

R00A02
Aid to Education
Maryland State Department of Education

Operating Budget Data

(\$ in Thousands)

	<u>FY 11</u> <u>Actual</u>	<u>FY 12</u> <u>Working</u>	<u>FY 13</u> <u>Allowance</u>	<u>FY 12-13</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$4,876,168	\$5,471,422	\$5,736,203	\$264,781	4.8%
Contingent & Back of Bill Reductions	0	0	-231,733	-231,733	
Adjusted General Fund	\$4,876,168	\$5,471,422	\$5,504,470	\$33,047	0.6%
Special Fund	435,678	234,795	271,901	37,107	15.8%
Contingent & Back of Bill Reductions	0	0	1,867	1,867	
Adjusted Special Fund	\$435,678	\$234,795	\$273,768	\$38,974	16.6%
Federal Fund	1,471,145	755,306	790,551	35,245	4.7%
Adjusted Federal Fund	\$1,471,145	\$755,306	\$790,551	\$35,245	4.7%
Reimbursable Fund	141	188	175	-13	-7.1%
Adjusted Reimbursable Fund	\$141	\$188	\$175	-\$13	-7.1%
Adjusted Grand Total	\$6,783,132	\$6,461,711	\$6,568,964	\$107,253	1.7%

- Proposed fiscal 2012 deficiency appropriations total \$108.4 million. A \$101.2 million general fund deficiency is proposed to replace video lottery terminal (VLT) funds that are not expected to materialize. A \$2.6 million federal fund deficiency is proposed to replace general funds with federal Education Jobs funds. A \$4.6 million general fund deficiency is proposed to replace federal Temporary Assistance for Needy Families (TANF) funds in the Healthy Families Program due to a shortfall of TANF funds available to the State.
- Before adjustments, the fiscal 2013 allowance is \$337.1 million higher than the 2012 working appropriation, considering all funds. The Budget Reconciliation and Financing Act (BRFA) of 2012 proposes to reduce \$229.9 million in general funds from the Aid for Local Employee Fringe Benefits Program by shifting a portion of teacher retirement costs to the counties, and \$1.9 million in general funds, which would be replaced by VLT revenue from the Small, Minority, and Women-owned Business Investment Account transferred to the Education Trust Fund.

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

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Analysis in Brief

Major Trends

Proportion of Schools in School Improvement Status Increases: 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 2011-2012 school year, there are 324 schools in improvement, which means that they have not achieved AYP for at least two consecutive years. This is 22.4% of all schools as compared to 14.8% of all schools in 2010-2011.

Maryland State Assessment Scores Increase for All but Grade 5 Math in 2011: Grades 3 and 8 math scores increased slightly from 2009-2010 to 2010-2011, while grade 5 math showed a small decline. Reading scores for all grades increased, with grade 8 showing the largest increase of 2.4%. As scores have increased over the years, the increments of change have become smaller. Grade 8 math scores continue to lag behind scores in earlier grades.

High School Assessment Percent Passing Remained Level for Algebra, Biology, and English: The percent of students passing the High School Assessments in the 2010-2011 school year was 87.9% for algebra, 84.7% for biology, and 85.2% for English.

Statewide Graduation Rate Increases; Cohort Graduation Rate Not Available: The statewide graduation rate in the 2010-2011 school year rose to 87.0% from 86.6% in the previous year. This figure represents the traditional Leaver graduation rate calculation. Beginning with the class of 2010, Maryland is calculating a new cohort graduation rate, per federal and State requirements. The cohort graduation rate for the class of 2011 was not available at the time of publication.

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 7.6% in the 2010-2011 school year, a decrease from 8.3% in 2009-2010.

Issues

Education Aid Increases \$176.3 Million, but Governor Proposes Contingent Teacher’s Retirement Reduction: The fiscal 2013 allowance includes \$5.9 billion to support education aid programs, a \$176.3 million, or 3.1%, increase over fiscal 2012. The BRFA of 2012 proposes to change the payment of retirement costs for school and library systems, so that the State and counties share equally in combined Social Security and pension costs. The total amount shifted to the counties in fiscal 2013 would be \$229.9 million for school and library retirement costs. **The Maryland State Department of Education (MSDE) should discuss the potential impact of shifting 50% of combined Social Security and pension costs of local school systems to the counties on maintenance of effort (MOE).**

Seven Counties Fall Short of Maintenance of Effort Obligations in Fiscal 2012: With county budgets adversely affected by the economic downturn, the State’s MOE law, which governs minimum county funding for public schools and provides for imposition of a penalty on counties that do not meet the requirement, has faced increased scrutiny in recent years. In fiscal 2012, seven counties fell short of their MOE obligations and may “rebase” the future minimum funding requirements at lower levels. **The Department of Legislative Services recommends budget bill language reducing the State share of the foundation appropriation to reflect the fiscal 2012 MOE penalty for Anne Arundel, Montgomery, and Queen Anne’s counties if the State Board of Education certifies that the counties did not meet MOE.**

Common Core State Standards Aim to Boost College Readiness: The State Board of Education adopted the Common Core State Standards (CCSS) for mathematics and English/language arts in June 2010 as part of the State’s efforts to improve college readiness. In June 2011, the board adopted draft curriculum frameworks aligned with the CCSS to serve as the foundation for a new State curriculum. Student readiness for college and career will be assessed through new Partnership for Assessment of Readiness for College and Careers assessments, currently under development, which will be aligned to the CCSS. Data from these assessments should be used to improve the information provided to local school systems concerning the performance of their graduates at the collegiate level through the Student Outcome and Achievement Report (SOAR). **DLS recommends that MSDE work with the Maryland Higher Education Commission and others to revise the SOAR report after the 2012 publication.**

Recommended Actions

Funds

1. Add language requiring the Maryland State Department of Education to notify the budget committees of fund transfers from R00A02 Aid to Education to any other budgetary unit.
2. Concur with contingent language reducing the general fund appropriation for the State share of the foundation program and transferring special fund video lottery terminal fee revenues into the program.
3. Add language reducing general funds in the State share of the foundation program contingent on a Budget Reconciliation and Financing Act provision transferring surplus video lottery terminal fee revenues.
4. Add language reducing general funds in the foundation program to reflect fiscal 2012 maintenance of effort penalties.

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5. Concur with contingent language regarding Aid for Local Employee Fringe Benefits.
 6. Reduce general fund support for Maryland Meals for Achievement. \$ 280,000
- Total Reductions** **\$ 280,000**

Updates

The Council for Educator Effectiveness Recommends Initial Teacher and Principal Evaluation Frameworks: On June 21, 2011, the Maryland Council for Educator Effectiveness (MCEE) issued initial recommendations for a Statewide Educator Evaluation System, as required by the Education Reform Act of 2010. MCEE endorsed evaluation frameworks for teachers and principals that incorporate both qualitative and quantitative student-growth measures, each constituting 50% of the evaluation. Seven school districts are currently piloting performance evaluation systems under these frameworks, and local school systems and bargaining units will enter into agreements between January and June 2012 so that all 24 school systems can implement new performance evaluation systems during the 2012-2013 school year.

MSDE Recommends Dedicating a Portion of Existing “Bridge to Excellence” Funds to Early Childhood Programs for Pre-kindergarten Aged Children with Disabilities: In response to committee narrative requesting data on all federal, State, and local funding expended on special education and related services for children ages three to five with disabilities for fiscal 2009 and 2010, MSDE found a wide variation between local education agencies in the source and amount of funding dedicated to this population. MSDE recommends that the budget committees consider dedicating a portion of existing Bridge to Excellence funds to early childhood programs for pre-kindergarten aged children with disabilities.

Review of Alternative Maryland School Assessment for Students with the Most Profound Developmental Disabilities: In response to a *Joint Chairmen’s Report* request, MSDE submitted a report outlining its process for soliciting recommendations on how the Alternative Maryland School Assessment could be improved with the goal of reducing the time required to administer the assessment as required by Chapter 321 of 2010. To gather feedback, MSDE distributed an online survey, conducted five regional public forums, and held eight focus groups.

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Operating Budget Analysis

Program Description

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

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

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

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

Performance Analysis: Managing for Results

No Child Left Behind Act Frames State Efforts

The federal No Child Left Behind Act (NCLB) was enacted in 2001 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 3 through 8 and again in math, English, and science in high school. The 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 the NCLB, but the requirements remain difficult to achieve.

The 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 3 through 8, 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 3 through 8 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.

Proportion of Schools in School Improvement Status Increases

MSDE determines annually whether school systems make AYP and whether they will be in improvement status the following year. For the 2011-2012 school year, there are 324 schools in improvement, as shown in **Exhibit 1**, or 22.4% of the 1,449 public schools. The number of schools in improvement has increased from 2010-2011 when 14.8% of schools had this status. Baltimore City and Prince George's County have the most schools in improvement, with 104 and 85, respectively. Dorchester County has 6 schools in improvement and Talbot County has 3, but because they are small school systems, these schools represent a high proportion of the total (46.0 and 38.0%, respectively). Based on the NCLB, 100% of students must be proficient in 2014. As a result, AMOs rise each year causing the number of schools not meeting AYP to increase.

If schools fail to achieve AYP for two consecutive years, they are assigned to school improvement. Continued failure to meet AYP targets moves schools and school systems through a progression of steps that ultimately includes corrective action and restructuring. Schools move out of improvement status when they meet AYP targets for two consecutive years.

Exhibit 1
Schools in Improvement Status
School Year 2011-2012

	Comprehensive Pathway		Focused Pathway		Total	% of Schools in Improvement
	<u>Developing</u>	<u>Priority</u>	<u>Developing</u>	<u>Priority</u>		
Allegany	1		2		3	11%
Anne Arundel	7	3	6	1	17	14%
Baltimore City	58	43	1	2	104	54%
Baltimore County	13	9		1	23	13%
Calvert			1		1	4%
Caroline	1		1		2	20%
Carroll	3		2		5	10%
Cecil	2	1	2		5	17%
Charles	4				4	11%
Dorchester	4	1	1		6	46%
Frederick	2		4		6	9%
Garrett					0	0%
Harford	5	1	3		9	17%
Howard	1		2		3	4%
Kent					0	0%
Montgomery	20	1	9	1	31	15%
Prince George's	45	34	5	1	85	41%
Queen Anne's			1		1	7%
St. Mary's	1	1			2	7%
Somerset	1	1			2	22%
Talbot	2		1		3	38%
Washington	4		1		5	11%
Wicomico	3	1	2		6	24%
Worcester			1		1	7%
Statewide	177	96	45	6	324	22.4%

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

In June 2008, MSDE received approval from USDE to conduct a four-year differentiated AYP accountability program. Under the 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.

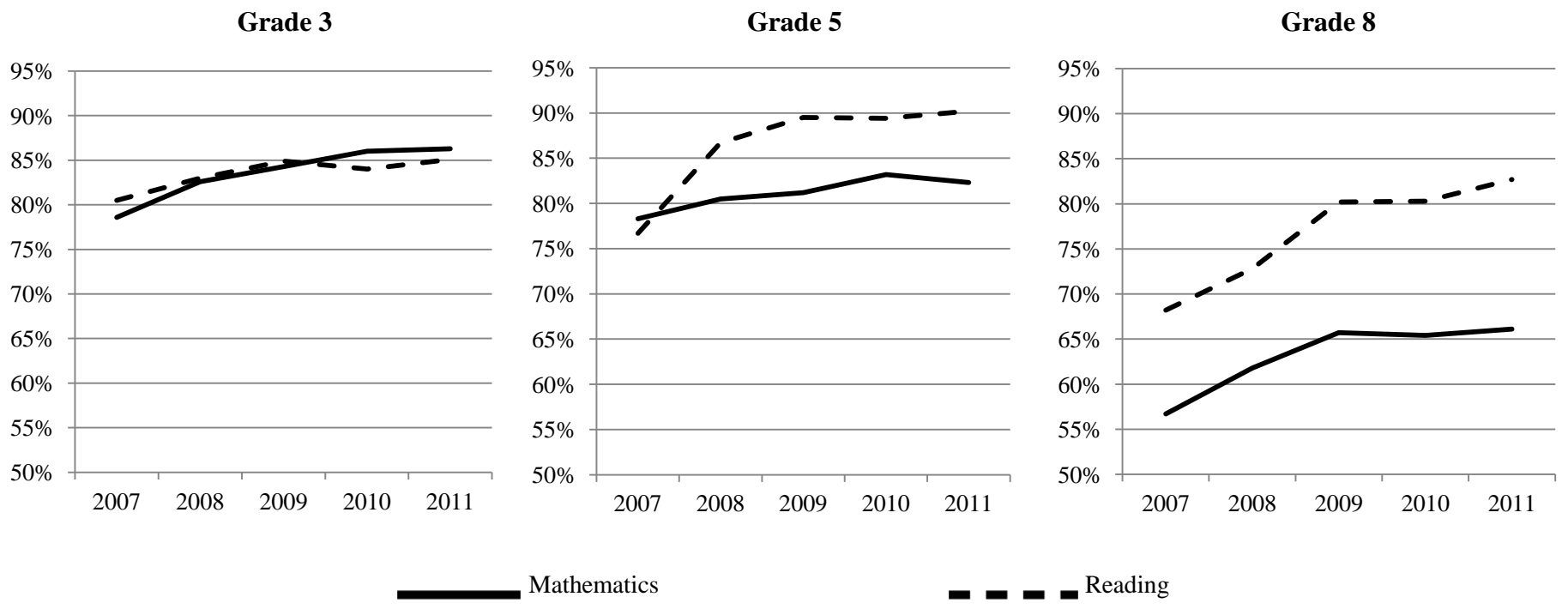
Schools now follow two pathways after failing to achieve AYP for two years: the comprehensive needs pathway and the focused needs pathway. The comprehensive needs pathway is similar to the existing NCLB structure with regard to requirements and sequence of steps; however, it is limited to schools with three or more subgroups that fail to meet AMO targets in reading and math. 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 subgroups or groups.

