-67	5,472
Garrett	-300	-72	-796
Harford	-2,403	-64	2,625
Howard	-4,178	-84	16,281
Kent	-161	-78	-135
Montgomery	-11,895	-86	59,448
Prince George's	-8,929	-74	-24,005
Queen Anne's	-461	-62	858
St. Mary's	-1,028	-63	2,195
Somerset	-214	-79	304
Talbot	-263	-62	495
Washington	-1,299	-61	4,445
Wicomico	-973	-69	1,606
Worcester	-565	-90	1,085
Unallocated	0	0	1,123
Total	-\$59,489	-\$73	\$145,381

Note: These figures account for enrollment errors that were discovered after the fiscal 2011 allowance was developed.

Source: Department of Legislative Services

Exhibit 13
Option 2: Reduction in At-risk Formulas
(\$ in Thousands)

School System	Reduction	Per Pupil Reduction	FY 2010-2011 Change in Total Aid with Reduction
Allegany	\$0	\$0	-\$1,283
Anne Arundel	-10,495	-144	15,788
Baltimore City	0	0	37,722
Baltimore	0	0	20,957
Calvert	0	0	2,505
Caroline	0	0	662
Carroll	0	0	1,563
Cecil	0	0	4,442
Charles	0	0	3,812
Dorchester	0	0	1,933
Frederick	0	0	8,076
Garrett	-101	-24	-597
Harford	0	0	5,028
Howard	-1,154	-23	19,305
Kent	-967	-469	-941
Montgomery	-40,257	-291	31,086
Prince George's	0	0	-15,076
Queen Anne's	-695	-93	624
St. Mary's	0	0	3,223
Somerset	0	0	519
Talbot	-2,518	-589	-1,760
Washington	0	0	5,744
Wicomico	0	0	2,579
Worcester	-4,998	-798	-3,348
Unallocated	0	0	1,123
Total	-\$61,185	-\$75	\$143,685

Note: These figures account for enrollment errors that were discovered after the fiscal 2011 allowance was developed.

Source: Department of Legislative Services

In any case, local school systems are encouraged to use the funds for short-term investments in order to minimize the drop-off of stimulus funds in fiscal 2012. The State does not have control over how local systems are using these funds. Narrative adopted by the budget committees in the 2009 legislative session directed MSDE to submit a report on how the LEAs are using their additional Title I and IDEA funds from the ARRA. The report is not due until March 31, 2010.

MSDE should comment on any information received thus far on how local education agencies are using their ARRA Title I and special education funds, whether any of the 2010 lump sum appropriation is expected to be carried over into 2011, and how they will address the drop-off in fiscal 2012.

3. Race to the Top Is Primary Increase in Federal Budget

President Barack Obama's proposed fiscal 2011 budget for K-12 education is \$42.4 billion, which is a \$3.3 billion increase over the 2010 level. **Exhibit 14** shows the proposed federal budget by program. The budget consolidates 38 programs into 11 funding streams and puts greater emphasis on competitive grants and funding for reform efforts, USDE reports.

Title I Education for the Disadvantaged is the largest source of K-12 federal funds, and this program receives no increase in the budget. Special education (IDEA) is the second largest source, and this program receives a \$259 million increase in the budget. Title I School Turnaround Grants, previously called School Improvement Grants, receive a \$354 million increase. The largest increase is for Race to the Top (RTTT), a new competitive grant program that was created under the ARRA. RTTT receives \$1.4 billion in the proposed budget and is established as a permanent program.

Maryland's allocation of the proposed fiscal 2011 K-12 budget is estimated at \$481 million, as shown in **Exhibit 15**. This is a decrease from the 2010 and 2009 levels, not including ARRA funds. Issue 2 of this analysis further discusses Maryland's use of the ARRA funds.

Race to the Top Application Is Due June 1, 2010

Maryland will submit its application for RTTT funds in the second round of applications, which is due June 1, 2010. The State qualifies to apply for an award level of \$150 million to \$250 million. The award would be allocated over four years beginning in fall 2010, MSDE reports. Half of any RTTT awards must be sub-granted to local school systems. There is a proposed deficiency appropriation of \$200,000 in general funds to enable MSDE to hire consultants to assist with the RTTT application.