

**R00A02**  
**Aid to Education**  
Maryland State Department of Education

***Operating Budget Data***

(\$ in Thousands)

	<u>FY 09</u> <u>Actual</u>	<u>FY 10</u> <u>Working</u>	<u>FY 11</u> <u>Allowance</u>	<u>FY 10-11</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$5,409,995	\$5,204,666	\$5,228,892	\$24,226	0.5%
Contingent & Back of Bill Reductions	0	0	-354,344	-354,344	
<b>Adjusted General Fund</b>	<b>\$5,409,995</b>	<b>\$5,204,666</b>	<b>\$4,874,548</b>	<b>-\$330,117</b>	<b>-6.3%</b>
Special Fund	1,395	41,232	88,531	47,298	114.7%
Contingent & Back of Bill Reductions	0	0	350,000	350,000	
<b>Adjusted Special Fund</b>	<b>\$1,395</b>	<b>\$41,232</b>	<b>\$438,531</b>	<b>\$397,298</b>	<b>963.6%</b>
Federal Fund	701,070	1,264,715	1,162,066	-102,649	-8.1%
<b>Adjusted Federal Fund</b>	<b>\$701,070</b>	<b>\$1,264,715</b>	<b>\$1,162,066</b>	<b>-\$102,649</b>	<b>-8.1%</b>
Reimbursable Fund	782	665	398	-266	-40.1%
<b>Adjusted Reimbursable Fund</b>	<b>\$782</b>	<b>\$665</b>	<b>\$398</b>	<b>-\$266</b>	<b>-40.1%</b>
<b>Adjusted Grand Total</b>	<b>\$6,113,242</b>	<b>\$6,511,277</b>	<b>\$6,475,544</b>	<b>-\$35,734</b>	<b>-0.5%</b>

- The fiscal 2011 allowance is \$31.4 million below the 2010 working appropriation before contingent reductions. General and special funds increase by \$71.5 million but are offset by a \$102.6 million reduction in federal funds, primarily from the American Recovery and Reinvestment Act of 2009 (ARRA).
- The Budget Reconciliation and Financing Act (BRFA) of 2010 would reduce another \$4.3 million by setting a 1% inflation rate for transportation funds. This action would make the allowance \$35.7 million less than the 2010 working appropriation. The BRFA also proposes to replace \$350.0 million in general funds with a transfer of special funds from the local income tax reserve to the Education Trust Fund.

For further information contact: Monica L. Kearns

Phone: (410) 946-5530

- A total of \$133.4 million in deficiencies is proposed for fiscal 2010. Of this amount, \$124.6 million is federal funds for special education, including \$103.6 million from the ARRA.

## *Analysis in Brief*

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### Major Trends

***Number of Schools in Improvement Status Continues to Decline:*** The federal No Child Left Behind Act (NCLB) requires every student to be performing at grade level by 2014. Assessment scores and other criteria determine whether schools and school systems make Adequate Yearly Progress (AYP) toward this goal. In the 2009-2010 school year, there are 200 Maryland public schools in improvement, which means they have not achieved AYP for at least one year. This is 9% of all schools, as compared to 15% of all schools in 2008-2009.

***Maryland School Assessments: In 2009, Proficiency Increased in Math for All Grades, in Reading for Nearly All Grades:*** Maryland School Assessment proficiency rates in reading increased from 2007-2008 to 2008-2009 in all grades except fourth grade. Math proficiency increased in all grades for the same period. Looking at data from 2004-2005 to 2008-2009, all grades improved their proficiency in reading as well as math. This trend holds true for all subgroups of students. High School Assessment data is included in the budget analysis for the Maryland State Department of Education (MSDE) Headquarters.

***Proportion of Courses Not Taught by Highly Qualified Teachers Improves:*** NCLB requires all teachers in core academic subjects to be “highly qualified.” The percentage of courses *not* taught by highly qualified teachers statewide was 11.5% in the 2008-2009 school year, a decrease from 15.4% in 2007-2008.

***Graduation Rate Hovers Above 85%:*** The statewide graduation rate has been hovering just above 85% since the 2005-2006 school year. Maryland’s chosen performance standard is a 90% graduation rate.

### Issues

***Enrollment Changes and Revised Aid Calculations Result in Incorrect Budget Book Figures:*** Since the fiscal 2011 allowance was developed, enrollment errors were discovered that result in an additional \$10.5 million needed for 2011, assuming the Geographic Cost of Education Index (GCEI) continues to be funded at 100%. Furthermore, some fiscal 2010 figures reflected in the 2011 Governor’s Budget Book, particularly the supplemental grant amount, are incorrect because they do not account for all adjustments that have been or will be made. **The Department of Legislative Services recommends absorbing the \$10.5 million needed for the change in enrollment from the appropriation for the Geographic Cost of Education Index.**

**ARRA Stabilization Funds Support Formula Increases; Locals Received Title I and Special Education Funds:** Maryland’s State Fiscal Stabilization Funds have been used to pay for scheduled increases in Aid to Education formulas, contributing \$295.9 million in fiscal 2010 and \$422.3 million in 2011. Local education agencies received funds directly from the ARRA that are separate from State stimulus funds, including \$175.7 million in Title I funds and \$229.3 million in special education funds, which may be used in fiscal 2010 and 2011. **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. 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.**

**Race to the Top Is Primary Increase in Federal Budget:** The largest increase in President Barack Obama’s proposed fiscal 2011 budget for K-12 education is \$1.4 billion for Race to the Top (RTTT), a new competitive grant program. In June 2010, Maryland will submit its application for RTTT funds available under the ARRA. Applications may receive scores up to 500 points. **MSDE should comment on Maryland’s strengths and weaknesses in the scoring categories of the Race to the Top application.**

**State Board Excludes Federal Funds from Maintenance of Effort Penalty:** To be eligible for increases in State education aid, a local jurisdiction must provide at least as much funding per pupil to the local school system as it provided in the previous fiscal year. The State Board of Education determined that Montgomery and Prince George’s counties did not meet maintenance of effort for fiscal 2010. Although the Attorney General’s Office advised that federal funds should be included in the penalty calculation, the State Board of Education did not include them. **The State Superintendent should comment on county maintenance of effort appropriations in fiscal 2010 and the anticipated level in fiscal 2011, as well as any changes to the process that the State Board plans to make.**

## Recommended Actions

### Funds

1. Strike language that authorizes a transfer of \$350 million from the local income tax reserve to the Education Trust Fund.
2. Add language that restricts \$10.5 million budgeted for the Geographic Cost of Education Index to cover the additional amount needed for enrollment changes.
3. Reduce general funds for the SEED School of Maryland. \$ 600,000

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4. Delete Fine Arts grants.	1,163,060
<b>Total Reductions</b>	<b>\$ 1,763,060</b>

**Budget Reconciliation and Financing Act Recommended Actions**

1. Reduce general funds for Aid to Education formulas by \$60 million either by reducing the State’s contribution to retirement funds or eliminating the minimum per pupil floors in at-risk formulas.
2. Freeze library aid formulas at fiscal 2011 levels in fiscal 2012.
3. Add language specifying that any transfer from the local income tax reserve goes to the general fund.

**Updates**

***SEED School Memorandum of Understanding Aims to Ensure Consistent Enrollment:*** In the 2009 legislative session, the budget committees adopted narrative that directed MSDE and the SEED School of Maryland to develop a memorandum of understanding (MOU) that outlines a policy for the school to maintain a consistent enrollment. The MOU was submitted in October 2009 and will help ensure that actual enrollment corresponds to enrollment estimates used to justify State funding.

***GCEI Updated in September 2009:*** Chapter 2 of the 2007 special session (BRFA) requires that the GCEI is updated every three years beginning in September 2009. The major value in the GCEI formula is housing prices, and the most current available data includes prices at record-high levels before the recession brought them down.

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## ***Operating Budget Analysis***

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### **Program Description**

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

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

Local jurisdictions receive broad flexibility along with the enhanced funding in determining how to meet State goals for student achievement. However, each school system is held accountable for achieving the goals and student outcome measurements outlined in its Comprehensive Master Plan, which is updated annually.

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

### **Performance Analysis: Managing for Results**

#### **No Child Left Behind Act Frames State Efforts**

The federal No Child Left Behind Act (NCLB) was enacted in 2002 and continues to challenge schools and school systems across the country and in Maryland. The Act requires states to develop an accountability framework in which every child is tested in reading and math in grades three through eight and again in math, English, and science in high school. NCLB requires every student to be performing at grade level by 2014. Federal rules also require that all core curriculum classes be taught by highly qualified teachers.

Maryland began implementing an accountability system in the early 1990s and was well positioned to transition to the NCLB testing requirements. The BTE legislation and the State Board of Education's focus on accountability have also helped the State implement NCLB, but the requirements remain difficult to achieve.

### **No Child Left Behind Requires Adequate Yearly Progress**

NCLB establishes a goal of having 100% of students reach proficiency in reading and mathematics by the 2013-2014 school year. Each state determines its own proficiency standards and what represents a passing score on assessment exams. States also establish performance targets for each school year, called Annual Measurable Objectives (AMO), in an effort to reach 100% proficiency by 2014.

