

ISSUE PAPERS 2020 LEGISLATIVE SESSION



DEPARTMENT OF LEGISLATIVE SERVICES 2019

Education

State Education Aid

State aid for public schools is projected to total \$7.1 billion in fiscal 2021, representing an increase of \$105.0 million over fiscal 2020. Funding to support programs established or extended through The Blueprint for Maryland's Future (Chapter 771 of 2019) totals \$345 million in fiscal 2021.

State Public Schools Aid Projected to Increase by \$105 Million

Public schools are expected to receive an estimated \$7.1 billion in fiscal 2021, representing a \$105.0 million (1.5%) increase over the prior fiscal year. The increase is comprised of aid that flows directly to local school boards, which is projected to increase by \$137.3 million (2.2%), as partially offset by retirement aid, which is projected to decrease by \$32.3 million (4.2%). The increase in direct aid is largely driven by a moderate expected rise in the per pupil foundation amount and enrollment increases as well as funding designated to support The Blueprint for Maryland's Future.

Foundation and Many Other Direct Aid Programs Will Increase

The Foundation Program is the major State aid program for public schools, accounting for nearly half of State education aid. For each school system, a formula determines the State and local shares of a minimum per pupil funding level, or "foundation." The Foundation Program is projected to total \$3.2 billion in fiscal 2021, an increase of \$58.4 million (1.9%) over fiscal 2020, as shown in **Exhibit 1**. The increase is attributable to statewide enrollment growth of an estimated 0.7% and a 1.2% inflationary increase in the per pupil foundation amount, from \$7,244 to \$7,331. The 1.2% increase in the per pupil foundation amount is equivalent to the increase in the Consumer Price Index for all urban consumers (commonly known as CPI-U) for Washington-Arlington-Alexandria, DC-VA-MD-WV (the Washington statistical area). State law requires the inflationary adjustment to be the lesser of CPI-U or the Implicit Price Deflator for State and Local Government up to 5.0%. Although projected enrollment grows statewide, it varies by local school system, from an increase of 1.7% to a decline of 0.7%. Actual enrollment and wealth figures will not be available until January 2020.

Other than the Foundation Program, the compensatory education and limited English proficiency formulas are projected to increase the most among the direct aid formula programs in fiscal 2021. A portion of the increase in each program is due to projected enrollment growth in students eligible for free and reduced-price meals and English language learners, respectively, and the rest of the increases can be attributed to the increase in the per pupil foundation amount.

Exhibit 1
Estimated State Aid for Education
Fiscal 2020 and 2021
(\$ in Millions)

<u>Program</u>	<u>2020</u>	<u>2021</u>	<u>\$ Change</u>	<u>% Change</u>
Foundation Program	\$3,140.4	\$3,198.8	\$58.4	1.9%
Geographic Cost of Education Index	145.5	148.2	2.7	1.9%
Net Taxable Income Grant	65.3	58.8	-6.5	-9.9%
Declining Enrollment Grant	18.9	10.1	-8.8	-46.3%
Foundation Special Grants	11.9	0.0	-11.9	-100.0%
Kirwan Blueprint Funding	251.6	335.1	83.5	33.2%
Compensatory Education Program	1,330.4	1,349.8	19.3	1.5%
Special Education Formula	303.0	308.1	5.1	1.7%
Nonpublic Special Education	121.5	118.9	-2.6	-2.1%
Limited English Proficiency	311.1	323.4	12.3	3.9%
Guaranteed Tax Base	43.7	44.1	0.4	0.9%
Student Transportation	303.1	308.1	5.1	1.7%
Head Start/Prekindergarten	50.8	29.6	-21.1	-41.6%
Other Programs	136.2	137.8	1.6	1.2%
<i>Direct Aid Subtotal</i>	<i>\$6,223.6</i>	<i>\$6,370.8</i>	<i>\$137.2</i>	<i>2.2%</i>
Teachers' Retirement	\$767.9	\$735.6	-\$32.3	-4.2%
Grand Total	\$7,001.5	\$7,106.4	\$104.9	1.5%

Kirwan: Commission on Innovation and Excellence in Education

Source: Department of Legislative Services

Also, a decrease of \$11.9 million is projected due to no funding being included in fiscal 2021 for a foundation special grant. This fiscal 2020 grant provided supplemental funding to some school systems to ensure that all received at least an increase of \$100,000 in direct State aid. A similar grant was provided in fiscal 2019. However, as this grant is not required by statute, it is not anticipated for the fiscal 2021 budget.