In the absence of congressional reauthorization of the federal Elementary and Secondary Education Act (ESEA) (also known as No Child Left Behind), USDE has offered an opportunity for states to apply for ESEA flexibility. To receive a waiver, a state must submit a request that addresses four principles to increase the quality of instruction for students and improve student academic achievement in the State and local education agencies (LEA). Upon approval of ESEA flexibility, the state would receive a waiver of 10 ESEA requirements, most notably, the removal of AYP and the 2013-2014 timeline for achieving 100% proficiency; removal of school and district improvement requirements including Supplemental Education Services, choice, corrective action, and restructuring; and removal of improvement plan requirements and Title I and Title II fund restrictions for districts that miss Highly Qualified Teacher requirements. USDE recently announced the approval of 10 of 11 states that have applied for flexibility waivers. MSDE indicates that it plans to submit an ESEA flexibility application in February 2012. **MSDE should discuss the status of its ESEA flexibility waiver and its expected effect on school, LEA, and State accountability structures for student growth.**

Maryland School Assessment Scores Increase for All but Grade 5 Math in 2011

MSAs measure student achievement in grades 3 through 8. **Exhibit 2** shows the MSA percent proficient or advanced for grades 3, 5, and 8 from 2006-2007 to the 2010-2011 school years. Overall, scores have been relatively stable since 2008-2009. Grades 3 and 8 math scores increased slightly from 2009-2010 to 2010-2011, while grade 5 math showed a small decline. Reading scores for all grades increased, with grade 8 showing the largest increase of 2.4%. As scores have increased over the years, the increments of change have become smaller. Grade 8 math scores continue to lag behind scores in earlier grades.

Exhibit 2
Maryland School Assessments – Percent Proficient or Advanced
School Years 2006-2007 to 2010-2011

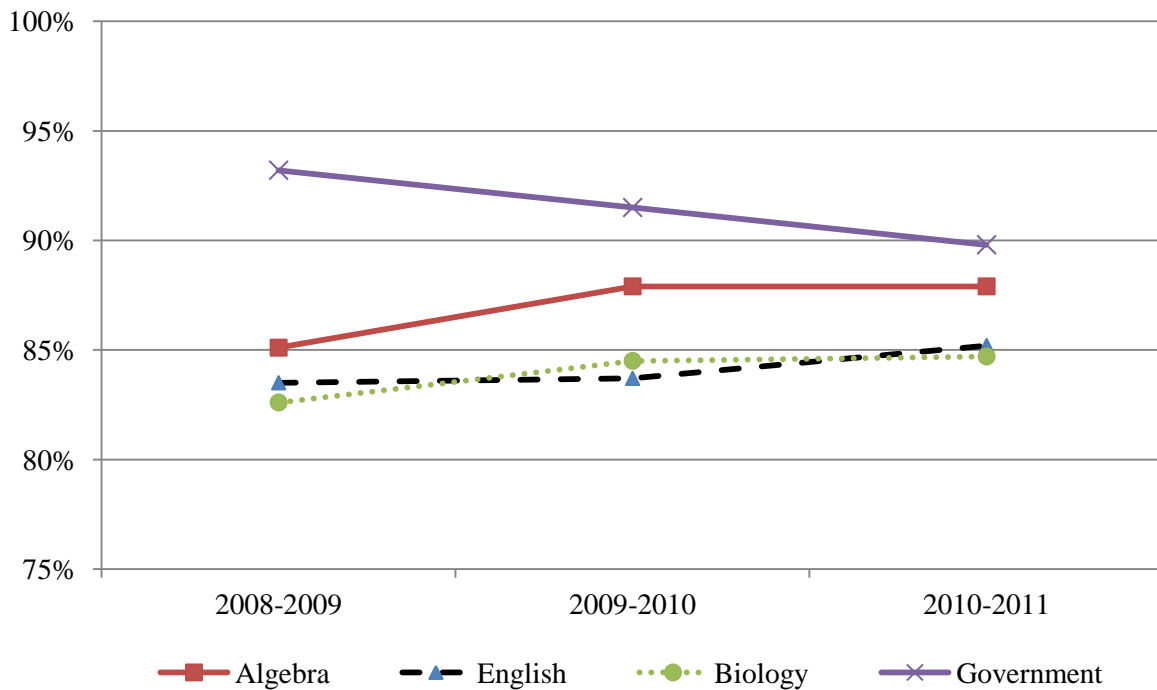


Source: *The Maryland Report Card*, Maryland State Department of Education

High School Assessment Percent Passing Remained Level for Algebra, Biology, and English

The Maryland HSAs measure school and individual student performance in high school English, algebra/data analysis, biology, and government. Three of the four HSAs are required by NCLB. Government is not required, and funding for the assessment was eliminated in fiscal 2012. The assessments are administered at the end of courses and are offered four times per year. Beginning with the class of 2009, the assessments have been a graduation requirement. As shown in **Exhibit 3**, the percent passing each of the three remaining exams was stable in the 2010-2011 school year. The percent of grade 12 students passing the algebra assessment was level at 87.9% in the 2010-2011 school year, as compared to the prior year, while English and biology increased slightly to 85.2 and 84.7%, respectively. The percent passing the government exam declined 1.7 percentage points to 89.8%.

Exhibit 3
High School Assessments – Percent Passing
School Years 2008-2009 to 2010-2011



Note: Pass rates shown are for grade 12 students.

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

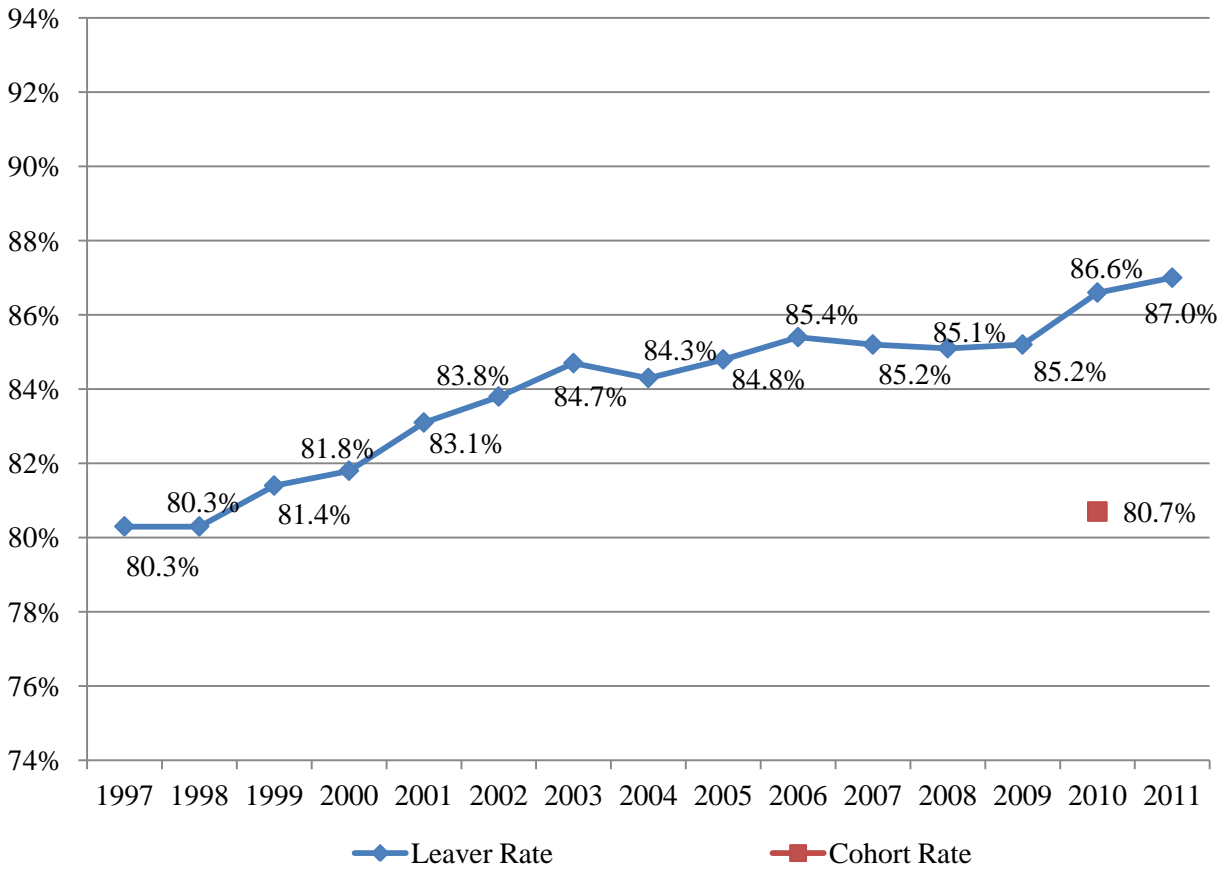
Students can meet the HSA requirement by passing all three (previously four) tests, by attaining a minimum combined score (with no minimum score for individual tests), by completing a bridge project instead of the tests, or by qualifying for a waiver. A waiver may be granted if the student (1) has met all other graduation requirements; (2) has taken or will take all tests; (3) has taken advantage of all extra help; and (4) the circumstances that have prevented the student from passing the test are beyond the student's control. In the 2010-2011 school year, all LEAs had students that met the requirement using the waiver. MSDE reports that no student failed to graduate due only to an inability to meet HSA requirements in the 2010-2011 school year, though 3,063 students did not graduate due to other reasons such as insufficient credits, and 1,157 students did not graduate due to other reasons such as insufficient credits *and* a failure to meet the HSA requirement.

In past years, the Aid to Education budget analysis has included exhibits showing the percentage of students in each county that met the HSA requirement through examination, bridge project, or waiver, as well as the percentage that did not meet the requirement. MSDE reports that to ensure compliance with the Federal Education Rights and Privacy Act (FERPA), the agency made changes to the data it publicly releases in 2011. The FERPA prohibits the release of individually identifiable information to the public; therefore, data that is less than or equal to 5% or greater than or equal to 95% must be suppressed to maintain confidentiality. At least 95% of students met the HSA requirement through examination in 9 of Maryland's 24 LEAs, and every LEA had 5% or fewer students meeting the requirement through a waiver. MSDE reports that it plans to explore the possibility of releasing State-aggregated and or LEA-aggregated data without subgroup specification with the USDE. **MSDE should comment on the status of discussions with USDE concerning the release of aggregated State and LEA level data to ensure that decisionmakers including the General Assembly have sufficient access to student outcomes data.**

Statewide Graduation Rate Increases; Cohort Graduation Rate Not Available

The statewide graduation rate in the 2010-2011 school year rose to 87.0% using the traditional Leaver rate, as shown in **Exhibit 4**. The rate hovered around 85.0% between 2005-2006 and 2008-2009, before increasing to 86.6% in the 2009-2010 school year. **Exhibit 5** shows graduation rates by county. Carroll County had the highest rate, greater than or equal to 95.0%. Baltimore City had the lowest rate at 71.9%. Fifteen LEAs improved their graduation rates from 2009-2010, with Kent County improving the most (6.5 percentage points). Maryland began calculating a new cohort graduation rate with the class of 2010, per federal requirements, and will report both rates for several years. However, the cohort graduation rate for the 2010-2011 school year was not available at the time of publication. MSDE reports that federal law requires the State to include summer data in the four-year cohort graduation rate, which is collected in fall 2011. MSDE is still in the process of cleaning and updating this data. Maryland's statewide four-year cohort graduation rate for the 2009-2010 school year was 80.7%.

Exhibit 4
State Graduation Rate
1997-2011 School Years



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

Exhibit 5
Graduation Rate by County
2010-2011 School Year

<u>School System</u>	<u>Students Graduating</u>	<u>Total Students</u>	<u>Rate</u>
Allegany	682	751	90.8%
Anne Arundel	4,991	5,708	87.4%
Baltimore City	4,598	6,399	71.9%
Baltimore County	7,166	8,628	83.1%
Calvert	1,394	1,486	93.8%
Caroline	368	443	83.1%
Carroll	-	-	≥95%
Cecil	1,122	1,295	86.6%
Charles	2,175	2,411	90.2%
Dorchester	277	331	83.7%
Frederick	2,958	3,151	93.9%
Garrett	349	373	93.6%
Harford	2,710	3,022	89.7%
Howard	3,924	4,163	94.3%
Kent	147	168	87.5%
Montgomery	10,158	11,195	90.7%
Prince George's	8,263	9,702	85.2%
Queen Anne's	564	621	90.8%
St. Mary's	1,139	1,299	87.7%
Somerset	174	210	82.9%
Talbot	343	372	92.2%
Washington	1,525	1,663	91.7%
Wicomico	906	1,172	77.3%
Worcester	510	543	93.9%
State*	58,745	67,517	87.0%

*State total includes Carroll County.