The Maryland School Assessments (MSA) are used to measure the performance of students in grades three through eight, and the High School Assessments (HSA) are used for high school students. Combining scores on the MSAs with attendance rates and scores on the HSAs with high school graduation rates determines whether each school, school system, and the State as a whole make adequate yearly progress (AYP) toward 100% proficiency. Maryland was one of the first states to have its assessment system fully approved by the U.S. Department of Education (USDE).

Students must be assessed annually in grades three through eight and again in high school. Performance data must be disaggregated into eight subgroups of students: African American; American Indian; Asian/Pacific Islander; Hispanic; White; special education; FRPM students; and LEP students.

### **Number of Schools in Improvement Status Continues to Decline**

In the 2008-2009 school year, 77% of Maryland's public schools met their AYP targets. MSDE determines annually whether schools and school systems make AYP and whether they will be in improvement status the following year. For the 2009-2010 school year, there are 200 schools in improvement, as shown in **Exhibit 1**, out of 1,459 public schools.

The number of schools in improvement has been declining. The 2009-2010 figures represent 9.0% of all schools, as compared to 15.0% in 2008-2009 and 16.3% in 2007-2008. Baltimore City and Prince George's County have the most schools in improvement, with 81 and 56, respectively. Dorchester and Somerset counties each have 3 schools in improvement, but because they are small school systems, these schools represent a high proportion of the total (23.0 and 33.0%, respectively).

Prior to June 2008, if schools failed to achieve AYP for two consecutive years, they were assigned to school improvement. Continued failure to meet AYP targets moved schools and school systems through a progression of steps that ultimately included corrective action and restructuring. Schools moved out of improvement status when they met AYP targets for two consecutive years.

**Exhibit 1**  
**Schools in Improvement Status**  
**School Year 2009-2010**

	Comprehensive Pathway		Focused Pathway		Total	% of Schools in Improvement
	<u>Developing</u>	<u>Priority</u>	<u>Developing</u>	<u>Priority</u>		
Allegany					0	0%
Anne Arundel	2	1	4	2	9	7%
Baltimore City	20	48	6	7	81	42%
Baltimore County	7	4	3	2	16	9%
Calvert					0	0%
Caroline			1		1	10%
Carroll					0	0%
Cecil	1		3		4	14%
Charles			1		1	3%
Dorchester	1	1		1	3	23%
Frederick			4		4	6%
Garrett					0	0%
Harford	1		5	2	8	15%
Howard			1		1	1%
Kent			1		1	13%
Montgomery	1		7		8	4%
Prince George's	10	30	7	9	56	26%
Queen Anne's					0	0%
St. Mary's		1			1	4%
Somerset	2		1		3	33%
Talbot					0	0%
Washington	1				1	2%
Wicomico	1		1		2	8%
Worcester						0%
<b>Statewide</b>	<b>47</b>	<b>85</b>	<b>45</b>	<b>23</b>	<b>200</b>	<b>9%</b>

Source: Maryland State Department of Education

In June 2008, MSDE received approval from USDE to conduct a four-year differentiated accountability pilot program. Under the pilot program, school systems are required to begin working with schools that do not achieve AYP after the first year, before they are entered into the school improvement framework. The number of stages is reduced from five to two: developing school stage and priority school stage. The developing school stage corresponds to the NCLB year one and year two school improvement and corrective action. Schools remain in developing school stage for a maximum of four years; if the school does not improve, it enters the priority school stage. This stage equates to the restructuring stages of NCLB. Schools are still subject to the aggressive interventions in the original framework.

The most dramatic change is that schools now follow two pathways after failing to achieve AYP for two years: the comprehensive needs pathway and the focused needs pathway. The comprehensive needs pathway is similar to the existing NCLB structure with regard to requirements and sequence of steps; however, it is limited to schools that fail to meet AMO targets in reading and math in three or more subgroups. The focused needs pathway includes schools that failed to meet AYP because two or fewer subgroups did not achieve AMO. Schools on the focused path can target interventions to the low achieving subgroup or groups. **The State Superintendent should comment on the impact of the pilot program in reducing the number of schools in improvement.**

**MSAs: In 2009, Proficiency Increased in Math for All Grades, in Reading for Nearly All Grades**

The 2008-2009 MSA results for grades three through eight are shown in **Exhibit 2**. Reading proficiency rates increased from 2007-2008 to 2008-2009 in all grades except fourth grade. Math proficiency increased from 2007-2008 to 2008-2009 in all grades. Eighth grade reading increased the most (7.4 percentage points) among the reading scores, and eighth grade math increased the most (3.9 percentage points) among the math scores. Math scores for fifth through eighth grades lag behind the reading results for those grades.

**Exhibit 2**  
**Maryland School Assessment**  
**Percent of Students Demonstrating Proficiency**  
**School Years 2004-2005 through 2008-2009**

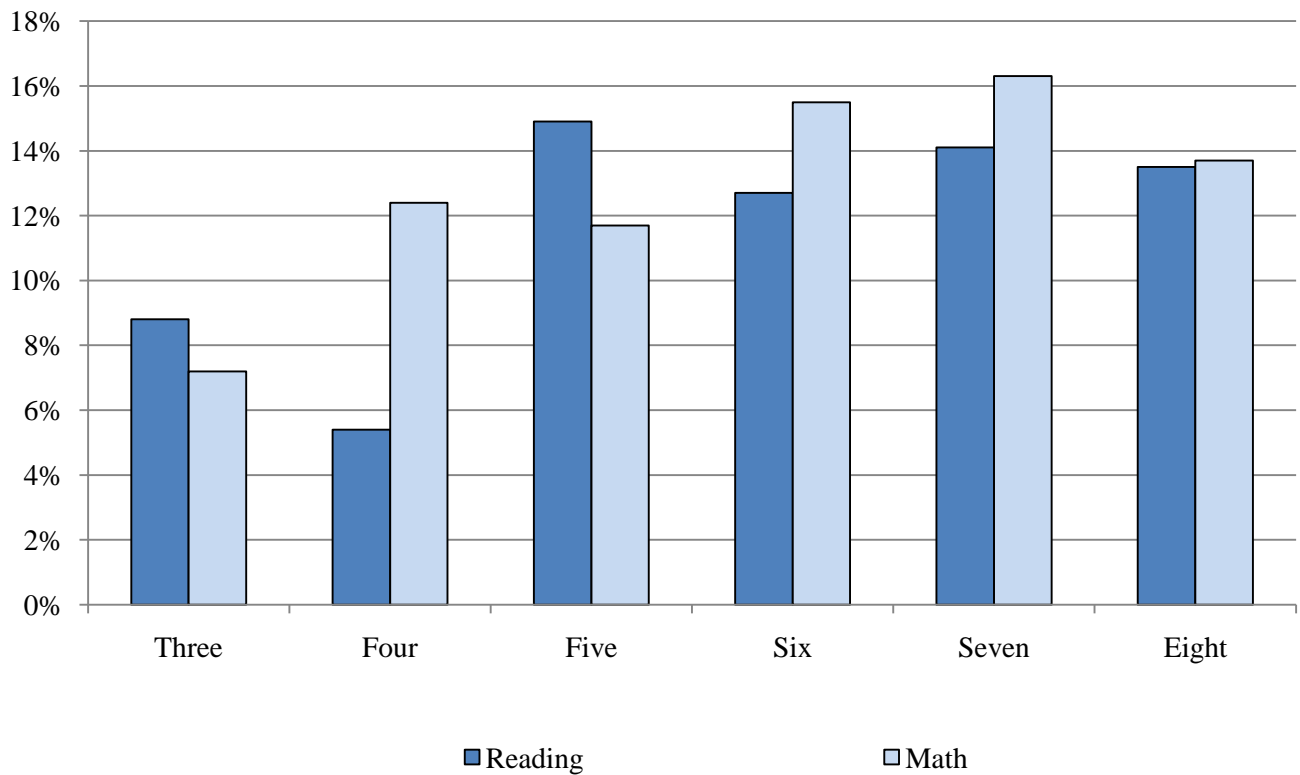
	Reading						Math				
	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>	<u>2008-2009</u>		<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>	<u>2008-2009</u>
<b>Grade</b>						<b>Grade</b>					
<b>Three</b>	76.1%	78.3%	80.5%	83.0%	84.9%	<b>Three</b>	77.1%	79.1%	78.6%	82.6%	84.3%
<b>Four</b>	81.2%	81.8%	86.0%	88.5%	86.6%	<b>Four</b>	76.8%	82.1%	86.0%	88.6%	89.2%
<b>Five</b>	74.6%	76.6%	76.7%	86.7%	89.5%	<b>Five</b>	69.5%	73.4%	78.3%	80.5%	81.2%
<b>Six</b>	70.7%	71.9%	76.5%	81.8%	83.4%	<b>Six</b>	60.5%	65.6%	71.9%	75.8%	76.0%
<b>Seven</b>	67.6%	71.1%	70.2%	81.2%	81.7%	<b>Seven</b>	55.7%	60.1%	61.3%	68.2%	72.0%
<b>Eight</b>	66.7%	67.0%	68.2%	72.8%	80.2%	<b>Eight</b>	52.1%	55.0%	56.7%	61.9%	65.8%

Note: The 2009 results include both the Maryland School Assessments and the Modified Maryland School Assessment students for grades 6-8.