Funding for The Blueprint for Maryland's Future

Consistent with the 2019 interim recommendations of the Commission on Innovation and Excellence in Education, Chapter 771 of 2019, The Blueprint for Maryland's Future, established an array of programs and funding over the fiscal 2020 and 2021 period. Chapter 771 established (1) a Concentration of Poverty School Grant Program; (2) a Teacher Collaborative Grant Program; (3) a Teacher Salary Incentive Grant Program; and (4) a Transitional Supplemental Instruction for Struggling Learners Program. An additional \$65.5 million in both fiscal 2020 and 2021 is provided

for special education services with specified allocations to each local education agency. If any of this funding is not needed to fully implement individualized education programs and 504 plans for students with disabilities, each local board of education must use the remaining funding to implement other recommendations made in the commission's January 2019 interim report. In addition, Chapter 771 extended the declining enrollment grants to fiscal 2021, expanded and extended the supplemental prekindergarten grants under Chapter 6 of 2017 to fiscal 2021, and extended the free and reduced-priced meals student-count methodology for the compensatory aid program used to account for school and school system participation in the Community Eligibility Provision through fiscal 2025.

Chapter 771 enhanced State aid to local school systems by \$251.6 million in fiscal 2020 and \$345.3 million in fiscal 2021. Implementation of the commission's recommendations will also be supported in fiscal 2020 and 2021 by gaming revenues deposited in the Education Trust Fund, including the funds the Governor is required to earmark for supplemental funding for public education (\$125 million in fiscal 2020 and \$250 million in fiscal 2021); a portion of corporate filing fee revenue; general funds repurposed from the overfunded Teacher, Induction, Retention and Advancement Pilot Program; and funds available from The Blueprint for Maryland's Future Fund. Beginning in fiscal 2021, sales tax revenues from marketplace facilitators and out-of-state vendors that exceed \$100 million are dedicated to funding the commission's recommendations. If expended on education aid in fiscal 2021, these sales tax revenues would bring total spending on public education to \$7.2 billion.

State Retirement Costs Increase; Local Costs Virtually Flat

State retirement costs for public school teachers and other professional personnel will total an estimated \$735.6 million in fiscal 2020, representing a \$32.3 million (4.2%) decrease. This decrease is attributed to a decrease in the State contribution rate, which is only partially offset by modest salary base growth. In addition to the State's share of teacher pension costs, local governments will contribute approximately \$303.3 million in fiscal 2021 (nearly level with the fiscal 2020 local total) – \$287.4 million for the local share of pension contributions, which is the employer "normal cost" for active members of the State Teachers' Pension or Retirement Systems, as well as \$15.9 million toward State Retirement Agency administrative costs. The normal cost for fiscal 2021 is 4.33% of salary base as compared to 4.38% in fiscal 2020; however, this rate decline is expected to be somewhat offset by a statewide increase in the local salary base.

Maintenance of Effort

The Maintenance of Effort (MOE) law requires each county government, including Baltimore City, to provide as much per pupil funding for the local school board as was provided in the prior fiscal year. However, as discussed below, under Chapter 6 of 2012 some county governments must increase per pupil funding. As of November 2019, the Maryland State Department of Education (MSDE) has certified that the school appropriations of 23 counties have met or exceeded the fiscal 2019 MOE requirement. In total, 18 counties exceeded MOE by 1.0% or more. According to MSDE, Baltimore City appealed MSDE's decision that Baltimore City was

noncompliant with its MOE requirement, but MSDE dismissed the appeal while noting the lack of a brief from Baltimore City in support of the appeal. Accordingly, the State Superintendent of Schools has requested the Comptroller to withhold \$2.1 million in income tax revenue (equivalent to the MOE shortfall) from Baltimore City. Baltimore City has requested reconsideration of its appeal, and as of publication of this report, the final resolution of its MOE compliance is not known.

Twelve jurisdictions that are below the statewide five-year moving average education effort level may be required to increase their MOE appropriations in fiscal 2021 as required by Chapter 6 of 2012. The required increase is the lesser of the increase in a county's per pupil wealth, the average statewide increase in per pupil local wealth, or 2.5%. Preliminary estimates suggest that statewide per pupil local wealth will increase from fiscal 2020 to 2021. Actual wealth and enrollment figures pertaining to fiscal 2021 aid will be available in January 2019. In fiscal 2020, 12 jurisdictions were required to increase their appropriations, ranging from an increase of 0.7% to 2.5%.