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

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

four years or less with a regular high school diploma by the number of students who form the adjusted cohort for that graduating class. Students who drop out remain in the adjusted cohort in the denominator of the calculation. MSDE also reports three-year and five-year adjusted cohort rates.

Proportion of Courses Not Taught by Highly Qualified Teachers Improves

The 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 6** shows that the percentage of courses *not* taught by highly qualified teachers statewide was 7.6% in the 2010-2011 school year, a decrease from 8.3% in 2009-2010. This compares to much higher rates in prior years: 11.5% in 2008-2009 and 24.6% as far back as 2004-2005.

Exhibit 6
Percentage of Classes *Not* Taught by Highly Qualified Teachers
School Years 2009-2010 and 2010-2011

<u>School System</u>	<u>2009-2010</u>	<u>2010-2011</u>	<u>School System</u>	<u>2009-2010</u>	<u>2010-2011</u>
Allegany	1.3%	0.9%	Harford	5.1%	4.4%
Anne Arundel	7.7%	6.7%	Howard	6.4%	6.3%
Baltimore City	30.5%	27.1%	Kent	5.7%	7.3%
Baltimore County	6.8%	5.5%	Montgomery	3.2%	3.1%
Calvert	6.5%	4.6%	Prince George’s	11.3%	9.3%
Caroline	2.7%	3.1%	Queen Anne’s	5.1%	2.5%
Carroll	5.5%	4.7%	St. Mary’s	5.2%	5.5%
Cecil	3.2%	2.6%	Somerset	2.3%	3.2%
Charles	7.8%	6.8%	Talbot	3.2%	3.5%
Dorchester	9.4%	11.2%	Washington	5.3%	5.4%
Frederick	2.9%	2.5%	Wicomico	3.8%	5.7%
Garrett	3.1%	2.6%	Worcester	1.9%	2.4%
Statewide Total				8.3%	7.6%

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

Despite these improvements, nine LEAs (Caroline, Dorchester, Kent, St. Mary’s, Somerset, Talbot, Washington, Wicomico, and Worcester) experienced increases in the proportion of classes not taught by highly qualified teachers from 2009-2010 to 2010-2011 which MSDE attributes to the small size of these districts. MSDE reports that in small school systems, the loss of a teacher in hard to staff areas such as science, math, and Spanish may be hard to fill, and has a large impact on the overall proportion of classes taught by highly qualified teachers in that district. Only Baltimore City

and Dorchester had proportions above 10%. **MSDE should comment on steps being taken by LEAs to further reduce the percentage of classes not taught by highly qualified teachers, particularly in LEAs with large proportions of these classes.**

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, the 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, USDE pledged not to 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.

Fiscal 2012 Actions

Proposed Deficiency

Proposed fiscal 2012 deficiency appropriations total \$108.4 million. A \$101.2 million general fund deficiency is proposed to replace video lottery terminal (VLT) funds that are not expected to materialize primarily due to the delayed opening of the Anne Arundel facility, which was initially expected to open in November 2011. The Department of Budget and Management assumes that the Anne Arundel facility will open on June 7, 2012. This differs from the Department of Legislative Services' (DLS) more conservative estimate, which assumes revenue from the new Anne Arundel facility will begin accruing on July 1, 2012, resulting in an assumed \$114.2 million fiscal 2012 deficiency. If these additional VLT revenues, assumed in the Governor's proposed budget, do not materialize, an additional general fund deficiency will be required in fiscal 2013.

A \$2.6 million federal fund deficiency is proposed to replace general funds with federal Education Jobs funds. A \$4.6 million general fund deficiency is proposed to replace federal Temporary Assistance for Needy Families (TANF) funds in the Healthy Families Program due to a shortfall of TANF funds available to the State.

Proposed Budget

The proposed fiscal 2013 allowance is \$6.8 billion before contingent reductions and deficiencies, a \$337.1 million increase over the 2012 working appropriation among all funds, as shown in **Exhibit 7**. Further detail on changes by fund is shown in **Exhibit 8**. The changes by program are shown in **Appendix 4**. General funds increase \$264.8 million, to replace \$124.4 million

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

How Much It Grows:	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Fund</u>	<u>Federal</u> <u>Fund</u>	<u>Reimb.</u> <u>Fund</u>	<u>Total</u>
2012 Working Appropriation	\$5,471,422	\$234,795	\$755,306	\$188	\$6,461,711
2013 Allowance	<u>5,736,203</u>	<u>271,901</u>	<u>790,551</u>	<u>175</u>	<u>6,798,831</u>
Amount Change	\$264,781	\$37,107	\$35,245	-\$13	\$337,120
Percent Change	4.8%	15.8%	4.7%	-7.1%	5.2%
Contingent Reduction	-\$231,733	\$1,867	\$0	\$0	-\$229,866
Adjusted Change	\$33,047	\$38,974	\$35,245	-\$13	\$107,253
Adjusted Percent Change	0.6%	16.6%	4.7%	-7.1%	1.7%

Where It Goes:**Bridge to Excellence Changes**

State share of the foundation	\$37,302
State share of the foundation – Education Jobs, fiscal 2012 pre-funding	124,421
One-time grants for school systems with over 6.5% aid decrease	-1,420
Geographic Cost of Education Index	1,424
Compensatory Education	62,422
Limited English Proficiency	14,814
Transportation Funding	3,088
Special Education Formula	2,329
Guaranteed Tax Base	-5,864

Other General Fund Changes

Teacher and Librarian Retirement	56,688
At Risk Youth – SEED School	1,700
Nonpublic placements	1,128
Maryland Meals for Achievement	560
State Library Network	256
Public Library Aid	112
Out-of-county Living and Schools Near County Lines	-431
Healthy Families/Home Visiting	-2,238

Other General Fund Contingent Reductions

Teacher and Librarian Retirement – cost share	-229,866
Fund swap – reduce general funds	-1,867

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Where It Goes:

Fund swap – replace general funds with video lottery terminal revenue from the Small, Minority, and Women-owned Business Investment Account..... 1,867

Combined Fund Changes

Children at Risk -8,905

Federal Fund Changes

Food Services Program 24,285

Special Education – Grants to States, Preschool, and Infant/Family Grants 20,887

Title I – Educationally Deprived Children Funds 14,743

Charter School Grants 746

GEAR-UP 284

Language Assistance -667

R. C. Byrd Scholarship -733

Science and Math Education Initiative -1,312

Career and Technology Education -1,358

School Technology -1,900

Teacher Development – Improving Teacher Quality -5,000

Other -242

Total **\$107,253**

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

**Exhibit 8
Education Aid by Fund
Fiscal 2012-2013
(\$ in Thousands)**

	<u>2012</u>	<u>2013</u>	<u>Change</u>	<u>Contingent Reduction 2013</u>	<u>Adj. Change</u>
General Funds	\$5,471,422	\$5,736,203	\$264,781	-\$231,733	\$33,048
Federal Funds	755,306	790,551	35,245	0	35,245
Special Funds from Video Lottery Terminals	214,780	254,441	39,661	1,867	41,528
Other Special Funds	20,015	17,461	-2,554	0	-2,554
Reimbursable Funds	188	175	-13	0	-13
Total	\$6,461,711	\$6,798,831	\$337,120	-\$229,866	\$107,253
Education Jobs Fiscal 2012 Pre-funding	124,421	0	-124,421	0	-124,421
Adjusted Total	\$6,586,132	\$6,798,831	\$212,699	-\$229,866	\$107,253

Note: This does not include proposed fiscal 2012 deficiencies.

Source: Department of Legislative Services

in Education Jobs funds used to pre-fund fiscal 2012 education aid and to support a 1.0% increase in the per pupil foundation amount, although when the proposed fiscal 2012 deficiency replacing unrealized VLT revenues is considered, general funds increase \$163.6 million in the fiscal 2013 allowance. BTE formulas increase \$114.1 million in fiscal 2013, after accounting for the \$124.4 million in pre-funded fiscal 2012 appropriations. Fiscal 2013 represents the third year of significant special funds budgeted from VLT proceeds. The 2012 working appropriation includes \$214.8 million from VLTs, though when the proposed fiscal 2012 deficiency is considered, special funds decrease to \$113.6 million. The fiscal 2013 allowance includes \$254.4 million in VLT special funds. VLTs were authorized by Chapter 4 of the 2007 special session and approved by voters in November 2008.

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). In total, the foundation program increases by \$161.7 million.

- ***Foundation Formula (\$35.9 Million Increase):*** The foundation formula ensures a minimum funding level per pupil and requires the LEAs to provide a local match. The formula is calculated based on a per pupil amount and student enrollment. Less wealthy school systems, as measured by assessable base and net taxable income, receive more aid per pupil than wealthier school systems. For the fiscal 2013 formula, fall 2011 enrollment increases by 2,347 full-time equivalent students, or 0.3%, totaling 823,452 statewide.

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 were set to begin again in fiscal 2011, but inflation indexes did not rise and there was no inflation increase budgeted for the per pupil amount. Chapter 397 of 2011 provided \$1.4 million for grants to school systems experiencing decreases of greater than 6.5% in State formula aid in fiscal 2012 only. Funding for the foundation formula was increased by \$1.4 million to accommodate these one-time grants.

Chapter 397 of 2011 limits inflation in fiscal 2013 through 2015 to 1.0%, which will set the fiscal 2013 per pupil amount to \$6,761. The budget includes a \$1,867,000 reduction, contingent on a provision in the Budget Reconciliation and Financing Act (BRFA) of 2012 that would transfer up to \$1,867,000 of VLT revenue from the Small, Minority, and Women-owned Businesses Account to the Education Trust Fund. **In addition, DLS recommends that \$950,000 in general funds be reduced from the State share of the foundation program, contingent on a BRFA provision transferring \$950,000 of unspent fiscal 2012 VLT fee revenues in the Problem Gamblers Fund to the Education Trust Fund.**

- ***Foundation Formula – Federal Education Jobs Fund Pre-funding (\$124.4 Million Increase):*** In fiscal 2011, \$124.4 million in federal Education Jobs funds were used to replace fiscal 2012 general funds in the foundation program, which remained in the fiscal 2011 State budget and was disbursed to school systems in June 2011 as the initial payment toward their fiscal 2012 State aid calculations. As a result, these funds were not recognized in the fiscal 2012 budget and instead appear as a fiscal 2013 increase.
- ***GCEI (\$1.4 Million Increase):*** 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, was fully funded in fiscal 2011 and 2012, and is fully funded in the fiscal 2013 allowance.
- ***Supplemental Grants – Chapter 2 of the 2007 Special Session (No Change):*** 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, the amount of direct State aid, 50% of the State payment for teachers' retirement, and 50% of the GCEI funding received by the LEAs was compared to State aid from the prior fiscal year. The 2010 calculation was the same except 60% 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 previous 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 redetermined each year.

Other Bridge to Excellence Changes

- ***Compensatory Education (\$62.4 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 \$62.4 million increase in fiscal 2013 equates to a 5.8% increase over the fiscal 2012 level. Due to the economic recession and the corresponding income decline for many households, 15,166 more students qualify for FRPM. Currently, 40.8% of students qualify for FRPM.
- ***Limited English Proficiency (\$14.8 Million Increase):*** The LEP formula targets additional funds based on the number of students for whom English is a second language. The formula is calculated based on the enrollment of LEP students and 99.0% of the per pupil foundation amount. The \$14.8 million increase represents a 9.1% increase over the fiscal 2012 level and is based on 3,733 more LEP students.

- ***Transportation Funding (\$3.1 Million Increase):*** The State provides grants to assist LEAs with the cost of transporting students to school. The grant includes a separate component for the transportation of disabled students, which equals \$1,000 per student requiring special transportation enrolled in the school system the prior fiscal year. Section 5-205 of the Education Article requires an inflationary increase based on the Consumer Price Index for private transportation in the second preceding fiscal year for the base grant. Chapter 484 of 2010 capped the rate at 1.0% for 2011, set the rate at 1.0% for 2012 through 2015, and allows the rate to fluctuate between 1.0 and 8.0% in future years. Previously, the rate could fluctuate between 3.0 and 8.0%.
- ***Special Education (\$2.3 Million Increase):*** The special education formula provides additional aid based on the number of students with disabilities. The formula is calculated using special education enrollment and 74.0% of the per pupil foundation amount. The State share of formula cost is 50.0%. The State share increases by \$2.3 million, or 0.9%, in the fiscal 2013 allowance, due to the 1.0% increase in the foundation per pupil amount and a decrease of 117 students since fiscal 2012.
- ***Guaranteed Tax Base (\$5.9 Million Decrease):*** The Guaranteed Tax Base provides additional funding to LEAs with less than 80.0% of statewide wealth per pupil and with a contribution of more than the minimum required local share under the foundation program in the prior fiscal year. In fiscal 2013, nine school systems qualify for the grant. The Guaranteed Tax Base Formula has an inverse relationship with per pupil foundation changes. As the per pupil amount increases, the proportion of an LEA's contribution above the minimum local share is reduced as a share of total funds. Conversely, as the per pupil foundation amount decreases, the amount of an LEA's contribution used to calculate State aid under the formula increases.