Source: Maryland State Department of Education

**Exhibit 3** shows how scores changed from 2004-2005 to 2008-2009 in reading and math for each grade. All grades had higher proficiency scores in 2008-2009. Fifth grade had the highest gain in reading scores. Seventh grade had the highest gain in math scores. Third grade had the lowest gain in math, and fourth grade had the lowest gain in reading. However, third and fourth grade scores were higher to begin with in 2004-2005.

**Exhibit 3**  
**Maryland School Assessment**  
**Change in Percent of Students Demonstrating Proficiency**  
**School Years 2004-2005 through 2008-2009**



Source: Maryland State Department of Education

Subgroups of students have made significant improvements in their scores since 2004-2005. American Indians, African Americans, Hispanics, FRPM students, special education students, and limited English proficiency students all scored at least 17 percentage points higher in reading in 2009 than they did in 2004-2005. These subgroups also scored at least 18 percentage points higher in math in 2008-2009 than they did in 2004-2005. Students as a whole scored 14 percentage points higher in reading in 2008-2009 than they did in 2004-2005 and 16 percentage points higher in math.

Note that High School Assessment data for the class of 2009 is discussed in the MSDE Headquarters budget analysis (R00A01).

### Proportion of Courses *Not* Taught by Highly Qualified Teachers Improves

NCLB requires all teachers in core academic subjects to be “highly qualified.” Core academic subjects include English, reading or language arts, mathematics, science, foreign languages, civics and government, economics, arts, history, and geography. **Exhibit 4** shows that the percentage of courses *not* taught by highly qualified teachers statewide was 11.5% in the 2008-2009 school year, a decrease from 15.4% in 2007-2008. This compares to 17.8% in 2006-2007, 20.6% in 2005-2006, and 24.6% in 2004-2005.

Baltimore City made the most progress (18 percentage points) in reducing the proportion of courses not taught by highly qualified teachers from the 2007-2008 to 2008-2009 school years, but the percentage of 31.0% remains the highest in the State. **The State Superintendent should comment on steps MSDE and school systems are taking to reduce the percentage of courses not taught by highly qualified teachers.**

**Exhibit 4**  
**Percentage of Classes *Not* Taught by Highly Qualified Teachers**  
**School Years 2007-2008 and 2008-2009**

<u>School System</u>	<u>2007-2008</u>	<u>2008-2009</u>	<u>School System</u>	<u>2007-2008</u>	<u>2008-2009</u>
Allegany	2.2%	1.6%	Harford	13.4%	8.9%
Anne Arundel	12.6%	9.6%	Howard	10.4%	7.5%
Baltimore City	48.9%	31.0%	Kent	5.8%	6.3%
Baltimore County	11.5%	10.2%	Montgomery	7.5%	6.1%
Calvert	13.7%	7.5%	Prince George’s	27.0%	18.0%
Caroline	4.6%	3.3%	Queen Anne’s	17.4%	16.1%
Carroll	8.2%	7.5%	St. Mary’s	7.1%	6.5%
Cecil	6.9%	6.0%	Somerset	16.7%	9.3%
Charles	9.0%	12.9%	Talbot	3.6%	5.4%
Dorchester	20.3%	20.2%	Washington	9.9%	8.5%
Frederick	8.1%	7.3%	Wicomico	11.2%	6.6%
Garrett	5.1%	6.4%	Worcester	3.4%	2.6%
<b>Statewide Total</b>				<b>15.4%</b>	<b>11.5%</b>

Source: Maryland State Department of Education

To meet the highly qualified standard, a teacher must have at least a bachelor’s degree, hold a license to teach in the State, and have obtained full State certification. In addition, a teacher must have expertise in each subject the teacher is assigned to teach. Veteran teachers may be deemed

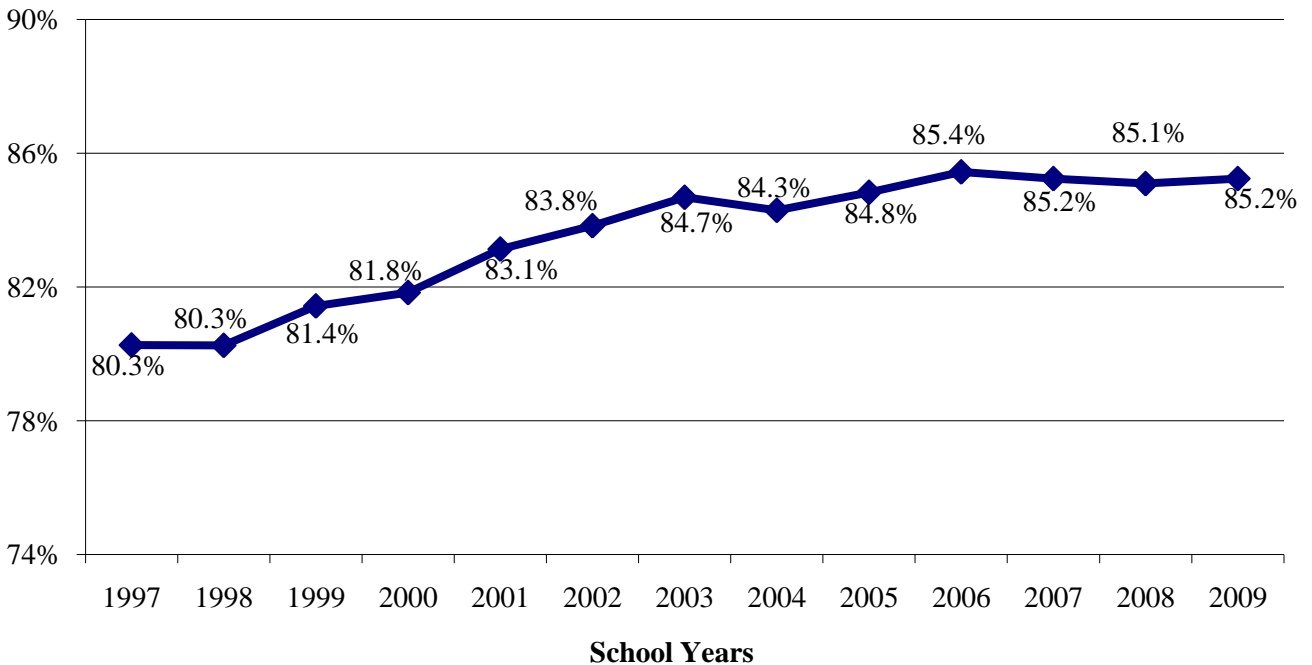
“highly qualified” without passing a State licensing exam if they can demonstrate competency in core academic areas.

Originally, NCLB legislation required that states meet the goal of providing a highly qualified teacher in every classroom by the end of the 2005-2006 school year; however, no state was able to meet this standard. As of July 2007, the U.S. Department of Education pledged to not penalize states financially for not reaching the goal of 100% of classes taught by highly qualified teachers, as long as the states continue to make progress toward attaining this goal.

### Graduation Rate Hovers Above 85%

The statewide graduation rate in the 2008-2009 school year was 85.2%, as shown in **Exhibit 5**. The rate has been hovering just above 85.0% since 2005-2006. **Exhibit 6** shows 2008-2009 graduation rates by local education agencies (LEA). Carroll County had the highest rate, at 96.0%. Baltimore City had the lowest rate, at 64.0%.

**Exhibit 5**  
**Graduation Rate**  
**1997-2009 School Years**



Source: Maryland State Department of Education

**Exhibit 6**  
**Graduation Rate by County**  
**2008-2009 School Year**

<u>School System</u>	<u>Total Students</u>	<u>Students Graduating</u>	<u>Rate</u>
Allegany	1,603	1,386	86%
Anne Arundel	10,825	9,814	91%
Baltimore City	13,361	8,570	64%
Baltimore County	17,470	14,598	84%
Calvert	2,945	2,712	92%
Caroline	870	736	85%
Carroll	4,931	4,718	96%
Cecil	2,570	2,160	84%
Charles	4,922	4,344	88%
Dorchester	780	626	80%
Frederick	6,402	6,044	94%
Garrett	801	718	90%
Harford	6,147	5,332	87%
Howard	7,926	7,422	94%
Kent	400	322	81%
Montgomery	23,167	20,257	87%
Prince George's	19,575	16,528	84%
Queen Anne's	1,316	1,192	91%
St. Mary's	2,529	2,186	86%
Somerset	438	338	77%
Talbot	812	688	85%
Washington	3,378	3,092	92%
Wicomico	2,232	1,832	82%
Worcester	1,040	986	95%
<b>State</b>	<b>136,440</b>	<b>116,601</b>	<b>85%</b>

Source: Maryland State Department of Education

NCLB requires that AYP status include graduation rates for secondary schools. Currently, MSDE calculates graduation rates using the estimated cohort rate method. It is calculated by dividing the number of high school graduates by the sum of the dropouts for grades 9 through 12, in the four preceding years, plus the number of high school graduates. This leads to a graduation rate based on an estimate of the number of students who entered the class four years prior compared to the number of graduates. AYP is then determined based on a chosen performance standard; in Maryland this is a 90% graduation rate.