Education

Commission on Innovation and Excellence in Education

The Commission on Innovation and Excellence in Education held its final meeting in November 2019, following more than three years of work to develop policy recommendations and funding formulas that are intended to transform Maryland's education system into a world-class system that truly prepares its students to be college and career ready. The commission's recommendations call for an investment of over \$4 billion (State and local funds) annually once full implementation is reached in 10 years with a phase-in schedule that incrementally increases the formulas.

Commission's Work Nears Completion

After more than three years of work, the Commission on Innovation and Excellence in Education held its final meeting on November 21, 2019, and will issue a final report in December 2019. The commission was established by Chapters 701 and 702 of 2016 to, among other charges, (1) review the findings of a consultant's study on adequacy of education funding and its related studies and make recommendations on the funding formulas; (2) review and make recommendations on expenditures of local education agencies; (3) review and make recommendations on innovative education delivery mechanisms and other strategies to prepare Maryland students for the 21st century workforce and global economy; and (4) review and make recommendations on expanding prekindergarten, including special education prekindergarten. The commission began meeting in September 2016. Former University System of Maryland Chancellor Dr. William "Brit" Kirwan was appointed by the Governor and Presiding Officers to serve as chair of the commission. The members of the commission include eight legislators; State and local superintendents; representatives of State and local boards of education, local governments, higher education institutions, and the business community; and numerous other stakeholders.

In January 2019, the commission released an interim report that included detailed recommendations in the five policy areas outlined in its December 2017 preliminary report:

- ***Policy Area 1 – Early Childhood Education:*** A significant expansion of voluntary, high-quality, full-day prekindergarten, which will be free for all low-income three- and four-year-olds and provided on a sliding scale for all other four-year-olds, as well as capacity building for child care providers and additional supports and services for young children and their families;
- ***Policy Area 2 – High-quality and Diverse Teachers and Leaders:*** Raising the standards and status of the teaching profession, including a performance-based career ladder and salaries comparable to other fields with similar education requirements as well as revamped

teacher preparation programs to provide the skills and knowledge teachers need to be successful with students' different learning abilities and styles;

- ***Policy Area 3 – College and Career Readiness:*** An internationally benchmarked curriculum that enables most students to achieve college and career readiness by the end of tenth grade and then pursue pathways that include early college, high-quality college preparatory programs, and/or rigorous career and technical education with an apprenticeship or other workplace experience leading to an industry-recognized credential;
- ***Policy Area 4 – More Resources for Students to be Successful:*** Extensive additional support for schools serving high concentrations of students living in poverty, including community schools and wraparound services, and increased support for students learning English and students with disabilities; and
- ***Policy Area 5 – Governance and Accountability:*** An independent accountability board with the authority to ensure that the commission's recommendations are successfully implemented and produce the desired results.

The interim report also included 10-year projections of the cost of the commission's proposals and a request for an additional year to develop proposed funding formulas to implement the policy recommendations. The commission projected that, when fully implemented in fiscal 2030, its recommendations would require an additional \$3.8 billion in education spending, including both State and local shares.

The Blueprint for Maryland's Future

In response to the commission's interim report, The Blueprint for Maryland's Future (Chapter 771 of 2019) established in statute the policy framework for a world-class education system in Maryland based on the commission's recommendations. The Blueprint legislation also provided to the commission the additional year that it requested to complete its work and a "down payment" on funding to begin implementing its recommendations, pending the development of new funding formulas.

The Blueprint legislation provided initial funding for fiscal 2020 and 2021 for some of the commission's top priorities and mandated in fiscal 2022 at least \$370 million, and up to \$500 million, for the new funding formulas to begin to be implemented. New State funding totals \$255.7 million in fiscal 2020 and \$355.6 million in fiscal 2021.

Funding Formula Workgroup

In June 2019, the Presiding Officers of the Senate and the House of Delegates appointed a workgroup consisting of several members of the commission and State and local officials with

experience in finance and education to review the State's education funding formulas and make recommendations to the full commission regarding (1) the distribution of funds between the State and local governments and by local education agency to implement the commission's policy recommendations and (2) specific funding formulas for ongoing costs within the commission's recommendations. The workgroup also made recommendations for a more even phase-in schedule over the 10-year implementation period. In response to language in The Blueprint legislation, the workgroup completed its work in October 2019, and the commission adopted the workgroup's recommendations nearly unchanged.