Other General Fund Changes

- ***At Risk Youth – SEED School for Disadvantaged Youth (\$1.7 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 6th graders. Section 8-710 of the Education Article requires the Governor to provide at least \$2.0 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, 2011, the school had 93 6th graders, 89 7th graders, 74 8th graders, and 52 9th graders for a total of 308 students enrolled.

General funds increase by \$1.7 million in the allowance, bringing total State funds for the SEED School to \$9.4 million in support of 376 students. The initial plan was to reach an expected maximum enrollment of 400 students and a total appropriation of \$10.0 million in fiscal 2013 and subsequent years. However, the BRFA of 2010 (Chapter 484) delayed the phase up to 400 students until fiscal 2014 by reducing fiscal 2012 and 2013 enrollment. Chapter 504 of 2011 altered the minimum amount of State funds to be appropriated annually toward transportation, boarding, and administrative costs of residential boarding education

programs for at-risk youth. Beginning in fiscal 2014, minimum funding per student will be the prior year funding amount as altered by the annual change in the per pupil foundation amount that is used to determine State aid for public primary and secondary education.

- ***State Library Network (\$255,712 Increase):*** The State provides funds in addition to the county library formula to libraries designated as resource centers, including the State Library Resource Center in Baltimore City, the Eastern Resource Center in Salisbury, the Southern Resource Center in Charlotte Hall, and the Western Resource Center in Hagerstown.

State funding for the State Library Resource Center had been steady at \$1.85 per Maryland resident, but Chapter 487 of 2009 reduced the amount to \$1.67 per resident in fiscal 2010 and 2011. The BRFA of 2011 (Chapter 397) held funding at \$1.67 per resident for fiscal 2012 through 2016, before a phase in to \$1.85 in 2019 and in subsequent years. The BRFA of 2011 also set funding for regional resource centers at \$6.75 per resident of each region for fiscal 2012 through 2016, before phasing up to \$7.50 per resident in 2019 and in subsequent years.

- ***Teachers' and Librarians' Retirement (\$56.7 Million Increase, \$229.9 Million Contingent Decrease):*** The State pays 100.0% of the employers' share of retirement costs for most school systems and library employees in the Teachers' Retirement and Pension Systems maintained by the State. Rather than distributing the aid to the school and library boards and billing them for the retirement contributions, the State appropriates a lump-sum payment to the retirement system on behalf of the LEAs. The BRFA of 2011 reduced costs for teachers' and librarians' retirement in fiscal 2012 through the restructuring of the State's pension system. It also required local boards of education to pay a share of the administrative costs for the State Retirement Agency, which in fiscal 2013 is expected to total \$12.9 million. In fiscal 2013, teachers' and librarians' retirement costs increase \$56.7 million over fiscal 2012. This reflects a 1% decline in the salary base and an increase in the required employer contribution rate. The BRFA of 2012 proposes to change the payment structure of these retirement costs so that the State and counties share equally in combined Social Security and pension costs, resulting in a contingent reduction of \$229.9 million. Retirement costs are further discussed in Issue 1 of this analysis.

- ***Healthy Families/Home Visiting (\$2.2 Million Decrease):*** The Innovative Programs budget includes federal funds for the Healthy Families/Home Visiting Program, which aims to promote positive parenting to enhance child health and development to prevent child abuse and neglect through home visits prenatally through early childhood. Federal TANF funds for the program decrease \$4.6 million in fiscal 2012, and a general fund deficiency is proposed to replace these funds. In fiscal 2013, general funds decrease to \$2.4 million.

The Department of Budget and Management reports that to apply for a new federal grant, the Department of Health and Mental Hygiene (DHMH) with the Governor's Office for Children conducted a needs assessment to determine the most vulnerable communities that would most benefit from a home visiting program and found that MSDE's Healthy Families program was

awarding grants to jurisdictions with little need. MSDE plans to target remaining funds in the program to communities of high need, those with high incidence of child abuse and neglect, and depressed socio-economic status, among other factors. A contractual employee has been hired to conduct a program capacity needs assessment to best identify areas of high need.

- ***Out-of-county Living and Schools Near County Lines (\$431,012 Decrease):*** The State provides a contribution to counties for educating students who are not permanent residents of the county but may be attending the local school. This includes students who live near county lines and the closest school is not in their county of residence, and students in State-supervised or foster care who are not in the county where their legal guardian resides. The State contribution is a statutory mandate and depends on the number of children in these circumstances.
- ***Maryland Meals for Achievement (\$560,000 Increase):*** The State provides general funds to support free classroom breakfast to all students at participating schools regardless of income. Under State law, any school that participates in the federal School Breakfast Program and has at least 40.0% FRPM enrollment can apply to participate. In fiscal 2012, the program received \$2.8 million and had provided 5.3 million school breakfasts as of December 31, 2011. Maryland Meals for Achievement has been funded at this level since fiscal 2009. **Given the State’s fiscal condition and that the program receives the only discretionary general fund increase in the Aid to Education budget, DLS recommends reducing the appropriation by \$280,000 to provide 1.1 million additional school breakfasts in fiscal 2013 through the Maryland Meals for Achievement program.**
- ***Public Library Aid (\$111,514 Increase):*** Chapter 481 of 2005 provided funding increases for county public libraries based on an increase in a per capita formula funding level. Budget reconciliation legislation enacted between 2007 and 2011 has slowed enhancements and reduced the target per resident amount to \$14 instead of \$16. The per resident amount from fiscal 2012 through 2016 is \$14, phasing up to \$15 by fiscal 2019 and in subsequent years.

Combined Fund Changes

- ***At Risk Youth – Various (\$8.9 Million Decrease):*** Other changes in programs for at risk youth include a \$11.6 million decrease in federal funds for 21st Century Community Learning Centers; a \$2.7 million increase in federal funds for Safe and Drug-Free Schools and Communities National Programs; a \$420,000 decrease in federal funds for Education for Homeless Children and Youth Grants; and a \$442,825 increase in special funds for the SEED School representing county support.

Federal Fund Changes

- ***Special Education (\$20.9 Million Increase):*** Federal special education funds include special education grants to states, preschool grants, and grants for infants and families with disabilities.

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- ***Food Services Program (\$24.3 Million Increase):*** Federal funds budgeted for food services include the School Breakfast Program, the National School Lunch Program, and the Child and Adult Care Food Program.
- ***Title I – Educationally Deprived Children (\$14.7 Million Increase):*** Federal Title I grants are allocated to states under the ESEA to provide additional resources for low-income children.
- ***Charter School Grants (\$745,595 Increase):*** The Innovative Programs budget includes federal funds for Charter Schools, which increase by \$745,595 million for fiscal 2013.
- ***Gaining Early Awareness and Readiness for Undergraduate Programs (\$283,589 Increase):*** Federal funds for the Gaining Early Awareness and Readiness for Undergraduate Programs increases \$283,589 in the fiscal 2013 allowance.
- ***Language Assistance (\$666,522 Decrease):*** Federal funds for instruction in public and nonpublic schools for students whose native language is not English.
- ***R. C. Byrd Scholarship Program (\$733,000 Decrease):*** Federal funds for the R. C. Byrd Scholarship Program decrease \$733,000 due to the discontinuation of this program.
- ***Science and Math Education Initiative (\$1.3 Million Decrease):*** These federal funds support programs such as summer training sessions and four in-service training days for algebra, geometry, and biology teachers. School systems submit applications for the funds, and grants are awarded based on the quality of the application and the amount of funds requested.
- ***Career and Technology Education (\$1.4 Million Decrease):*** Federal funds for vocational education basic grants to states decline by \$1.4 million for fiscal 2013.
- ***School Technology (\$1.9 Million Decrease):*** Federal funds for school technology are eliminated in the fiscal 2013 allowance.
- ***Teacher Development (\$5.0 Million Decrease):*** 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 decrease \$5.0 million in fiscal 2013. General funds for Quality Teacher Incentives and National Board Certification Fee reimbursement do not change from the 2012 level.

Other Contingent Actions

The BRFA of 2012 proposes to delay until September 2016, a requirement that MSDE update the GCEI Adjustment every three years beginning in September 2009 and proposes to delete the requirement that the study be conducted every three years. As a result, general fund expenditures to hire a contractor to conduct a GCEI Adjustment study would be deferred, saving the State approximately \$100,000 in fiscal 2013. MSDE reports that additional funding is not provided in the fiscal 2013 allowance to complete the study. The BRFA of 2012 also proposes to limit growth in the fiscal 2013 rates paid to providers of nonpublic placements to 1%. This would reduce general fund expenditures in fiscal 2013 by an estimated \$2.1 million, and reduce future costs since rates would grow from a lower fiscal 2013 base amount. The Governor's fiscal 2013 allowance as presented includes this reduction. Finally, the BRFA of 2012 proposes to relieve school systems of a current requirement to reimburse the State for the pension costs of federally funded positions, totaling \$37.1 million in fiscal 2013. These funds are currently received as a general fund revenue.

Federal Fund Sequestration

The Budget Control Act (BCA) of 2011 includes automatic across-the-board (ATB) spending reductions, known as sequestration, which are scheduled to take effect in January 2013. As a result of sequestration, discretionary programs in the federal budget will be reduced by \$2.1 trillion over 10 years. Federal fund reductions to discretionary programs are expected to be largest in federal fiscal 2013. The Federal Fund Information for States (FFIS) estimates that MSDE received \$1.1 billion in federal support in federal fiscal 2012. Of this amount, approximately \$671.0 million would be subject to sequestration in federal fiscal 2013. According to FFIS projections, 8.8% of this amount, or \$59.0 million would be reduced from MSDE's federal fiscal 2013 appropriation, though because the federal fiscal year spans two State fiscal years, the full impact would not be felt in State fiscal 2013. Much of Maryland's federal funds subject to sequestration are grants passed through MSDE to the LEAs, including Title I grants and grants supporting special education. **MSDE should discuss whether LEAs are carrying a balance of federal Title I and special education grants to states to cushion a decline in federal support for these programs.**

Issues

1. Education Aid Increases \$176.3 Million, but Governor Proposes Contingent Teacher’s Retirement Reduction

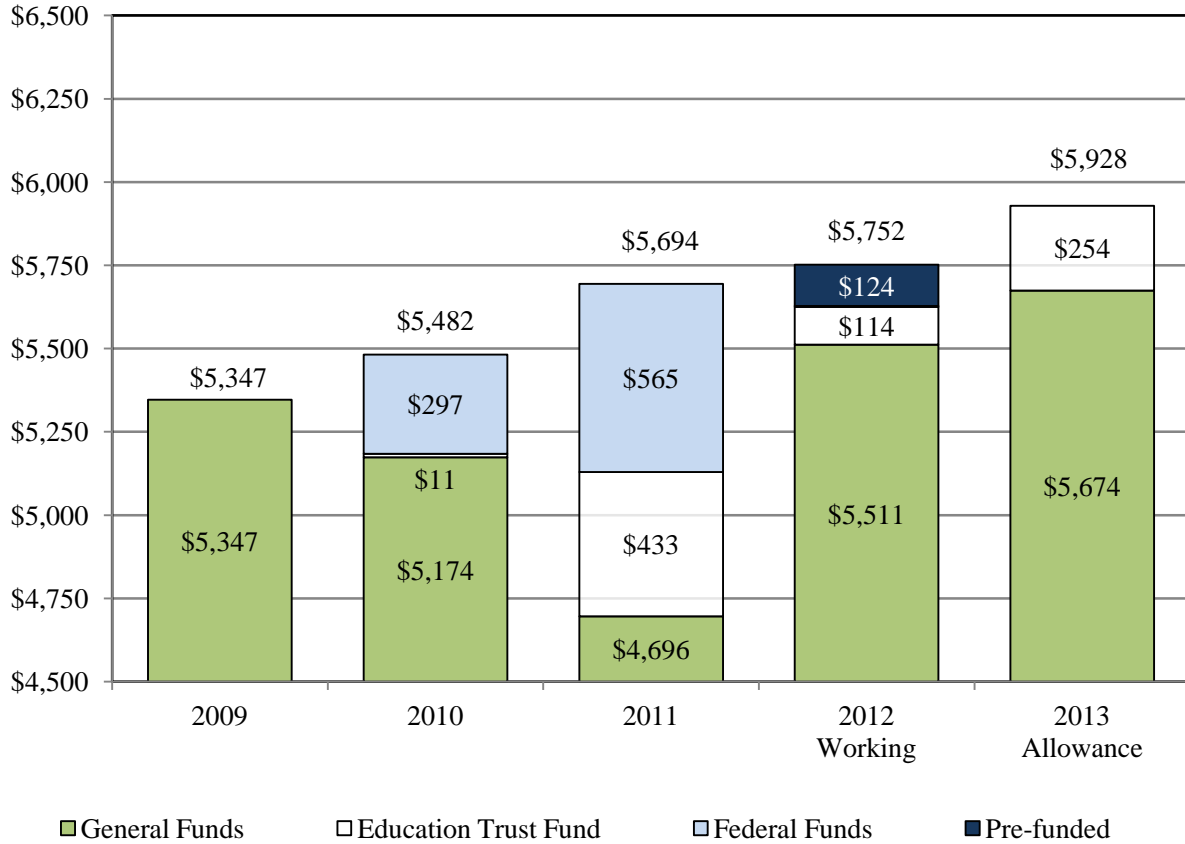
The fiscal 2013 allowance includes \$5.9 billion to support education aid programs, a \$176.3 million, or 3.1%, increase over fiscal 2012. This includes teachers’ retirement paid by the State and the proposed shift of 50.0% of the combined Social Security and State administered pension costs. Chapter 397 of 2011 limits inflation in the State per pupil foundation amount from fiscal 2013 through 2015 to 1.0%.