## **Fiscal 2010 Actions**

In accordance with Chapter 134 of 2008, MSDE transferred funds for adult correctional education and other adult education to the Department of Labor, Licensing, and Regulation. The transfer occurred through a supplemental budget for fiscal 2010. The transfer included \$6.9 million in general funds and \$6.8 million in federal funds from the Aid to Education program for Adult Continuing Education (R00A02.14).

## **Proposed Deficiencies**

The Aid to Education proposed fiscal 2010 deficiencies total \$133.4 million. Of this amount, \$124.6 million is for federal special education funds (\$103.6 million from the American Recovery and Reinvestment Act of 2009 (ARRA) and \$21.0 million from other federal funds). Another \$5.0 million of the deficiency is for At Risk Youth programs, \$4.7 million of which is federal funds and the remainder is special funds. School Technology programs have a proposed deficiency of \$3.8 million in ARRA funds. Of the total amount, the deficiencies would bring in \$107.4 million that is unappropriated ARRA funds and the remainder is federal funds that have become available since the 2010 budget was developed.

## **Federal Stimulus Funds**

The State is using \$295.9 million in State Fiscal Stabilization Funds from the ARRA in fiscal 2010 and \$422.3 million in 2011 for Aid to Education formulas. Significant ARRA funds go directly to the LEAs in the form of additional Title I and Individuals with Disabilities Education Act (IDEA) grants. Please refer to Issue 2 of this analysis for a complete discussion of ARRA funds in Aid to Education programs.

## **Proposed Budget**

The fiscal 2011 allowance is \$6.48 billion, a \$31.4 million decrease from the 2010 working appropriation, as shown in **Exhibit 7**. Overall, general and special funds increase by \$71.5 million, offset by a \$102.6 million reduction in federal funds, mostly from the ARRA. **Appendix 3** shows the changes by program.

Aid to Education formulas increase \$197.5 million in fiscal 2011. Federal funds from the ARRA that support the formulas total \$295.9 million in 2010 and \$422.3 in 2011, an increase of \$126.4 million that is partially paying for the formula increases in the allowance. However, these increases are masked by the effect of a \$263.82 million decrease from 2010 to 2011 in ARRA Title I and special education funds that were granted directly to LEAs. The local funds were granted in 2010 and may be carried forward to 2011.

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The Budget Reconciliation and Financing Act (BRFA) of 2010 would reduce general funds another \$4.3 million from the allowance by setting a 1% inflation rate for transportation funds in 2011. This action would make the allowance \$35.7 million less than the 2010 working appropriation.

Currently, the transportation inflation rate can be no lower than 3% and no higher than 8%. The BRFA would set the rate at 1% for fiscal 2011. The rate for 2012 is already set to be 1%. Under the BRFA, the rate is authorized to fluctuate in future years between 1 and 8% based on the Consumer Price Index. The BRFA also proposes to replace \$350 million in general funds with a transfer of special funds from the local income tax reserve to the Education Trust Fund. **DLS will recommend in the BRFA that any transfer from the local income tax reserve goes to the general fund.**

Some fiscal 2010 figures reflected in the 2011 Governor’s Budget Book, particularly the supplemental grant amount, are incorrect because they do not account for all adjustments that have been or will be made through a deficiency appropriation to address an error in the 2009 wealth data and use of federal stimulus funds. This section describes changes from 2010 to 2011 as introduced in the budget book. Please refer to Issue 1 of this analysis for revised figures.

**Exhibit 7**  
**Proposed Budget**  
**MSDE – Aid to Education**  
**(\$ in Thousands)**

<b>How Much It Grows:</b>	<b>General Fund</b>	<b>Special Fund</b>	<b>Federal Fund</b>	<b>Reimb. Fund</b>	<b>Total</b>
2010 Working Appropriation	\$5,204,666	\$41,232	\$1,264,715	\$665	\$6,511,277
2011 Allowance	<u>5,228,892</u>	<u>88,531</u>	<u>1,162,066</u>	<u>398</u>	<u>6,479,887</u>
Amount Change	\$24,226	\$47,298	-\$102,649	-\$266	-\$31,390
Percent Change	0.5%	114.7%	-8.1%	-40.1%	-0.5%
Contingent Reduction	-\$354,344	\$350,000	\$0	\$0	-\$4,344
Adjusted Change	-\$330,117	\$397,298	-\$102,649	-\$266	-\$35,734
Adjusted Percent Change	-6.3%	963.6%	-8.1%	-40.1%	-0.5%

**Where It Goes:**

**Bridge to Excellence Funding Changes**

State Share of the Per Pupil Foundation Amount.....	\$29,761
100% Geographic Cost of Education Index .....	-295
Supplemental Grants (Chapter 2 of the 2007 special session) .....	-1,941
Compensatory Education .....	99,148
Special Education Formula .....	-6,751
Limited English Proficiency.....	-6,085
Transportation Funding.....	6,235
Guaranteed Tax Base .....	-18,045

**Where It Goes:**

**Contingent Reduction**

Limit Transportation Inflation to 1% ..... -4,344

**Other Changes (Combined Funds)**

Teacher and Librarian Retirement..... 92,359

At Risk Youth – SEED School ..... 2,975

Fine Arts Grants (within Innovative Programs)..... 1,163

Public Library Aid..... -905

Environmental Education (transferred to Funding for Educational Organizations)..... -625

**Other Federal Fund Changes**

Food Services Program ..... 10,747

At Risk Youth – Various..... 7,223

Teacher Development – Improving Teacher Quality State Grants ..... 1,000

Title I – Educationally Deprived Children funds ..... -137,880

Special Education – Grants to States, Preschool and Infant/Family Grants..... -101,497

Charter School and Reading First Grants (within Innovative Programs)..... -6,678

Career and Technology Education ..... -1,075

Gifted and Talented..... -583

Other..... 358

**Total** ..... **-\$35,734**

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

**State Share of the Foundation Program**

The foundation program includes the State share of the per-pupil foundation formula, the GCEI and the Supplemental Grants (created in Chapter 2 of the 2007 special session). The foundation program increases by \$27.5 million. In prior fiscal years, the program was funded completely with general funds; however, the fiscal 2011 allowance includes \$85.5 million in special funds expected from video lottery terminal (VLT) proceeds. This compares with \$39.3 million in VLT operator license fees estimated for 2010, which is the first year of funds from VLTs since they were authorized by Chapter 4 of the 2007 special session and approved by voters in November 2008.

- **Foundation Formula (\$29.8 Million Increase):** The foundation formula ensures a minimum funding level per pupil and requires LEAs to provide a local match. The formula is calculated based on a per pupil amount and student enrollment. Less wealthy school systems, as measured by assessable base and net taxable income, receive more aid per pupil than wealthier school systems. Inflation adjustments to the per pupil amount were eliminated in fiscal 2009 and 2010 by Chapter 2 of the 2007 special session. Annual inflationary adjustments are set to begin again in 2011, but inflation indexes did not rise and so there is no inflation increase budgeted for the \$6,694 per pupil amount.

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The \$29.8 million increase for fiscal 2011 is primarily due to the recouping in fiscal 2010 of overpayments caused by an error in the wealth data used to calculate State formulas in fiscal 2009. Also, statewide enrollment increases by 1,100 full-time equivalent students (FTES).

However, since the fiscal 2011 allowance was developed, errors were discovered in the September 30, 2009 enrollment figures reported for Baltimore City and Prince George's County. The errors result in a total of 3,079 additional FTES statewide. Most school systems' fiscal 2011 allocations will be affected by the corrected enrollment figures, with the largest impacts in Baltimore City (additional \$26.1 million) and Prince George's County (additional decrease of \$6.0 million). An additional \$10.5 million is needed to fully fund the statutory formulas for 2011, assuming the GCEI continues to be funded at 100%.

- ***GCEI (\$295,000 Decrease):*** The GCEI is a discretionary formula that accounts for differences in the costs of educational resources among the local school systems. The GCEI was fully funded for the first time in fiscal 2010, but 70% of the amount was from State Fiscal Stabilization funds from the federal stimulus. The 2011 allowance again fully funds the GCEI.
- ***Supplemental Grants – Chapter 2 of the 2007 Special Session (\$1.9 Million Decrease):*** To mitigate the impact of an inflation freeze in the per pupil foundation in fiscal 2009 and 2010, supplemental grants were established to ensure at least a 1% annual increase in State funding in 2009 and 2010 for each local school system in accordance with a formula codified in the legislation. To determine if a school system was eligible for supplemental grants in 2009, a comparison was made between the amount of direct State aid, 50% of the State payment for teachers' retirement, and 50% of the GCEI funding received by the LEAs to State aid from the prior fiscal year. The 2010 calculation was the same except 60% of the GCEI funding was compared.

Beginning in fiscal 2011, as approved in 2007 and amended by the BRFA of 2009, the supplemental grants continue at the amount provided in the prior year. For 2011 and future years, the amount will total \$46.5 million for the nine counties that receive the grant (Carroll and Harford counties no longer receive it). Eligibility for supplemental grants is not re-determined each year.