Specifically, the workgroup recommended per pupil funding formula amounts for the Foundation Program and the three targeted formulas (compensatory education, English Learners, and special education) as well as several new formulas including concentration of poverty. It also made recommendations related to enrollment counts, local wealth calculations, and numerous other factors related to the formulas. The workgroup's recommendations fully implement the commission's recommendations in 10 years, as envisioned by the commission in its interim report. However, the specific pacing of the workgroup's phase-in differs from what the commission envisioned, in part due to changes in assumptions about how quickly certain changes can be implemented (*e.g.*, the teacher career ladder) and the need for sufficient planning time so that the recommendations are implemented as intended with consideration for the fiscal impact on the State and local governments.

Under the workgroup's funding proposal, direct State aid for education in fiscal 2030, when the commission's recommendations are fully implemented, is projected to exceed the amount that would be allocated under current law by \$2.8 billion. During the phase-in period from fiscal 2022 through 2030, State aid grows at an annual rate of about 5.6%. This compares to significantly higher growth rates in the commission's interim report, especially in the first three years when costs increase by more than 50%.

The recommended schedule does not require any increase in local funding in fiscal 2021 from current projected levels. However, beginning in fiscal 2022, when the new funding formulas are proposed to take effect, local governments are expected to begin to contribute their share of those formulas. The State will pay the local share of the concentration of poverty grants for most school systems; only a small number of systems that benefit from the funding floor for State compensatory education funding will be responsible for paying the local share for the concentration of poverty funds. Under current law, local governments are only required to fund the local share of the Foundation Program. The workgroup recommended, and the commission adopted, a new requirement that the local governments fund the local share of all of the wealth-equalized formulas. However, the workgroup and the commission acknowledged that this new requirement will need to be phased in over time, particularly for less wealthy jurisdictions, and that other adjustments may be necessary during the legislative process.

Local jurisdictions will still be required to meet the per pupil Maintenance of Effort requirement under the proposal, but the so-called "escalator" provision that requires jurisdictions making below-average education effort to increase their maintenance of effort will be eliminated. The workgroup's recommendation estimates that the local share of education funding formulas

will increase by approximately \$1.2 billion over current projected local funding levels by fiscal 2030. Estimates of the phase-in of the State and local shares of the formulas by year and by jurisdiction are available on the commission's website. These estimates will be updated in January when the most recent enrollment and local wealth figures are available.

Education

School Construction

During the 2019 interim, several workgroups on school facilities met and finalized their recommendations. Additionally, the Interagency Commission on School Construction awarded grants to local education agencies from both the Healthy School Facility Fund and the School Safety Grant Program. Finally, ongoing progress was made toward the goal of renovating Baltimore City schools under the State, Baltimore City, and Baltimore City Public Schools partnership legislation enacted in 2013.

21st Century School Facilities Act Workgroups

Following the work of the 21st Century School Facilities Commission in 2016 and 2017 that culminated in a final report in January 2018, the General Assembly passed the 21st Century School Facilities Act during the 2018 legislative session. The Act made comprehensive changes to the public school construction funding and approval process, including making the process more independent and transparent. The Act also made a number of changes to the Interagency Commission on School Construction (IAC). The reconstituted IAC was appointed in 2018 and began implementing the Act.

The Act also created two workgroups to make further recommendations related to issues in public school construction that the commission could not resolve in the timeframe that it had to complete its work: the Workgroup on Educational Development Specifications (Ed Specs Workgroup) and the Workgroup on the Assessment and Funding of School Facilities (Assessment Workgroup). This section describes their work during the 2018 and 2019 interims.

Workgroup on Educational Development Specifications

The Ed Specs Workgroup was charged with, among other things, reviewing and making recommendations regarding (1) the square footage allocations used by IAC to determine funding levels for school construction projects and (2) the alignment between the State's school facility design standards and funding allocations. The Ed Specs Workgroup met several times in 2018 and 2019 and submitted a final report in July 2019.

The final report for the Ed Specs Workgroup recommended that IAC adopt new square footage allowances for school spaces that, in general, allow for slight increases in the square footage that is eligible for State funding. It also recommended that IAC clarify that design specifications for public schools are entirely at the discretion of local governments and that the State's design specifications serve as guidelines, not requirements. The report also recommended that IAC have sufficient flexibility to align gross area allowances with programmatic requirements

and to allow State participation in justifiable construction costs that exceed the standard cost per square foot. The Ed Specs Workgroup also made recommendations outside of its statutory charge, including recommendations related to requiring minimum allocations for building maintenance, the creation of incentives for local school systems to reduce the total cost of ownership for school facilities (which was referred to the Assessment Workgroup for its consideration), and promoting the use of shared space.