Funding for Education Complicated by Multiple Funding Streams

As shown in **Exhibit 9**, funding State education aid has become increasingly more complex since fiscal 2009 when aid was supported exclusively with general funds. Over this period, licensing and gaming revenues from VLTs (some of which are placed in the Education Trust Fund), temporary federal stimulus and Education Jobs Act funds, and a one-time fiscal 2011 transfer from the local income tax reserve account were introduced as funding sources for education aid, allowing appropriations for education to increase despite the difficult economic climate. Fiscal 2012 education formulas were supported with \$124.4 million in general fund savings resulting from the enactment of the federal Education Jobs Fund to save or create education jobs during the 2010-2011 school year. After spending \$35.7 million on one-time bonus funds for the school systems, \$18.4 million to backfill for a shortfall in Education Trust Fund revenues, and \$350,000 for administrative expenses associated with the grant, the remaining \$124.4 million in federal funds replaced general funds that had been appropriated for State education aid. The \$124.4 million remained in the fiscal 2011 State budget and was disbursed to school systems in June 2011 as the initial payment toward their fiscal 2012 State aid calculations.

Due in part to the use of the one-time savings to pre-fund fiscal 2012 aid, general fund support for education increases \$162.5 million in the fiscal 2013 allowance after accounting for a \$101.2 million fiscal 2012 deficiency proposed by the Governor to backfill unrealized fiscal 2012 VLT revenues, and a \$2.6 million deficiency replacing general funds with supplementary federal Education Jobs funds. Special funds increase \$140.8 million, again, including the proposed fiscal 2012 deficiency backfilling VLT revenues with general funds.

**Exhibit 9
State Education Aid by Funding Source
Fiscal 2009-2013
(\$ in Millions)**



Notes: The chart excludes funding for the Aging Schools Program, Technology in Maryland Schools program, libraries, Head Start, and the Judy P. Hoyer Program. Fiscal 2011 Education Trust Fund spending includes \$350 million transferred from the local income tax reserve account. Fiscal 2012 includes proposed fiscal 2012 deficiencies including a \$101.2 million deficiency backfilling a video lottery terminal revenue shortfall and \$2.6 million in Education Jobs funds replacing general fund expenditures.

Source: Governor’s Budget Books, Fiscal 2011-2013

BRFA of 2012 Proposes to Partially Shift Retirement Costs to the Counties

The State pays 100% of the employers’ share of pension costs for most school system, library, and community college employees in the Teachers’ Retirement and Pension Systems maintained by the State. Retirement costs for public school teachers, other professional school personnel, and librarians will total \$922.1 million in fiscal 2013, a \$56.7 million (6.6%) increase from fiscal 2012. Pension reform enacted through the BRFA of 2011 (Chapter 397) altered the benefit structure for

teachers and other professional school system employees (along with the benefits provided to State employees) in order to decrease costs and reduce the long-term liabilities of the State Retirement and Pension System (SRPS). Although the changes allow the State to recognize \$90.1 million in savings for local school employee pensions in fiscal 2012, these costs will continue to rise from the lower base amount. The BRFA of 2011 also required local employers to reimburse the State for State Retirement Agency administrative costs. In the past, retirement agency administrative costs have been included as part of the State’s annual appropriation to the pension fund. In fiscal 2012 and in future years, local boards of education will pay these expenses. In fiscal 2013, these retirement costs are expected to total \$12.9 million, bringing the total State costs to \$909.2 million.

Exhibit 10 shows projected general fund growth in teacher and librarian retirement costs between fiscal 2013 and 2017 under current law. Over this period, teacher and librarian retirement costs are expected to increase \$245.5 million, or 27.0%.

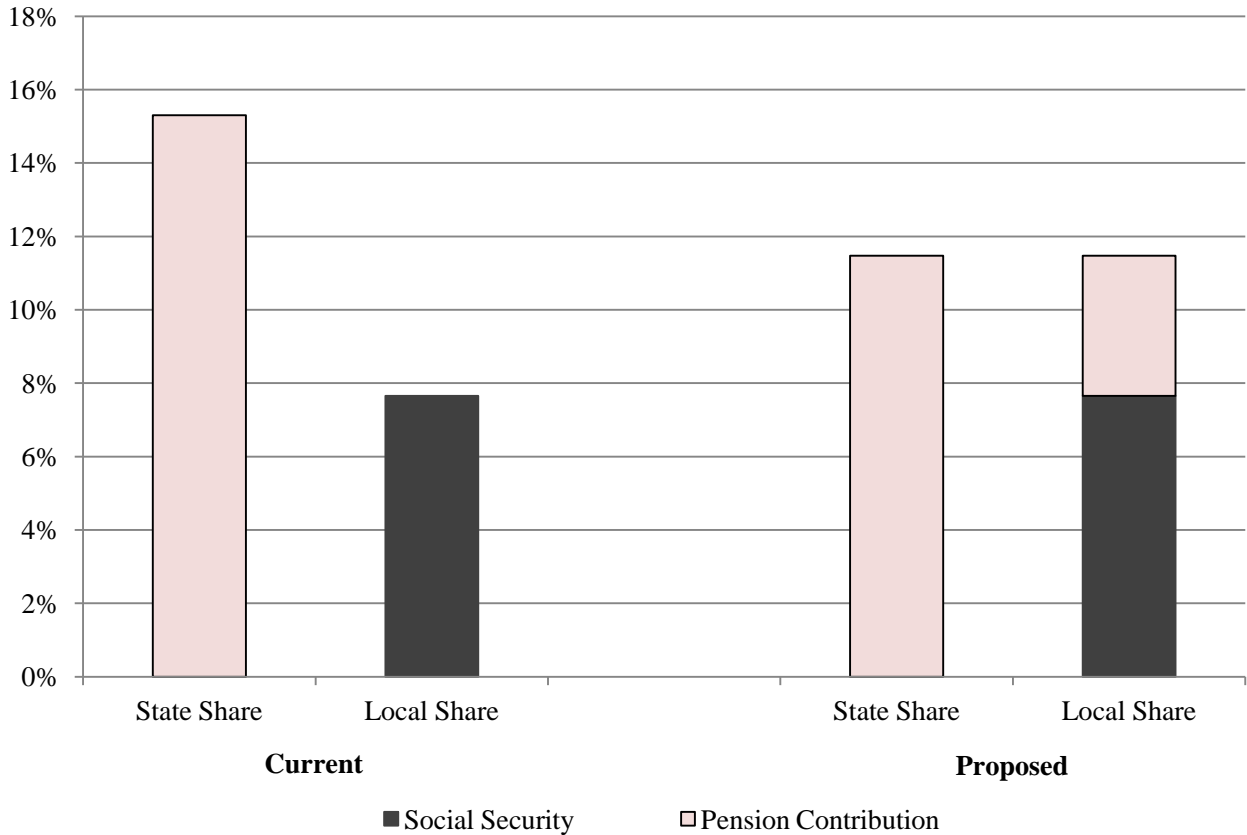
Exhibit 10
Teachers’ and Librarians’ Retirement General Fund Growth Projections
Fiscal 2013-2017
(\$ in Thousands)

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>\$ Change</u> <u>2013-2017</u>	<u>% Change</u> <u>2013-2017</u>
Teachers’	\$892,190	\$1,026,536	\$1,078,134	\$1,111,787	\$1,133,097	\$240,907	27.0%
Librarians’	17,033	19,566	20,542	21,180	21,586	4,554	26.7%
Total	\$909,223	\$1,046,102	\$1,098,676	\$1,132,968	\$1,154,683	\$245,460	27.0%

Source: Department of Legislative Services

The BRFA of 2012 proposes to change the payment of these retirement costs so that the State and counties share equally in combined Social Security and pension costs for eligible school employees. As shown in **Exhibit 11**, currently the school and library systems pay Social Security costs (which generally equate to 7.65% of the salary base) while the State pays all teacher and librarian retirement costs, which equals 15.3% of the salary base in fiscal 2013. Under the proposed change, the counties would assume responsibility for contributing the equivalent of 3.8% of the teacher and librarian salary base toward retirement costs, so that the State and counties share the combined cost of retirement and Social Security for teachers and librarians equally. **Appendix 2** shows the contingent reduction related to the teacher and librarian retirement cost share by county. The total amount shifted to the counties in fiscal 2013 would be \$229.9 million for school and library retirement costs.

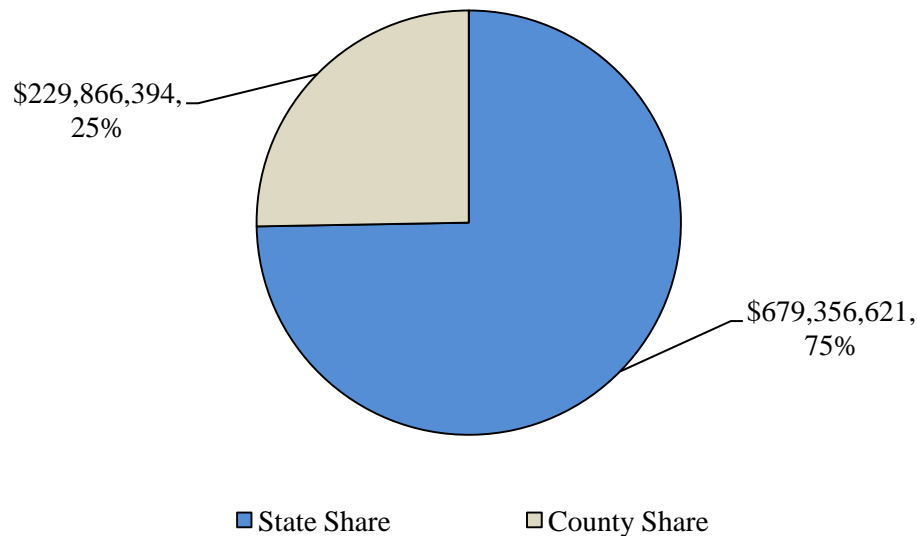
Exhibit 11
Proposed Cost Share Changes to Teachers’ and Librarians’ Retirement



Source: Department of Legislative Services

Exhibit 12 shows the distribution of teacher and librarian retirement costs only, between the State and the counties. Of the \$909.2 million budgeted in fiscal 2013 for such expenses, the State will assume \$679.4 million, or 75%, while the counties assume \$229.9 million, or 25%, of the cost.

Exhibit 12
Purposed Fiscal 2013 Distribution of Teachers’ and Librarians’ Retirement Costs



Source: Governor’s Budget Books, Fiscal 2013

Direct Aid Up \$113 Million and School Boards Relieved of Reimbursement Requirement

Under the Governor’s proposal, while the counties would share in the cost of teacher and librarian retirement, direct State aid to the local school boards would increase \$113.2 million between fiscal 2012 and 2013. Direct State aid to local school boards includes funds provided through the foundation program, supplemental grants, GCEI, compensatory aid, student transportation, special education (formula and nonpublic placement), LEP, guaranteed tax base, and other education programs. In addition, the BRFA of 2012 relieves school systems of a current requirement to reimburse the State for the pension costs of federally funded positions, totaling \$37.1 million in fiscal 2013. These funds would then be available to redirect to other eligible uses. The impact of these funds and the increase in direct aid to local school boards is shown by county in **Appendix 3**. Combined, the local school boards will receive an additional \$150.3 million in fiscal 2013. As constructed in the BRFA of 2012, the shift in teachers and librarian retirement costs would not impact maintenance of effort (MOE), as the cost is moved directly to the counties, which would pay the State retirement system directly. However, if the BRFA provision was changed so that pension costs were shifted to the local school boards, which set teacher salaries, or if the counties were required to provide funds to support retirement costs funded through the school boards’ budgets, maintenance of effort requirements for the counties could be affected. Maintenance of effort is discussed in greater detail in Issue 2 of this analysis. **MSDE should discuss the potential impact of shifting 50.0% of**

combined Social Security and pension costs of local school systems to the counties on MOE. MSDE should also discuss how the school boards, which set teachers' salaries, would share a portion of the retirement costs with the State. DLS recommends that consideration be given to whether the local school boards should continue to share in the cost of teachers' retirement by continuing to support the costs associated with retirement for federally funded positions.