The decline of \$1.9 million in supplemental grants for fiscal 2011 is due to the recouping of overpayments in the fiscal 2010 supplemental grants caused by an error in the 2009 wealth data used to calculate State formulas. The BRFA of 2009 reduced the foundation program for fiscal 2010 to partially recoup the overpayments, and it also provided for recouping the remaining \$4.7 million from fiscal 2011 supplemental grants. The full reduction is not reflected in the budget books due to changes in the budgeting of federal stimulus and general funds. The Department of Budget and Management advises that a supplemental budget will correct the figures for fiscal 2010 and 2011.

## Other Bridge to Excellence Changes

- ***Compensatory Education (\$99.1 Million Increase):*** The compensatory education formula provides additional funding based on the number of students eligible for FRPM. The formula is calculated using the number of eligible students and 97.0% of the per pupil foundation amount. The State share of the formula cost is 50.0%. Funds are distributed to each LEA based on the enrollment of students eligible for FRPM in the school system. The \$99 million increase in fiscal 2011 equates to a 10.5% increase over the 2010 level. Due to the economic recession and the corresponding income decline for many households, as well as changes in federal reporting requirements, 31,800 more students qualify for FRPM.
- ***Special Education (\$6.8 Million Decrease):*** The special education formula provides additional aid based on the number of students with disabilities. The formula is calculated using special education enrollment and 74% of the per pupil foundation amount. The State share of formula costs is 50%. The State share decreases by \$6.8 million in the fiscal 2011 allowance, based on 1,200 fewer students than in 2010.
- ***Limited English Proficiency (\$6.1 Million Decrease):*** The LEP formula targets additional funds to students for whom English is a second language. The formula is calculated based on the enrollment of LEP students and 99% of the per pupil foundation amount. The absence of an inflation increase in the per pupil foundation amount generates no growth in the LEP grant. The \$6.1 million decline is based on a decrease of 950 LEP students.
- ***Transportation Funding (\$6.2 Million Increase):*** The State provides grants to assist LEAs with the cost of transporting students to school. The grant includes a separate component for the transportation of disabled students, which equals \$1,000 per student requiring special transportation enrolled in the school system the prior fiscal year. Section 5-205 of the Education Article requires an inflationary increase based on the Consumer Price Index for private transportation in the second preceding fiscal year for the base grant. Current law specifies that the inflation rate must be at least 3.0% but no more than 8.0%. However, the BRFA of 2010 would set the rate at 1.0% for 2011, saving \$4.3 million. The rate would be 1.0% again in 2012 and would fluctuate between 1.0 and 8.0% in future years.
- ***Guaranteed Tax Base (\$18.0 Million Decrease):*** The Guaranteed Tax Base provides additional funding to LEAs with less than 80% of statewide wealth per pupil and with a contribution of more than the minimum required local share under the foundation program in the prior fiscal year. In fiscal 2011, nine school systems qualify for the grant (Prince George's County no longer qualifies).

## Other Changes (Combined Funds)

- ***Teachers' and Librarians' Retirement (\$92.4 Million Increase):*** The State pays 100.0% of the employers' share of retirement costs for most school system and library employees in the Teachers' Retirement and Pension Systems maintained by the State. Rather than distributing

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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 LEAs. This payment increases 11.9% in fiscal 2011. The salary base grows 2.7%, and the required employer contribution rate applied to the salary base increases from 13.15 to 14.34%.

- ***At Risk Youth – SEED School for Disadvantaged Youth (\$3.0 Million Increase):*** The SEED School of Maryland is a residential education boarding program for at risk students that opened in August 2008 (fiscal 2009) with a class of 80 sixth graders. Section 8-710 of the Education Article requires the Governor to provide at least \$2 million to the school for the program to serve up to 80 children and an additional \$250,000 for each additional 10 students beginning in fiscal 2009. As of September 30, 2009, the school had 87 sixth graders and 73 seventh graders for a total of 160 students enrolled. General funds increase by \$2 million in the 2011 allowance to fund an additional class of 80 students, bringing general funds up to \$6 million. Special fund revenues from tuition are budgeted to increase by \$975,000.
- ***Fine Arts Grants (\$1.2 Million Increase):*** Fine Arts Grants were transferred from the MSDE headquarters budget to Innovative Programs within the Aid to Education budget for fiscal 2011. The grants were reduced by \$694,000 in a Board of Public Works 2010 action, and the remaining \$1.2 million was transferred.
- ***Public Library Aid (\$905,000 Decrease):*** Chapter 481 of 2005 provided funding increases for public libraries based on an increase in a per capita formula funding level. The BRFA of 2009 decreased the per capita funding levels for local libraries and the State Library Resource Center and lowered the statutory increase for the regional centers for fiscal 2010. The per capita amounts were frozen for fiscal 2011. Fiscal 2010 recoupment of \$553,000 in overpayments caused by the 2009 wealth error is reflected in the fiscal 2010 working appropriation. State library aid decreases by \$200,000 in fiscal 2011 due to smaller variation in wealth among the counties, and federal funds decrease \$700,000.

The State Library Resource Center’s funding is set to be restored in 2012, and the per capita funding envisioned under the 2005 law for the local libraries and regional centers is implemented by 2013. **DLS recommends freezing library formulas at the fiscal 2011 levels in fiscal 2012 in the BRFA.**

- ***Environmental Education (\$625,000 Decrease):*** Funds for environmental education are for NorthBay, a nonprofit organization that offers outdoor learning courses. In accordance with intent expressed in fiscal 2010 budget bill language, funds for NorthBay are transferred beginning in 2011 to the State Aided Institutions program in the Funding for Educational Organizations (R00A03) budget.

## Other Federal Fund Changes

- ***Food Services Program (\$10.7 Million Increase):*** Federal funds budgeted for food services include a \$1.9 million increase in the School Breakfast Program, a \$6.2 million increase in the National School Lunch Program, a \$2.5 million increase in the Child and Adult Care Food Program.
- ***At Risk Youth – Various (\$7.2 Million Increase):*** Other changes in programs for at risk youth include a \$7.2 million increase in federal funds for homeless youth, drug-free schools, and 21st Century Community Learning Centers.
- ***Teacher Development (\$1.0 Million Increase):*** Teacher development funds are used to recruit and retain quality teachers and increase staff development in each of the LEAs. Federal funds include Improving Teacher Quality State Grants, which are budgeted to increase \$1 million in fiscal 2011. General funds for Quality Teacher Incentives, the Governor’s Award for Teacher Excellence, and a National Board Certification Teacher pilot program do not change from the 2010 level.
- ***Title I – Educationally Deprived Children (\$137.9 Million Decrease):*** In fiscal 2010, LEAs received a total of \$354.2 million in funds for educationally deprived children allocated under Title I. Of this amount, \$156.5 million was from the ARRA. The 2011 amount for this program is \$216.3 million. The \$137.9 million decline is from the absence of ARRA funds in the 2011 budget; however, LEAs are allowed to carryover unused Title I ARRA funds into 2011.
- ***Special Education (\$101.5 Million Decrease):*** In fiscal 2010, LEAs received a total of \$303 million in special education funds allocated under IDEA. Of this amount, \$107.3 million was from the ARRA. The 2011 amount for this program is \$201.6 million. The \$101.5 million decline is from the absence of the ARRA funds in the 2011 budget; however, LEAs are allowed to carryover unused IDEA ARRA funds into 2011.
- ***Charter School and Reading First Grants (\$6.7 Million Decrease):*** The Innovative Programs budget includes federal funds for Charter Schools, which decline by \$1.8 million for fiscal 2011. Also, federal funds for Reading First grants decline by \$4.9 million. Reading First supports the purchase of reading materials, kindergarten through third grade reading coaches, intervention teachers, and teacher and principal professional development. MSDE reports that the Reading First program is being phased out.
- ***Career and Technology Education (\$1.1 Million Decrease):*** Federal funds for vocational education basic grants to states decline by \$1.1 million for fiscal 2011.

## *Issues*

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### **1. Enrollment Changes and Revised Aid Calculations Result in Incorrect Budget Book Figures**

Since the fiscal 2011 allowance was developed, errors were discovered in the September 30, 2009 enrollment figures reported for Baltimore City and Prince George’s County. The errors result in an additional \$10.5 million needed for 2011, assuming the GCEI continues to be funded at 100%.

Furthermore, some fiscal 2010 figures reflected in the 2011 Governor’s Budget Book, particularly the supplemental grant amount, are incorrect because they do not account for all adjustments that have been or will be made through a deficiency appropriation to address an error in the 2009 wealth data and use of federal stimulus funds.

**Exhibit 8** shows the revised fiscal 2010 figures, which are contained within Bridge to Excellence aid. The exhibit also shows adjusted figures for 2011 that account for the enrollment error. **Exhibit 9** shows the effect by county of using GCEI funds to cover the additional amount needed for enrollment changes. **The Department of Legislative Services recommends absorbing the \$10.5 million needed for the change in enrollment from the appropriation for the Geographic Cost of Education Index.**

### **2. ARRA Stabilization Funds Support Formula Increases; Locals Received Title I and Special Education Funds**

The ARRA was enacted on February 17, 2009, with the goals of stimulating the economy in the short term and investing in essential public services, including education, in the long term. The Act created a new funding stream, the State Fiscal Stabilization Fund (SFSF), and increased existing federal education aid formulas, the largest being Title I of the Elementary and Secondary Education Act (Title I) and the Individuals with Disabilities Education Act.

To access federal aid from the SFSF and apply for competitive grants such as Race to the Top (RTTT), states had to commit to four areas of educational reform. These include:

- making improvements in teacher effectiveness and ensuring that all schools have highly qualified teachers;
- demonstrating progress toward college- and career-ready standards and rigorous assessments that will improve both teaching and learning;
- improving achievement in low-performing schools by providing intensive support and effective interventions in schools that need them most; and

**Exhibit 8**  
**Bridge to Excellence State Aid**  
**Revised to Account for Calculation Adjustments and Enrollment Changes**  
**(\$ in Thousands)**

County	Adjusted Working FY 2010 <sup>1</sup>	Allowance FY 2011	Adjusted FY 2011 <sup>2</sup>	Change from FY 2010 to Adjusted FY 2011	Change from FY 2011 Allowance to FY 2011 Adjusted <sup>3</sup>
Allegany	\$83,886	\$81,832	\$81,506	-\$2,380	-\$326
Anne Arundel	264,705	282,375	281,641	16,936	-734
Baltimore City	808,629	812,075	838,159	29,530	26,083
Baltimore	488,277	504,113	502,196	13,918	-1,917
Calvert	84,346	85,094	84,870	524	-223
Caroline	41,743	42,053	41,905	161	-149
Carroll	136,636	136,119	135,776	-861	-343
Cecil	94,846	97,989	97,611	2,765	-379
Charles	146,914	148,284	147,697	783	-587
Dorchester	29,480	31,121	31,002	1,522	-119
Frederick	200,592	204,830	204,276	3,684	-554
Garrett	24,530	23,591	23,550	-980	-42
Harford	201,781	204,440	203,842	2,061	-599
Howard	192,225	204,769	204,278	12,053	-491
Kent	9,371	9,214	9,189	-182	-25
Montgomery	455,901	508,287	506,712	50,811	-1,575
Prince George's	878,870	855,509	849,499	-29,371	-6,010
Queen Anne's	29,704	30,221	30,150	445	-71
St. Mary's	91,363	93,076	92,818	1,455	-258
Somerset	23,357	23,620	23,524	168	-96
Talbot	10,341	10,623	10,623	282	0
Washington	137,857	142,063	141,501	3,644	-561
Wicomico	113,642	115,006	114,552	910	-454
Worcester	16,767	17,412	17,412	644	0
Unallocated	0	0	0	0	0
<b>Total</b>	<b>\$4,565,764</b>	<b>\$4,663,717</b>	<b>\$4,674,287</b>	<b>\$108,523</b>	<b>\$10,570</b>

Note: Figures include State funds and federal State Fiscal Stabilization Funds and assume the proposed \$4.3 million fiscal 2011 reduction to student transportation.

<sup>1</sup> Includes slight adjustments to the aid formulas made after the budget was adopted last year.

<sup>2</sup> Adjusted to reflect updated enrollment figures. Assumes full funding for the geographic cost of education index (GCEI).

<sup>3</sup> These figures show the effect of the changes in enrollment.

Source: Department of Legislative Services

**Exhibit 9**  
**Effect of Recommended GCEI Reduction**  
**(\$ in Millions)**

<b>School System</b>	<b>Reduction</b>	<b>FY 2010-2011 Change in Total Aid with Reduction</b>
Allegany	\$0	-\$1,283
Anne Arundel	-733	25,549
Baltimore City	-1,829	35,894
Baltimore	-445	20,512
Calvert	-195	2,309
Caroline	0	662
Carroll	-215	1,349
Cecil	0	4,442
Charles	-289	3,523
Dorchester	0	1,933
Frederick	-524	7,552
Garrett	0	-495
Harford	0	5,028
Howard	-416	20,043
Kent	-12	14
Montgomery	-2,625	68,718
Prince George's	-3,224	-18,299
Queen Anne's	-46	1,273
St. Mary's	-18	3,205
Somerset	0	519
Talbot	0	758
Washington	0	5,744
Wicomico	0	2,579
Worcester	0	1,650
Unallocated	0	1,123
<b>Total</b>	<b>-\$10,570</b>	<b>\$194,300</b>

GCEI: Geographic Cost of Education Index

Source: Department of Legislative Services

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

ARRA: American Recovery and Reinvestment Act of 2009

IDEA: Individuals with Disabilities Education Act

LEA: local education agency

<sup>1</sup> Includes \$19.2 million in unappropriated ARRA funds.

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

<sup>3</sup> 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
<b>Subtotal</b>	<b>\$4,773,213</b>	<b>\$4,712,192</b>	<b>-\$61,021</b>	<b>\$4,804,937</b>	<b>\$92,745</b>	<b>\$31,724</b>
Federal ARRA Funds	\$0	\$295,902	\$295,902	\$422,340	\$126,437	\$422,340
<b>Total, Formulas Funded with ARRA</b>	<b>\$4,773,213</b>	<b>\$5,008,094</b>	<b>\$234,882</b>	<b>\$5,227,277</b>	<b>\$219,183</b>	<b>\$454,064</b>
 <b><u>Other Aid to Education</u></b>						
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
<b>Total Other</b>	<b>\$1,340,029</b>	<b>\$1,503,183</b>	<b>\$163,154</b>	<b>\$1,252,610</b>	<b>-\$250,573</b>	<b>-\$87,419</b>
 <b>Grand Total General and Special Funds</b>	 <b>\$5,411,390</b>	 <b>\$5,245,898</b>	 <b>-\$165,492</b>	 <b>\$5,317,423</b>	 <b>\$71,525</b>	 <b>-\$93,967</b>
<b>Grand Total All Funds</b>	<b>\$6,113,242</b>	<b>\$6,511,277</b>	<b>\$398,036</b>	<b>\$6,479,887</b>	<b>-\$31,390</b>	<b>\$366,645</b>

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)

<b>School System</b>	<b>Reduction</b>	<b>Per Pupil Reduction</b>	<b>FY 2010-2011 Change in Total Aid with Reduction</b>
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
<b>Total</b>	<b>-\$59,489</b>	<b>-\$73</b>	<b>\$145,381</b>

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)

<b>School System</b>	<b>Reduction</b>	<b>Per Pupil Reduction</b>	<b>FY 2010-2011 Change in Total Aid with Reduction</b>
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
<b>Total</b>	<b>-\$61,185</b>	<b>-\$75</b>	<b>\$143,685</b>

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.

**Exhibit 14**  
**President's Proposed Fiscal 2011 Budget for K-12 Education**  
**Fiscal 2009-2011**  
**(\$ in Millions)**

	<u>2009</u>	<u>Recovery Act</u> <sup>8</sup>	<u>2010</u>	<u>2011 President</u>	<u>2010-2011 Change</u>	<u>Estimated 2011 Maryland Allocation</u>
Title I: Education for the Disadvantaged	\$14,492	\$10,000	\$14,492	\$14,492	\$0	\$182
Title I: School Turnaround Grants	546	3,000	546	900	354	11
Special Education State Grants (Individuals with Disabilities Education Act)	12,580	12,200	12,587	12,846	259	217
Race to the Top	0	4,350	0	1,350	1,350	
Excellent Instructional Teams <sup>1</sup>	3,182		3,505	3,855	350	
Effective Teaching and Learning: Literacy <sup>2</sup>	308		413	450	37	
Effective Teaching and Learning: Science, Technology, Engineering, and Mathematics	179		181	300	120	
Effective Teaching for a Well Rounded Education <sup>3</sup>	222		226	265	39	27 <sup>9</sup>
College Pathways and Accelerated Learning <sup>4</sup>	51		103	100	-3	
Investing in Innovation <sup>5</sup>		650		500	500	
English Learner Education	730		750	800	50	9
Expanding Educational Options <sup>6</sup>	369		409	490	81	
Supporting Student Success <sup>7</sup>	310		365	410	45	
Assessing Achievement	411		411	450	39	7
Career and Technical Education	1,161		1,161	1,264	103	18
Other K-12	4,399	1,020	3,944	3,886	-58	9
State Fiscal Stabilization Fund		48,600			0	
<b>Total K-12</b>	<b>\$38,939</b>	<b>\$79,820</b>	<b>\$39,093</b>	<b>\$42,358</b>	<b>\$3,265</b>	<b>\$481</b>

Note: The President's fiscal 2011 budget consolidates 38 programs into 11 funding streams.

<sup>1</sup> Includes Improving Teacher Quality Grants.

<sup>2</sup> Includes funds for Even Start and Striving Readers.

<sup>3</sup> Includes funds for teaching economics, history, arts, and foreign languages in high need local education agencies.

<sup>4</sup> Includes funds for Advanced Placement.

<sup>5</sup> New funds for development of promising practices and strategies.

<sup>6</sup> Includes Charter Schools Grants.

<sup>7</sup> Includes drug-free schools, counseling, and physical education funds.

<sup>8</sup> Recovery Act funds are not included in 2009, 2010, or 2011 fiscal year amounts in this table.

<sup>9</sup> Includes Maryland funds for Excellent Instructional Teams and all Effective Teaching Grants.