2. Seven Counties Fall Short of Maintenance of Effort Obligations in Fiscal 2012

The statutory provision generally referred to as the MOE requirement was established in 1984 and requires that, on a per pupil basis, each county government (including Baltimore City) provide at least as much funding per student for the local school system as was provided in the prior fiscal year. If a county does not comply with the MOE requirement, then any increase in State funding for the foundation program is withheld. In 1996, the law was amended to establish a process by which a county may apply to the State Board of Education for a one-year waiver of the requirement. A waiver is granted if the State board determines through the evaluation of several factors that “the county’s fiscal condition significantly impedes the county’s ability to fund the MOE requirement.”

The waiver provision was not used until spring 2009, when 3 county governments (Montgomery, Prince George’s, and Wicomico) requested a waiver from the MOE for fiscal 2010. The State board denied all three requests primarily because it determined that the counties did not experience a fiscal downturn that was worse than the other 21 counties. In the subsequent year, Montgomery and Wicomico counties again requested waivers, this time from their fiscal 2011 MOE amounts, which the State board granted.

During the 2011 legislative session, two changes were made to the MOE law. The first change delays the imposition of a penalty for not meeting the MOE for one fiscal year, preventing the so called “double penalty” that would occur if a local school system were to experience a decline in local and State funding in the same year.

The other change clarified a county’s minimum funding requirement as being the local share of the foundation program. The local share represents a uniform percentage of each county’s tax base that must be spent in support of education each year. In every county, it is a lower amount than the MOE amount. With the advice of the Office of the Attorney General, the General Assembly passed legislation to clarify that the law allows a county to reduce a school system’s budget below the MOE but not below the local share. The law did not alter the MOE requirement. Subsequently, in a declaratory ruling shortly after the 2011 legislative session, the State board affirmed that even with the clarification to the law, a county is still required to provide the full MOE amount and is subject to penalty if the MOE is not met.

Local Funding for Fiscal 2012

In spring 2011, six counties initially indicated they would request MOE waivers for fiscal 2012, but all of the requests were withdrawn after the State board’s declaratory ruling. In addition to questions about the required MOE amount, the State board also was asked whether a county must file a waiver request if it may not meet the MOE. The State board determined that “on its face [the law] does not create a legal obligation on the county government to file a waiver request.” MSDE has certified that six of the seven counties shown in **Exhibit 13** do not meet the MOE requirement. In Anne Arundel County, the board of education claims that MOE is not being met, but the county government maintains that it is meeting MOE by budgeting school construction debt service in the LEA’s budget. The State board will rule on this issue in spring 2012. All other counties met or exceeded the MOE requirement. Also shown in the exhibit is the amount of the penalty for these counties. Due to changes in enrollment and flat per pupil funding provided by the State in fiscal 2012, four of the counties that did not make the MOE would not be subject to an MOE penalty under current law. Therefore, there are no consequences for these counties.

Exhibit 13
Maintenance of Effort and Local Share of the Foundation Formula
Fiscal 2012
(\$ in Millions)

<u>County</u>	<u>Total Funding Required</u>	<u>Budgeted Funding</u>	<u>Potential Fiscal 2013 Penalty</u>
Anne Arundel	\$568.1	\$556.1	\$3.9
Dorchester	17.2	16.5	0
Kent	16.9	16.1	0
Montgomery	1,579.4	1,370.1	26.2
Queen Anne’s	48.0	43.5	0.5
Talbot	34.2	32.4	0
Wicomico	50.1	36.2	0
Total			\$30.6

Source: School system operating budgets as reported by the Public School Superintendent Association of Maryland; Maryland State Department of Education; Department of Legislative Services

By not applying for MOE waivers, counties that do not meet the MOE may “rebase” their required MOE amounts at lower levels for fiscal 2013. The MOE law states that when a county is granted a waiver by the State board, the following year’s MOE amount is the higher of the two prior years, thus preventing rebasing. However, the law does not contemplate what happens when a county does not ask for or receive a waiver, and then fails to meet the MOE requirement. Since the law is

silent as to these scenarios, the general MOE rule governs, meaning the county must provide at least as much per pupil funding as it provided in the previous year. This allows the county to lower its future MOE obligations by reducing its support for the local school systems below the MOE amount without seeking a waiver. Legislation concerning MOE is expected in the 2012 legislative session. The proposed fiscal 2013 budget includes full foundation funding for counties including those facing an MOE penalty. **DLS recommends budget bill language reducing the State share of the foundation appropriation in fiscal 2013 to reflect the fiscal 2012 MOE penalty for Anne Arundel (if the State board certifies that MOE is not met), Montgomery, and Queen Anne’s counties.**

3. Common Core State Standards Aim to Boost College Readiness

The National Governors Association in partnership with many nonprofit education policy centers established the Common Core State Standards (CCSS) Initiative to develop college- and career-ready standards for K-12 English, language arts, and math. The CCSS are state-led national education standards intended to replace state-by-state standards to establish a set of shared goals and expectations for the knowledge and skills students should have in grades K-12 to be prepared for college and career. The Maryland State Board of Education adopted the CCSS for mathematics and English/language arts in June 2010 as part of the State’s efforts to improve college readiness, which will form the foundation upon which Maryland is building the new State curriculum.

State Board Adopts Draft Common Core Curriculum Frameworks

Soon after the CCSS were adopted in June 2010, MSDE gathered teams of educators from across the State to begin a gap analysis comparing existing State curriculum standards with the CCSS to identify weak, good, and excellent matches. Teams included classroom teachers, representatives from higher education, content supervisors, and content specialists from MSDE. Using this gap analysis, MSDE developed a curriculum framework to serve as the foundation for a new Maryland curriculum. In June 2011, the State Board of Education adopted these curriculum frameworks as draft documents, called the Maryland Common Core Curriculum Frameworks for English Language Arts and Mathematics. The frameworks were reviewed by over 6,000 educators who participated in MSDE’s Educator Effectiveness Academies in late June and July of 2011. Feedback was also gathered from 150 teachers at Master Teacher Training, representatives from colleges and universities across the State, supervisors’ briefings, and the Assistant Superintendents/Executive Officers Mini-Academy. Following this review, the framework will be finalized.

Common Core Professional Development Delivered through Educator Effectiveness Academies

Each school in the State participated in the 2011 Educator Effectives Academies with a team including the principal, an English Language Arts/reading teacher, a math teacher, and a science, technology, engineering, and mathematics teacher. Five members of each system’s central office staff also participated. These academies allowed educators to develop knowledge of the CCSS and the curriculum frameworks; provide feedback, modifications, and additions to the curriculum

frameworks; and create a one-year transition plan to guide school staff in delivering the academy content. As part of the Race to the Top (RTTT) grant, MSDE will conduct 10 regional Educator Effectiveness Academies during summer 2012 and 2013, which will also be available online. The 2012 academies will allow educators to review the final version of the curriculum frameworks, and become familiar with the format, lessons, media resources, and navigation of the curriculum toolkits.

The other main component of the Maryland Common Core State Curriculum will be an online curriculum toolkit to assist educators in designing instructional programs aligned with the new curriculum and assessments. The next phase of the curriculum work will be to develop this toolkit which will include model lesson plans, units, formative assessments, multi-media resources, intervention and enrichment modules, and online courses for students and educators.

Maryland Joins the Partnership for Assessment of Readiness for College and Careers Consortium to Develop Assessments to Determine College and Career Readiness

The Partnership for Assessment of Readiness for College and Careers Consortium (PARCC) is a consortium of 25 states (including Maryland) developing new assessments aligned with the CCSS. The new assessments will be anchored in college and career readiness; provide comparability across states; and be able to assess and measure higher-order skills such as critical thinking, communications, and problem solving. Prototype test items for the PARCC assessments are expected in the 2011-2012 school year and limited field testing in 2012-2013. The 2013-2014 school year will see both full CCSS curriculum implementation and full PARCC field testing, leading to full implementation of the PARCC assessments in 2014-2015.

One aim of the PARCC assessments is to determine whether students are on track to graduate ready for college and careers. Students who do not meet readiness/proficiency benchmarks will receive supports and interventions to address their readiness gap before entering their first year of college. Ultimately, the PARCC consortium aims to have these assessments used as college placement tools in lieu of the ACCUPLACER and COMPASS exams, which are currently used by many Maryland colleges and universities to determine college readiness.

Student Outcome and Achievement Report Used by Few LEAs

In 1988, the General Assembly charged the Maryland Higher Education Commission (MHEC) “to improve information to high schools and local school systems concerning the performance of their graduates at the collegiate level.” In response, MHEC developed the Student Outcome and Achievement Report (SOAR) which tracks the success rates of recent graduates from public Maryland high schools in Maryland colleges and universities by reporting the proportion of students that require developmental education, average student grades in the first college-level math and English course, and cumulative freshman grade point average. During the 2011 legislative session, the budget committees asked MSDE, the LEAs, and the Public School Superintendents’ Association of Maryland (PSSAM) determine to what degree school districts use SOAR data and

how the report could be better tailored to meet their needs. The report was requested by November 1, 2011, and was submitted to the budget committees by MSDE on October 5, 2011.

MSDE reports that the LEAs do not find SOAR data useful due to its inclusion of only students attending Maryland colleges and universities, the use of self-reported data to determine whether or not students completed a college preparatory curriculum, its lack of distinction between students relearning material through remediation and those learning new material through developmental work, and its use of averages and percents in place of raw numbers. In a separate letter to the budget committees dated September 30, 2011, PSSAM also noted that SOAR data is of limited value due to the lag time between when students graduate from high school and when data is available. For example, the June 2011 SOAR report provides data on 2008 Maryland high school graduates. While school administrators can use recent data to address issues as they arise in the classroom, data as old as three years is often not actionable as teachers, curriculum, and student demographics may have changed in the meantime.

The report notes that the SOAR can be improved in the future by incorporating PARCC assessment data and subsequent college performance, though such assessment results will not be available until 2014-2015. In addition, MSDE recommends that SOAR incorporate data from the Maryland Longitudinal Data System (MLDS) (now in development) to verify actual course data to identify students that have completed a college preparatory curriculum, though like the PARCC assessments, the MLDS will not be available until 2014-2015. Finally, MSDE recommends that SOAR present raw data in each table rather than averages and percents.

While SOAR data as it exists today has limitations, only one SOAR report is scheduled to be released (in 2012) before the implementation of PARCC assessments and MLDS, which are cited by MSDE as sources for improved data. Because no other source presently tracks the remediation rates of Maryland high school graduates entering State colleges and universities, DLS recommends that the 2012 SOAR report be produced in its existing form, with the understanding that changes will be made in future reports to address the concerns raised by MSDE and PSSAM, particularly regarding the lag between a cohort's graduation and when data on the cohort's subsequent college success is provided to the LEA. DLS also recommends that MSDE and PSSAM work with MHEC and the MLDS Center to retool the SOAR report so that it utilizes student- and transcript-level MLDS data as soon as possible

MSDE should comment on what the agency, in partnership with the LEAs, are doing to move Maryland toward the goal that at least 55% of State residents aged 25 to 64 hold either an associates or a bachelor's degree by 2025.

Finally, MSDE should comment on its efforts to engage the postsecondary education community in work to develop the new Maryland Common Core State Curriculum and the PARCC assessments to determine college and career readiness.

Recommended Actions

1. Add the following language:

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

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

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

2. Concur with the following language to the general fund appropriation:

, provided that \$1,867,000 of this appropriation shall be reduced contingent upon the enactment of legislation transferring Video Lottery Terminal revenue from the Small, Minority, and Women-Owned Business Investment Account to the Education Trust Fund. Authorization is hereby provided to process a Special Fund budget amendment up to \$1,867,000 to recognize the new revenue in the Education Trust Fund.

Explanation: This action concurs with the Governor’s proposal to reduce the general fund appropriation to the State share of the foundation program and authorize a budget amendment transferring special fund video lottery terminal revenues into the program.

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

Further provided that \$950,000 of this appropriation shall be reduced contingent upon the enactment of legislation transferring video lottery terminal fee revenue from the Problem Gamblers Fund to the Education Trust Fund. Authorization is hereby provided to process a Special Fund budget amendment up to \$950,000 to recognize the new revenue in the Education Trust Fund.

Explanation: This language reduces the general fund appropriation in the State share of the foundation program, contingent on legislation transferring \$950,000 in unspent fiscal 2012 video lottery terminal fee revenue from the Problem Gamblers Fund to the Education Trust Fund.

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

Further provided that the appropriation made for the purpose of the State share of the foundation program for Montgomery County shall be reduced \$26,235,817 and Queen Anne’s County shall be reduced \$455,696 to reflect the fiscal 2012 maintenance of effort penalties for these counties.

Further provided that \$3,857,268 of this appropriation made for the purpose of the State share of the foundation program for Anne Arundel County may not be expended for any purpose and shall revert to the General Fund on June 30, 2013, unless:

1. The Maryland State Board of Education submits a report to the budget committees certifying that Anne Arundel County met the fiscal 2012 maintenance of effort requirement and is thus eligible to receive these funds; and
2. The budget committees shall have 45 days to review and comment from the date of receipt of the report.

These funds may not be transferred by budget amendment or otherwise to any other purpose.