Source: U.S. Department of Education

**Exhibit 15**  
**Maryland’s Allocation of Federal K-12 Funds**  
**Federal Fiscal 2009-2011**  
**(\$ in Millions)**

Fiscal 2009	\$522.1
ARRA	1,294.5
Fiscal 2010	508.4
Fiscal 2011 Proposed	481.9

ARRA: American Recovery and Reinvestment Act of 2009

Source: U.S. Department of Education

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To be eligible for RTTT, states must have approved Phase I and Phase II applications for SFSF dollars under the ARRA and may not have statutory or regulatory barriers to linking data about student achievement with teacher and principal identifiers. RTTT applications may receive scores up to 500 points. Following is a breakdown of the maximum scores by category:

- 138 points – for efforts to develop great teachers and leaders, such as providing alternative routes for certification; ensuring there are effective teachers and principals in high-poverty and high-minority school systems; and using teacher evaluations to inform key decisions.
- 125 points – for articulating the State’s reform agenda and LEA participation in it.
- 70 points – for standards and assessments, including adoption of common standards. Maryland is among 48 states participating in consortia that are developing Common Core Standards. The Common Core effort is led jointly by the National Governors Association and the Council of Chief State School Officers to develop English and math standards and assessments that enable data to be compared among states.
- 55 points – for general criteria, such as the percentage of state revenues used to support primary, secondary, and higher education. Within this category, 40 points may be awarded for ensuring successful conditions for charter schools.
- 50 points – for identifying and turning around the lowest-performing schools.
- 47 points – for data systems to support instruction. States are scored on their efforts to implement a statewide longitudinal data system that tracks student and teacher performance over time. Maryland’s current system includes 7 of the 10 essential components of an effective data system. MSDE is part of a multi-agency effort to develop the other components within a statewide longitudinal framework.

- 15 points – for an emphasis on offering science, technology, engineering, and math (STEM) courses and coordinating with private sector entities to offer applied STEM learning opportunities.

**MSDE should comment on Maryland’s strengths and weaknesses in the scoring categories of the Race to the Top application.**

#### **4. State Board Excludes Federal Funds from Maintenance of Effort Penalty**

To be eligible for increases in State education aid, a local jurisdiction must provide at least as much funding per pupil to the local school system as it provided in the previous fiscal year. Chapter 175 of 1996 added a waiver provision that allows counties to request from the State Board of Education a partial or temporary waiver from the MOE requirement. Until fiscal 2010, the waiver option had never been used, but three counties (Montgomery, Prince George’s and Wicomico) applied for waivers for fiscal 2010.

All three applications were denied by the State Board of Education. The three counties then each enacted a budget that included the full amount of MOE funding for the school system but also directed the school system to make payments through the county for debt service on school facilities. These payments had been made in previous fiscal years from the county budget rather than the school system budget. The counties used two slightly different budget mechanisms to do this.

The governing bodies of Montgomery and Prince George’s counties each restricted some MOE funds by requiring that the local school system pay a part of the appropriation back to the county for debt service on school facilities. In Wicomico County, the county council did not require that the local school board use budgeted MOE funds to pay debt service. Rather, it passed a separate resolution directing the local board to defray part of the cost of debt service from the local board’s school construction fund, which was not part of the MOE computation for fiscal 2010.

In a November 4, 2009 letter, the Office of the Attorney General expressed its opinion that the budget restrictions imposed by Montgomery and Prince George’s counties were not permissible means of satisfying their MOE obligations for fiscal 2010. The method used by Wicomico County was deemed permissible. Since it then appeared that Montgomery and Prince George’s counties were not going to make their MOE obligation and neither county had received a waiver from the State Board of Education, the question became how to calculate the amount of funds to withhold from the counties (the MOE penalty). In fiscal 2010, instead of using solely general funds, the State used federal dollars from the State Fiscal Stabilization Fund, created under the ARRA, to partially fund the education aid formulas. Thus, the amount to be withheld could be calculated by either including or excluding the federal dollars as part of the State’s aid.

## **Attorney General’s Office Advised that Federal Funds Should Be Included in Penalty**

In late fall, Montgomery County asked the State Superintendent of Schools to expedite review of the county’s MOE appropriation. Following official notice that the county had not met the MOE requirement, Montgomery County appealed this decision to the State board. In a January 29, 2010 decision, the State Board of Education denied the appeal and determined the penalty amount to be withheld.

The decision noted that a January 20, 2010 letter from the Office of the Attorney General suggested that, “although the matter is not entirely free from doubt, computation of ‘the State’s aid due the county in the current fiscal year’ should include, for Fiscal Year 2010, any funds provided under the ARRA that are to be distributed in accordance with ED §5-202.” Despite this advice, the State Board of Education decided *not* to include the federal ARRA funds in its calculation of the MOE penalty. This decision reduces Montgomery County’s penalty from \$45.1 million to \$23.4 million.

MSDE has certified that Prince George’s County is the only other county that did not meet the MOE. Once MSDE issues notice that a local government has not complied with MOE, the local government may appeal to the State board. If the State board agrees that a county has failed to meet MOE, the board will send a notice to the Comptroller to suspend payment of the penalty amount. However, the decision to exclude federal ARRA funds from the MOE penalty amount means that no other county can lose aid in fiscal 2010.

Several bills have been introduced this session that would eliminate MOE penalties for fiscal 2010. Other bills have been introduced to implement changes in the MOE waiver and appeal process, including Senate Bill 310/House Bill 304, which incorporates recommendations of the Joint Legislative Workgroup to Study State, County, and Municipal Fiscal Relationships. **The State Superintendent should comment on county MOE appropriations in fiscal 2010 and the anticipated level in fiscal 2011, as well as any changes to the process that the State Board plans to make.**

## ***Recommended Actions***

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1. Strike the following language to the general fund appropriation:

~~, provided that \$350,000,000 of this appropriation shall be reduced contingent upon the enactment of legislation authorizing the transfer of funds from the local income tax reserve to the Education Trust Fund. Authorization is hereby provided to process a Special Fund budget amendment of up to \$350,000,000 from the Education Trust Fund to support the State Share of Foundation Program.~~

**Explanation:** Any transfer from the local income tax reserve should go to the general fund.

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

, provided that \$10,569,766 of this appropriation, made for the purpose of funding the Geographic Cost of Education Index, may not be used for that purpose and may only be expended to fund mandated formula increases resulting from enrollment changes affecting the September 30, 2009 full-time equivalent student enrollment.

**Explanation:** This language restricts \$10.5 million in the allowance for the Geographic Cost of Education Index to instead be used to fund mandated formula increases resulting from enrollment changes discovered after the fiscal 2011 allowance was developed.

	<b><u>Amount Reduction</u></b>	
3. Reduce general funds for the SEED School of Maryland. This reduction represents 10% of the fiscal 2011 allowance. The school still would receive \$5.4 million in general funds. General funds should be reduced to help address the current fiscal crisis, and a 10% reduction has been recommended for a number of State agencies and programs.	\$ 600,000	GF
4. Delete Fine Arts grants. These funds were transferred into the Aid to Education budget for fiscal 2011 from the Maryland State Department of Education Headquarters budget. These funds should be deleted to help address the current fiscal crisis.	1,163,060	GF
<b>Total General Fund Reductions</b>	<b>\$ 1,763,060</b>	

## ***Updates***

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### **1. SEED School Memorandum of Understanding Aims to Ensure Consistent Enrollment**

In the 2009 legislative session, the budget committees adopted narrative that directed MSDE and the SEED School of Maryland to develop a memorandum of understanding (MOU) that outlines a policy for the school to maintain a consistent enrollment. The MOU was submitted in October 2009.

The MOU includes procedures for the school to maintain a student waitlist, maintain contact with families on the waitlist during the school year, and replace students who separate from the school on or before April 1 with a student from the waitlist. Furthermore, the MOU specifies that the SEED School will report enrollment data to MSDE on a quarterly basis.

The SEED School receives State funds based on a certain enrollment estimate. The purpose of the MOU is to ensure that the actual enrollment corresponds to enrollment estimates used to justify State funding.

### **2. GCEI Updated in September 2009**

Chapter 2 of the 2007 special session (BRFA) requires that the GCEI is updated every three years beginning in September 2009. The recalculation must use the most current available data and the same methodology used to develop the existing Maryland-specific GCEI. MSDE must recommend legislation to alter the adjustments used in the GCEI formula in each legislative session that follows an update of the GCEI.

The major value in the GCEI formula is housing prices. The most current available data includes housing prices at record-high levels before the recession brought them down. Approximately \$108 million in additional funds would be required to fund the GCEI with the newest data. At this point, there is no legislation introduced to use the newest data in a recalculation of the GCEI. The BRFA only requires that MSDE recommend legislation; it does not require that legislation is introduced.