Explanation: The penalty for failing to meet maintenance of effort is that any increase in State funding for the foundation program is withheld in the following fiscal year. This language reduces the fiscal 2013 State share of the foundation appropriation for Montgomery and Queen Anne’s counties, which the State Board of Education has already certified as not having met maintenance of effort in fiscal 2012. The language restricts \$3,857,268 of the fiscal 2013 State share of the foundation appropriation for Anne Arundel County pending the submission of a report to the budget committees certifying that Anne Arundel County met the fiscal 2012 maintenance of effort requirement. The budget committees shall have 45 days to review and comment on the report.

Information Request	Author	Due Date
Report certifying that Anne Arundel County met the fiscal 2012 maintenance of effort requirement	MSDE	45 days prior to the expenditure of funds

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5. Concur with language to the general fund appropriation:

, provided that \$229,866,394 of this appropriation shall be reduced contingent upon the enactment of legislation requiring local jurisdictions to contribute fifty percent retirement and Social Security costs for teachers and librarians.

Explanation: The language is required for the General Assembly to reduce the budget.

	<u>Amount Reduction</u>	
6. Reduce the Maryland Meals for Achievement program. The remaining appropriation will provide funds sufficient for 1.1 million additional school breakfasts.	\$ 280,000	GF
Total General Fund Reductions	\$ 280,000	

Updates

1. The Council for Educator Effectiveness Recommends Initial Teacher and Principal Evaluation Frameworks

The Education Reform Act of 2010 (Chapter 189) required student growth to be a significant component of a teacher’s performance evaluation, lengthened the amount of time until a teacher gains tenure from two to three years, and established a program of incentives for teachers and principals who teach in low-achieving or other specified schools with a potentially challenging demographic or socioeconomic population. The Act also required nontenured teachers to be evaluated annually and to be assigned mentors if they are not on track to qualify for tenure.

In part, these legislative reforms were responsive to the competitive federal RTTT grant, which rewarded states that were implementing significant reforms around four specific areas, one of which was recruiting, developing, and retaining effective teachers and principals and turning around the lowest achieving schools. The redesign of teacher and principal evaluations was one of the primary reforms identified in Maryland’s successful RTTT application. On June 1, 2010, the Governor established the Maryland Council for Educator Effectiveness (MCEE) by executive order to develop model performance evaluation criteria. MCEE is co-chaired by the State Superintendent of Schools and the vice president of the Maryland State Education Association and is comprised of representatives of educators, school boards, the business community, State agencies, and legislators.

Seven School Systems Pilot Evaluations Systems in 2011-2012

On June 21, 2011, MCEE issued initial recommendations for a Statewide Educator Evaluation System, endorsing teacher and principal evaluation frameworks that will result in ratings of ineffective, effective, or highly effective. MCEE highlighted the importance of educator improvement as the primary goal of any evaluation, and that the local school systems and the State share responsibility for providing high-quality, effective, and relevant professional development. As such, the frameworks give local school systems responsibility for defining the processes for providing support to teachers and principals rated as ineffective.

Seven local school systems (Baltimore, Charles, Kent, Prince George’s, Queen Anne’s, and St. Mary’s counties and Baltimore City) are piloting performance evaluation systems during the 2011-2012 school year under these frameworks. These systems will select teachers at multiple grade levels and subject areas representing a broad spectrum of experience. MSDE will provide technical assistance and professional development to teachers, principals, and their evaluators on the new evaluation process. Local school systems and bargaining units will enter into agreements under the frameworks between January and June 2012 so that all 24 school systems can implement new performance evaluation systems during the 2012-2013 school year.

MCEE reconvened in December 2011 to evaluate early implementation of the local pilots and will meet again in June 2012 to make additional recommendations based on a full year of experience in the seven pilot systems.

Teacher and Principal Evaluation Frameworks

The framework for teacher evaluation has two parts, each constituting 50% of the evaluation. Part one incorporates qualitative measures, including four observable measures: planning and preparing; instruction; classroom environment; and professional responsibilities. The framework also enables local school systems to designate local priorities to hold teachers accountable to and allows school systems to determine the score percentage assigned to each qualitative measure. Part two is a quantitative component measuring student growth using State assessments, specified State measures, and specified local measures. Part two also permits the consideration of “complexity factors” defined as “factors recognized by the local school system that do not diminish student expectations but have an extraordinary impact on student growth.”

The framework for principal evaluation also includes both qualitative and quantitative measures, each constituting 50% of the evaluation. The following qualitative measures incorporate skills specified in the Maryland Instructional Leadership Framework: (1) facilitate the development of a school vision; (2) align all aspects of school culture to student and adult learning; (3) monitor the alignment of curriculum, instruction, and assessment; (4) improve instructional practices through the purposeful observation and evaluation of teachers; (5) ensure the regular integration of appropriate assessments into daily classroom instruction; (6) use technology and multiple sources of data to improve classroom instruction; (7) provide staff with focused, sustained, research-based professional development; and (8) engage all community stakeholders in a shared responsibility for student and school success. Local school systems may also include local priorities to which they may hold principals responsible. Quantitative student growth measures for principals include local, State, and norm referenced tests, as well as local school system data points.

State Default Model Developed for Teacher and Principal Evaluation Systems

The Education Reform Act requires a local school system and a local bargaining unit to implement a State Board of Education model performance evaluation system if the sides are unable to mutually agree on one. MCEE’s initial recommendations include a default performance evaluation model, equally divided between qualitative (professional practice) and quantitative (student growth) measures, as required by the teacher and principal frameworks. The quantitative section will be divided so that 20% will be based on local school system student growth measures and 30% on statewide student growth measures. MCEE will further develop the details of the default model after the 2011-2012 pilot year.

State Board of Education Must Adopt Evaluation Regulations

The Education Reform Act requires the State board to adopt regulations establishing general standards for performance evaluations of certified teachers and principals. In November 2010, the Administrative, Executive, and Legislative Review Committee voted to oppose an early set of proposed regulations submitted by the board on this subject. The State board has placed the regulations on hold and will restart the process of promulgating draft regulations in June 2012,

consistent with the Education Reform Act of 2010 and the RTTT application. Based on lessons learned from the pilot local evaluation systems, MSDE will develop a list of acceptable options for the components of a statewide system of evaluation. This list will guide local school systems when they draft their final evaluation systems and will provide flexibility for local school systems within the parameters ultimately established by State board regulations.

Of the \$250 million that Maryland received from RTTT, \$2.3 million will support the technology costs associated with implementing a centralized educator evaluation system. Local school systems are likewise devoting portions of their RTTT funds to needs relating to the new evaluation process, such as data systems (including computer hardware) to link educators to State and local measures of student growth, evaluation tool design, professional development, mentoring and induction programs, and teacher and principal academies.

2. MSDE Recommends Dedicating a Portion of Existing “Bridge to Excellence” Funds to Early Childhood Programs for Pre-kindergarten Aged Children with Disabilities

The BTE in Public Schools Act of 2002 requires school systems to make pre-kindergarten available to all economically disadvantaged four-year old children. Funds from the compensatory education formula may be used to support this requirement. Some four-year-olds funded by the formula may be designated as special education children. However, no requirement exists directing LEAs to report the amount of BTE funding expended on pre-kindergarten age children with disabilities, making it impossible for the budget committees to determine the amount of funding provided to support services for such children. The 2011 *Joint Chairmen’s Report* requested that MSDE gather data from LEAs specifying all local and State funds, including transportation funds, spent for special education pre-kindergarten children in fiscal 2009 and 2010.

MSDE collected data on all federal, State, and local funding expended on special education and related services for children ages three to five with disabilities for fiscal 2009 and 2010 through a survey distributed to the LEAs, the Maryland School for the Blind (MSB), and the Maryland School for the Deaf (MSD). **Exhibit 14** shows spending by the LEAs, MSB, and MSD on this population disaggregated by fund source. Overall, expenditures on children with disabilities ages three to five totaled \$108.8 million in fiscal 2009 or \$8,914 per child. In fiscal 2010, funding increased to \$111.8 million, although per-child support remained fairly stable at \$8,920. Local funds represented the greatest percentage of overall program expenditures at 57%, followed by State funding at 19%, and federal funding at 23%.

MSDE found a wide variation between the LEAs on the source and amount of funding dedicated to the pre-kindergarten special education population. In fiscal 2009, nine LEAs reported no State expenditures on services for pre-kindergarten age children with disabilities, while five reported no local fund expenditures. Fiscal 2010 results were similar, with eight LEAs reporting no State funds expended on such services and five reporting no expenditure of local funds.

Exhibit 14
Funding for Children with Disabilities, Ages Three to Five
Fiscal 2009 and 2010
(\$ in Thousands)

	<u>2009</u>	<u>2010</u>	<u>% Change</u>
State	\$21,005	\$20,732	-1.3%
Local	60,962	63,835	4.7%
Medical Assistance	1,594	1,611	1.1%
IDEA Part B 619 (Pre-school Passthrough)	5,544	4,913	-11.4%
Federal Funds (includes Part B 611 Passthrough)	19,668	20,692	5.2%
Total	\$108,773	\$111,783	2.8%

Source: Maryland State Department of Education

Because the amount of federal, State, and local funding dedicated to pre-kindergarten age children with disabilities is at the discretion of each LEA, the amount of BTE funding allocated to this population varies considerably across jurisdictions. As a result, MSDE recommends that the committees consider dedicating a portion of existing BTE funding to support early childhood programs for three- and four-year old children with disabilities, as the funding variation between LEAs to support these programs may reflect differing levels of advocacy among local constituencies.

MSDE has formalized the collection of this data through a required form *Expenditures for Preschool Special Education and Related Services* incorporated into the annual Local Application for Federal Funds beginning with the fiscal 2012 submission. MSDE will collect data on actual expenditures at the end of the first quarter following each fiscal year's close.

3. Review of Alternative Maryland School Assessments for Students with the Most Profound Developmental Disabilities

Students with the most significant cognitive disabilities are required to participate in the Alternative Maryland School Assessment (Alt-MSA) as a result of requirements implemented through the No Child Left Behind Act of 2001. The budget committees were concerned during the 2011 legislative session about feedback on an effort to review the Alt-MSA with the goal of reducing the time required to administer the assessment. The budget committees requested that MSDE accommodate the concerns and submit a report by August 1, 2011, on how the concerns were addressed.

Chapter 321 of 2010 required MSDE to review the Alt-MSA by July 1, 2011, with the goal of reducing the time required to administer the assessment. MSDE was required to solicit recommendations from special education teachers and students affected by the Alt-MSA on how the assessment may be improved. Some review participants expressed concerns about the process, including insufficient advance notice of sessions, use of a survey that constrained feedback by including too few open-ended questions, and the inclusion of parent participants whose children qualify for participation in the Alt-MSA but do not have profound developmental disabilities, possibly leading to recommendations that do not fully distinguish the challenges of students with the most significant cognitive disabilities.

MSDE's report to the budget committees outlines the department's process for soliciting recommendations on how the Alt-MSA could be improved. To gather feedback, the department distributed an online survey in October 2010, conducted five regional public forums in December 2010, and held eight focus groups between January and March 2011 (discussed in further detail below). This timeline was developed to complete the activities required by Chapter 321 during the 2010-2011 school year. MSDE contracted with an Alt-MSA Public Forum Facilitator as an outside neutral consultant to manage the external process.

MSDE's Process for Soliciting Recommendations Concerning the Alternative Maryland School Assessment

The report notes that to solicit recommendations concerning the Alt-MSA, MSDE distributed an online survey in October 2010 to all Alt-MSA Test Examiners including school administrators, teachers, and related survey providers. The survey was developed by MSDE and vetted through the Alt-MSA Facilitators and Alt-MSA Stakeholder Advisory Committee, which includes representation from special education teachers, principals and assistant principals, special education central office support staff, parents, and special education advocates. The survey consisted of 25 questions, 3 of which allowed for open-ended response including an opportunity to recommend changes to the design of the Alt-MSA. Information regarding the survey release was sent to local school system's communications departments, directors of special education, local accountability coordinators, and Alt-MSA facilitators on October 12, 2010. MSDE planned to close the survey on October 26, 2010, though the date was extended to October 29, 2010, at the request of several districts that did not notify teachers in a timely manner. Local school systems were notified of the extension by email on October 21, 2010, and a survey reminder was distributed by email on the same day.

MSDE initially conducted four regional public forums between December 8 and December 20, 2010, for Alt-MSA examiners in Ijamsville, Easton, Waldorf, and Laurel. A fifth forum was held in Montgomery County at the request of the Montgomery County Education Association. Local school systems received a public release notice regarding forum dates and locations on December 1. Notice was also sent to each local school system's communications department, department of special education offices, and testing offices for each school district. Participants in attendance and those unable to attend were invited to submit testimony via email.

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Finally, MSDE held eight focus groups between January and March 2011 concerning the Alt-MSA led by facilitators to make recommendations regarding changes to the Alt-MSA. The focus groups included principals, teachers, members of the Education Advocacy Coalition for Students with Disabilities, parents, and other stakeholders. Each local school system's Alt-MSA Facilitator was asked to recommend and contact a teacher and principal to participate in the principal and teacher focus groups. The parent focus group was assembled by recommendations to MSDE from Alt-MSA Facilitators, the Special Education State Advisory Council, the Special Education Citizen's Advisory Council, Partners for Success, or by a parent contacting MSDE directly with an interest to participate. Parents who attended represented the full spectrum of students who participate in the Alt-MSA.

Current and Prior Year Budgets

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

	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Fund</u>	<u>Federal</u> <u>Fund</u>	<u>Reimb.</u> <u>Fund</u>	<u>Total</u>
Fiscal 2011					
Legislative Appropriation	\$4,866,555	\$117,031	\$1,162,066	\$398	\$6,146,050
Deficiency Appropriation	12,800	-31,243	100,000	0	81,557
Budget Amendments	0	350,000	214,617	0	564,617
Reversions and Cancellations	-3,187	-110	-5,537	-258	-9,092
Actual Expenditures	\$4,876,168	\$435,678	\$1,471,145	\$141	\$6,783,131
Fiscal 2012					
Legislative Appropriation	\$5,480,242	\$218,937	\$755,306	\$188	\$6,454,674
Budget Amendments	-8,820	15,858	0	0	7,038
Working Appropriation	\$5,471,422	\$234,795	\$755,306	\$188	\$6,461,711

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

Fiscal 2011

The fiscal 2011 budget closed at \$6.8 billion, which was \$637.1 million more than the legislative appropriation.

Deficiencies: Deficiencies totaled \$81.6 million. A special fund deficiency appropriation of -\$31.2 million reduced VLT funds to reflect collected revenues, and a general fund deficiency of \$12.8 million backfilled a portion of this unrealized VLT revenue. A federal fund deficiency of \$100.0 million from the RTTT grant award appropriated the remainder of the total amount for participating local school systems. Maryland was awarded \$250.0 million over four years from RTTT, with \$125.0 million going to participating LEAs and \$125.0 million to be administered by MSDE for statewide reform efforts.

Budget Amendments: Federal funds increased \$214.6 million through budget amendments. Of this amount, \$178.6 million was from the Education Jobs Fund, which helped states save or create education jobs for the 2010-2011 school year. Another \$25.0 million is from the RTTT award funds designated for LEAs in fiscal 2011. Other increases include \$9.7 million for a special education American Recovery and Reinvestment Act of 2009 grant to Baltimore City as the city's prior application for the funds in fiscal 2010 had not been approved, and \$1.5 million from unobligated carryover funds from the Library Grants to States program. Federal funds decreased \$83,406 due to a transfer of funds from the Educationally Deprived Children program to the MSDE Headquarters budget to support activities to improve the post-release transition of children and youth in the Juvenile Services Education Program.

Special funds increased \$350.0 million as a result of Chapter 484 of 2010 (BRFA), which required a \$350.0 million transfer from the Local Income Tax Reserve Account to the Education Trust Fund.

Reversions and Cancellations: Reversions and Cancellations totaled \$9.1 million.

General funds reversions totaled \$3.2 million. Of this total, \$834,233 was reverted from the State share of foundation and Students with Disabilities programs following audit findings which required a general fund reimbursement from Prince George's and Garrett counties. An additional \$253,340 was reverted due to excess funds from Montgomery County librarian retirement payments as funds appropriated based on estimates received from the State Retirement Plan exceeded actual billings from local LEAs. Additional general fund reversions include \$1.5 million due to lower than budgeted enrollments in out-of-county living arrangements, \$289,867 from the Students with Disabilities Program due to the inadvertent closing of a Non-Public Placement grant prior to reconciliation, \$260,442 from the Teacher Quality Program to cover teacher stipends paid to qualified National Board Teacher and advanced professional certificate teachers at high poverty schools due to an overestimation of required funds for the program in fiscal 2011, and \$54,176 was reverted from other various programs.

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Special fund cancellations totaled \$110,256 in the Teacher Development Program due to a decrease in the number of public school teachers seeking National Board Certification supported by State and local funds due to a decrease in local funds available for this purpose.

Federal fund cancellations totaled \$5.5 million. Of this total, \$2.5 million was cancelled in the Children at Risk Program for 21st Century Living Classroom sub-grants to LEAs and others. Due to the timing of competitive awards, some funds will be issued in fiscal 2012, which resulted in a fiscal 2011 cancellation. Other federal fund cancellations include \$816,463 for grants to public libraries due to a partial payment of fiscal 2011 federal funds, the remainder of which were received in fiscal 2012; \$2.0 million in the Educationally Deprived Children, Career and Technology Education, Innovative Programs, Science and Mathematics Education Initiative, and the State Assistance for Students with Disabilities programs reflecting federal grants that span multiple State fiscal years; and \$123,308 due to the closure of a three-year competitive federal grant to expand participation and performance in Advanced Placement courses and exams among eight Baltimore City high schools (a one-year no-cost extension until September 30, 2012, will allow funds to be expended in fiscal 2012).

Reimbursable fund cancellations totaled \$257,521. Of this total, \$210,000 was reverted from the Children at Risk program, reflecting the elimination of the Middle School Tobacco Prevention Program previously funded by DHMH.

Fiscal 2012

The fiscal 2012 working appropriation is \$7.0 million above the legislative appropriation due to the transfer of \$8.8 million from the State share of foundation program to the Disparity Grants Program as a result of restrictive budget bill language from the 2011 legislative session, contingent on enactment of Chapter 571 of 2011. In addition, the fiscal 2012 working appropriation increased \$15.9 million due to special funds from an administrative charge for use of the State Retirement System beginning in fiscal 2012.

**Teachers' and Librarians' Retirement
Fiscal 2013 Contingent Reduction
(\$ in Thousands)**

<u>County</u>	<u>Contingent Reduction</u>
Allegany	\$2,498
Anne Arundel	19,353
Baltimore City	21,894
Baltimore County	26,618
Calvert	4,783
Caroline	1,347
Carroll	6,821
Cecil	4,162
Charles	6,595
Dorchester	1,104
Frederick	9,947
Garrett	1,125
Harford	9,444
Howard	16,660
Kent	619
Montgomery	45,085
Prince George's	32,852
Queen Anne's	1,861
St. Mary's	4,189
Somerset	811
Talbot	1,072
Washington	5,224
Wicomico	3,646
Worcester	2,158
Total	\$229,866

Source: Department of Budget and Management

Direct State Aid for Local School Boards
Fiscal 2012-2013
(\$ in Thousands)

<u>County</u>	<u>Direct Aid</u> <u>2012</u>	<u>Direct Aid</u> <u>2013</u>	<u>Direct Aid</u> <u>Change</u>	<u>LEA</u> <u>Retirement</u> <u>Payment</u>	<u>Adj.</u> <u>Change</u>
Allegany	\$78,639	\$75,571	-\$3,068	554	-\$2,514
Anne Arundel	302,530	312,431	9,901	2,654	12,555
Baltimore City	879,395	883,910	4,515	6,010	10,525
Baltimore	539,077	554,727	15,650	4,398	20,048
Calvert	82,983	81,983	-1,000	517	-483
Caroline	42,341	44,642	2,301	290	2,591
Carroll	141,119	140,499	-620	744	124
Cecil	97,533	97,901	368	623	991
Charles	155,895	156,677	782	726	1,508
Dorchester	31,606	33,004	1,398	283	1,681
Frederick	218,592	223,915	5,323	1,096	6,419
Garrett	22,916	20,652	-2,264	276	-1,988
Harford	208,911	204,669	-4,242	1,462	-2,780
Howard	215,910	220,491	4,581	996	5,577
Kent	9,626	9,732	106	146	252
Montgomery	564,692	592,571	27,879	6,217	34,096
Prince George's	869,629	908,191	38,562	6,624	45,186
Queen Anne's	32,217	32,314	97	289	386
St. Mary's	92,726	95,111	2,385	601	2,986
Somerset	23,722	23,527	-195	277	82
Talbot	11,509	11,993	484	222	706
Washington	153,139	157,248	4,109	900	5,009
Wicomico	114,723	119,746	5,023	789	5,812
Worcester	18,476	18,883	407	406	813
Unallocated	33,789	34,459	670	0	670
Total	\$4,941,695	\$5,054,847	\$113,152	\$37,100	\$150,252

LEA: local education agencies

Source: Department of Legislative Services

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

<u>Object/Fund</u>	<u>FY 11 Actual</u>	<u>FY 12 Working Appropriation</u>	<u>FY 13 Allowance</u>	<u>FY 12 - FY 13 Amount Change</u>	<u>Percent Change</u>
Objects					
01 Salaries and Wages	\$ 46,605	\$ 0	\$ 0	\$ 0	0.0%
02 Technical and Spec. Fees	2,443	0	0	0	0.0%
04 Travel	1,979	0	0	0	0.0%
08 Contractual Services	-210,689	0	0	0	0.0%
09 Supplies and Materials	4,127	0	0	0	0.0%
10 Equipment – Replacement	1,226	0	0	0	0.0%
12 Grants, Subsidies, and Contributions	6,783,285,923	6,461,711,248	6,798,830,791	337,119,543	5.2%
Total Objects	\$ 6,783,131,614	\$ 6,461,711,248	\$ 6,798,830,791	\$ 337,119,543	5.2%
Funds					
01 General Fund	\$ 4,876,168,195	\$ 5,471,422,284	\$ 5,736,203,156	\$ 264,780,872	4.8%
03 Special Fund	435,677,582	234,794,907	271,901,425	37,106,518	15.8%
05 Federal Fund	1,471,145,058	755,305,757	790,551,210	35,245,453	4.7%
09 Reimbursable Fund	140,779	188,300	175,000	-13,300	-7.1%
Total Funds	\$ 6,783,131,614	\$ 6,461,711,248	\$ 6,798,830,791	\$ 337,119,543	5.2%

Note: The fiscal 2012 appropriation does not include deficiencies. The fiscal 2013 allowance does not include contingent reductions.

**Fiscal Summary
MSDE – Aid to Education**

<u>Program/Unit</u>	<u>FY 11 Actual</u>	<u>FY 12 Wrk Approp</u>	<u>FY 13 Allowance</u>	<u>Change</u>	<u>FY 12 - FY 13 % Change</u>
01 State Share of Foundation Program	\$ 3,095,915,616	\$ 2,823,927,602	\$ 2,985,654,198	\$ 161,726,596	5.7%
02 Compensatory Education	1,041,059,587	1,083,839,626	1,146,261,309	62,421,683	5.8%
03 Aid for Local Employee Fringe Benefits	866,096,182	865,395,322	922,083,739	56,688,417	6.6%
04 Children at Risk	27,647,803	37,329,675	30,124,225	-7,205,450	-19.3%
05 Formula Programs for Specific Populations	4,626,107	5,842,000	5,410,988	-431,012	-7.4%
07 Students with Disabilities	386,844,830	387,422,142	390,878,778	3,456,636	0.9%
08 State Assistance for Students with Disabilities	217,390,064	225,814,844	246,702,213	20,887,369	9.2%
09 Gifted and Talented	1,216,577	1,141,828	1,050,000	-91,828	-8.0%
12 Educationally Deprived Children	214,485,440	200,220,155	214,963,377	14,743,222	7.4%
13 Innovative Programs	143,925,011	16,118,797	14,028,936	-2,089,861	-13.0%
15 Language Assistance	9,146,607	9,121,522	8,455,000	-666,522	-7.3%
18 Career and Technology Education	16,085,625	15,769,826	14,411,709	-1,358,117	-8.6%
24 Limited English Proficient	151,176,031	162,699,325	177,513,226	14,813,901	9.1%
25 Guaranteed Tax Base	47,391,600	50,069,686	44,205,671	-5,864,015	-11.7%
27 Food Services Program	216,754,175	225,595,631	250,440,921	24,845,290	11.0%
31 Public Libraries	34,437,743	34,318,092	34,429,606	111,514	0.3%
32 State Library Network	15,657,837	15,803,108	16,058,820	255,712	1.6%
39 Transportation	244,384,402	248,244,197	251,331,845	3,087,648	1.2%
52 Science and Mathematics Education Initiative	3,083,050	5,147,870	3,836,230	-1,311,640	-25.5%
53 School Technology	1,262,658	1,900,000	0	-1,900,000	-100.0%
55 Teacher Development	44,544,669	45,990,000	40,990,000	-5,000,000	-10.9%
Total Expenditures	\$ 6,783,131,614	\$ 6,461,711,248	\$ 6,798,830,791	\$ 337,119,543	5.2%
General Fund	\$ 4,876,168,195	\$ 5,471,422,284	\$ 5,736,203,156	\$ 264,780,872	4.8%
Special Fund	435,677,582	234,794,907	271,901,425	37,106,518	15.8%
Federal Fund	1,471,145,058	755,305,757	790,551,210	35,245,453	4.7%
Total Appropriations	\$ 6,782,990,835	\$ 6,461,522,948	\$ 6,798,655,791	\$ 337,132,843	5.2%
Reimbursable Fund	\$ 140,779	\$ 188,300	\$ 175,000	-\$ 13,300	-7.1%
Total Funds	\$ 6,783,131,614	\$ 6,461,711,248	\$ 6,798,830,791	\$ 337,119,543	5.2%

Note: The fiscal 2012 appropriation does not include deficiencies. The fiscal 2013 allowance does not include contingent reductions.