## *Current and Prior Year Budgets*

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

	<b><u>General Fund</u></b>	<b><u>Special Fund</u></b>	<b><u>Federal Fund</u></b>	<b><u>Reimb. Fund</u></b>	<b><u>Total</u></b>
<b>Fiscal 2009</b>					
Legislative Appropriation	\$5,386,120	\$923	\$694,378	\$664	\$6,082,084
Deficiency Appropriation	27,966	472	5,015	0	33,453
Budget Amendments	0	0	5,142	428	5,570
Cost Containment	-3,688	0	0	0	-3,688
Reversions and Cancellations	-403	0	-3,464	-311	-4,178
<b>Actual Expenditures</b>	<b>\$5,409,995</b>	<b>\$1,395</b>	<b>\$701,070</b>	<b>\$782</b>	<b>\$6,113,242</b>
<b>Fiscal 2010</b>					
Legislative Appropriation	\$5,204,666	\$41,232	\$1,264,715	\$665	\$6,511,277
Cost Containment	0	0	0	0	0
Budget Amendments	0	0	0	0	0
<b>Working Appropriation</b>	<b>\$5,204,666</b>	<b>\$41,232</b>	<b>\$1,264,715</b>	<b>\$665</b>	<b>\$6,511,277</b>

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

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## **Fiscal 2009**

The fiscal 2009 budget closed at \$6.1 billion, \$31.2 million greater than the legislative appropriation. Deficiency appropriations totaled \$33.5 million, and budget amendments totaled \$5.6 million. These increases were offset by \$3.7 million in reductions through cost containment and \$4.2 million in end-of-year reversions and cancellations.

Actual general fund expenditures were \$5.4 billion, which is \$23.9 million greater than the legislative appropriation. Deficiency appropriations totaled \$28 million. This included a \$24.2 million deficiency to restore funds to Montgomery County after an overestimate of the county's wealth led to mistakes in the calculation of the foundation formula, and a \$3.7 million deficiency for quality teaching incentive grants. Cost containment reduced the general fund appropriation by \$3.7 million, and the largest reduction was made to school improvement funds totaling \$2.8 million. Other cost containment reductions were made to the Bridge to Excellence funding formulas (\$0.2 million), the Maryland Meals for Achievement program (\$0.3 million), math and science initiatives (\$0.2 million), and funds for school based health centers (\$0.1 million). The agency reverted \$0.4 million in general funds at the close of the fiscal year.

Actual special fund expenditures increased by \$0.5 million due to deficiency appropriations. This included \$0.3 million for National Board Certification testing fees and \$0.1 million for the SEED school of Maryland.

Federal fund expenditures totaled \$701.1 million, which is \$6.7 million greater than the legislative appropriation. Federal fund deficiencies increased the appropriation by \$5.0 million, including \$2.8 million from carry over funds for the Children at Risk program; \$1.3 million for the School Nutrition program available through the ARRA; and \$1.0 million in other miscellaneous carry over funds.

Budget amendments increased the appropriation by a net \$5.1 million, including:

- an \$8.3 million increase to the Assistance to States for Educating Students with Disabilities program from funds available through the Special Education – Grants to States program;
- a \$0.7 million transfer from MSDE Headquarters to the Teacher Development program;
- a \$0.5 million increase in the appropriation to the Assistance to States for Educating Students with Disabilities program available through the ARRA;
- a \$0.2 million increase in the Science and Mathematics Education Initiative program from carryover funds available through the Mathematics and Science Partnership program; and
- a \$4.6 million decrease to the Educationally Deprived Children program and the STEM program for underattainment of federal fund revenue.

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Cancellations further reduced the federal fund appropriation by \$3.5 million; however, MSDE expects to carry over \$3.0 million into fiscal 2010.

Reimbursable fund expenditures totaled \$0.8 million, which is \$0.1 million greater than the legislative appropriation. Budget amendments increased the appropriation by \$0.4 million in funds from the Department of Labor, Licensing, and Regulation for the general education diploma (GED) testing program. The agency cancelled \$0.3 million due to lower than expected transfers from the Department of Health and Mental Hygiene Sexual Abuse Prevention Program.

**Fiscal 2010**

The fiscal 2010 working appropriation is \$6.5 billion. As of February 2010, no changes have been made to the legislative appropriation.

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

<u>Object/Fund</u>	<u>FY09 Actual</u>	<u>FY10 Working Appropriation</u>	<u>FY11 Allowance</u>	<u>FY10 - FY11 Amount Change</u>	<u>Percent Change</u>
<b>Objects</b>					
02 Technical and Spec. Fees	\$ 50,765	\$ 0	\$ 0	\$ 0	0.0%
04 Travel	12,471	0	0	0	0.0%
08 Contractual Services	1,186,837	0	0	0	0.0%
11 Equipment – Additional	18,163	0	0	0	0.0%
12 Grants, Subsidies, and Contributions	6,111,973,581	6,511,277,338	6,479,887,180	-31,390,158	-0.5%
<b>Total Objects</b>	<b>\$ 6,113,241,817</b>	<b>\$ 6,511,277,338</b>	<b>\$ 6,479,887,180</b>	<b>-\$ 31,390,158</b>	<b>-0.5%</b>
<b>Funds</b>					
01 General Fund	\$ 5,409,995,252	\$ 5,204,665,816	\$ 5,228,892,145	\$ 24,226,329	0.5%
03 Special Fund	1,394,660	41,232,487	88,530,838	47,298,351	114.7%
05 Federal Fund	701,070,323	1,264,714,535	1,162,065,897	-102,648,638	-8.1%
09 Reimbursable Fund	781,582	664,500	398,300	-266,200	-40.1%
<b>Total Funds</b>	<b>\$ 6,113,241,817</b>	<b>\$ 6,511,277,338</b>	<b>\$ 6,479,887,180</b>	<b>-\$ 31,390,158</b>	<b>-0.5%</b>

Note: The fiscal 2010 appropriation does not include deficiencies.

**Fiscal Summary  
MSDE – Aid to Education**

<u>Program/Unit</u>	<u>FY09 Actual</u>	<u>FY10 Wrk Approp</u>	<u>FY11 Allowance</u>	<u>Change</u>	<u>FY10 - FY11 % Change</u>
01 State Share of Foundation Program	\$ 2,855,518,414	\$ 2,902,110,744	\$ 2,929,636,638	\$ 27,525,894	0.9%
02 Compensatory Education	914,367,170	940,680,531	1,039,828,617	99,148,086	10.5%
03 Aid for Local Employee Fringe Benefits	634,350,680	774,330,507	866,689,492	92,358,985	11.9%
04 Children at Risk	23,034,858	20,393,213	30,560,680	10,167,467	49.9%
05 Formula Programs for Specific Populations	5,915,524	6,000,000	6,120,000	120,000	2.0%
07 Students with Disabilities	410,735,362	391,600,329	384,849,174	-6,751,155	-1.7%
08 State Assistance for Students with Disabilities	202,192,452	303,122,202	201,625,659	-101,496,543	-33.5%
09 Gifted and Talented	973,855	1,555,852	972,896	-582,956	-37.5%
10 Environmental Education	1,550,000	625,000	0	-625,000	-100.0%
12 Educationally Deprived Children	200,392,431	354,198,726	216,319,047	-137,879,679	-38.9%
13 Innovative Programs	61,173,336	24,739,019	18,991,732	-5,747,287	-23.2%
14 Adult Continuing Education	15,334,055	0	0	0	0%
15 Language Assistance	8,161,462	8,458,785	9,045,505	586,720	6.9%
18 Career and Technology Education	16,391,223	16,574,615	15,499,366	-1,075,249	-6.5%
24 Limited English Proficient	143,941,440	148,635,531	142,550,072	-6,085,459	-4.1%
25 Guaranteed Tax Base	89,883,270	63,828,679	45,783,585	-18,045,094	-28.3%
27 Food Services Program	185,925,707	206,073,353	216,820,430	10,747,077	5.2%
31 Public Libraries	36,200,489	34,708,027	33,802,671	-905,356	-2.6%
32 State Library Network	16,353,054	15,608,631	15,657,837	49,206	0.3%
39 Transportation	225,034,879	242,336,939	248,572,074	6,235,135	2.6%
52 Science and Mathematics Education Initiative	4,517,698	3,030,816	2,980,108	-50,708	-1.7%
53 School Technology	3,570,459	7,497,839	7,333,597	-164,242	-2.2%
54 School Quality, Accountability & Recognition of Excellence	8,629,600	0	0	0	0%
55 Teacher Development	49,094,399	45,168,000	46,248,000	1,080,000	2.4%
<b>Total Expenditures</b>	<b>\$ 6,113,241,817</b>	<b>\$ 6,511,277,338</b>	<b>\$ 6,479,887,180</b>	<b>-\$ 31,390,158</b>	<b>-0.5%</b>
General Fund	\$ 5,409,995,252	\$ 5,204,665,816	\$ 5,228,892,145	\$ 24,226,329	0.5%
Special Fund	1,394,660	41,232,487	88,530,838	47,298,351	114.7%
Federal Fund	701,070,323	1,264,714,535	1,162,065,897	-102,648,638	-8.1%
<b>Total Appropriations</b>	<b>\$ 6,112,460,235</b>	<b>\$ 6,510,612,838</b>	<b>\$ 6,479,488,880</b>	<b>-\$ 31,123,958</b>	<b>-0.5%</b>
Reimbursable Fund	\$ 781,582	\$ 664,500	\$ 398,300	-\$ 266,200	-40.1%
<b>Total Funds</b>	<b>\$ 6,113,241,817</b>	<b>\$ 6,511,277,338</b>	<b>\$ 6,479,887,180</b>	<b>-\$ 31,390,158</b>	<b>-0.5%</b>

Note: The fiscal 2010 appropriation does not include deficiencies.