In May 2019, in anticipation of some of the Ed Specs Workgroup's recommendations, IAC voted to adopt the new square footage allowances recommended by the workgroup and to begin collecting information from local school systems on the total cost of ownership (TCO) when they submit new projects to IAC for review. The TCO information will be used only for planning purposes and will not be used in making any funding decisions at this time.

Workgroup on the Assessment and Funding of School Facilities

The Assessment Workgroup's main charge under the 21st Century School Facilities Act was to review the results of the initial statewide school facility assessment required by the Act and to make recommendations related to (1) the prioritization of facility needs identified by the assessment and, (2) if appropriate, how the assessment results should be used in making funding decisions. The Act required the initial statewide facilities assessment to be completed by July 1, 2019. IAC issued a solicitation in November 2018 for the initial statewide school facility assessment; however, a bid protest delayed award of the contract and eventually required that IAC reissue the solicitation. As a result, there was no assessment for the Assessment Workgroup to review. Nevertheless, the Assessment Workgroup chose to continue to meet to make preliminary recommendations related to the initial statewide school facility assessment.

The Assessment Workgroup recommended that the results of the statewide school facility assessment should be used in some capacity related to State public school construction funding decisions. The workgroup agreed that the results of the assessment should be put into weights and categories and that two reports should be produced from the assessment – one with all schools in the State compared to all other schools in the State and one with all schools in a county compared to all other schools within the county. The workgroup also agreed that the results of the weighting should be used to create a pilot program to award funding. The workgroup recommended that both the funding prioritization pilot program and a potential capital maintenance incentive program should be determined based on the completion of the statewide school facilities assessment. The Assessment Workgroup also considered whether to provide funding incentives for local jurisdictions to reduce TCO of public school facilities. The workgroup further recommended the implementation of an incentive that would provide a 0.75% State share incentive for each 1% in reduction in estimated TCO.

Healthy School Facility Fund

Recently, many school systems have encountered facility issues with potential impacts on student health and, in some cases, resulting in temporary school closures. Chapter 561 of 2018 established the Healthy School Facility Fund within IAC to provide grants to public schools to improve the health of school facilities. The Governor must appropriate \$30 million for the special fund in fiscal 2020 and 2021, which must be in addition to funds that would otherwise be appropriated for public schools. IAC must administer the grant program and give priority in awarding grants to schools based on the severity of issues in the school. Chapter 557 of 2019 modified the program to add lead in drinking water outlets in school buildings to the list of priority health issues eligible for grants under the program. No jurisdiction may receive more than \$15 million in a given fiscal year, and the total amount of a grant is not required to cover the full cost of a project.

In its October 2019 meeting, IAC gave final approval for projects totaling the full \$30 million allocation. Local education agencies requested funding for 93 projects, and IAC approved funding for 53 projects. Priority was given to projects to rectify facility deficiencies that resulted in, or have the potential to result in, school closures.

Maryland School Safety Grant Program

The 21st Century School Facilities Act required an annual \$10 million appropriation to fund school safety capital improvements through the Maryland School Safety Grant Program. The program provides grants to address the need for school security improvements, including to secure lockable classroom doors; areas of safe refuge in classrooms; surveillance and other security technology for school monitoring purposes; security communications; access control systems; and security vestibules. In fiscal 2019, \$20 million was authorized for the program (\$10 million more than mandated). IAC awarded the \$20 million in capital funding for public schools in two \$10 million installments. At its September 2018 meeting, IAC approved allocating \$5 million of the first installment based on enrollment and \$5 million based on school facility square footage.

At its March 2019 meeting, IAC approved release of applications and funding allocations for a second \$10 million of the \$20 million total fiscal 2019 authorization with an application period from April 1 to September 30, 2019. As of October 2019, 599 security project applications for the program were received, and 519 projects were approved with 80 projects under further review. An allocation of \$10 million for fiscal 2020 has not yet been distributed.

Baltimore City School Construction Revitalization

Chapter 647 of 2013 established a new partnership among the State, Baltimore City, and Baltimore City Public Schools (BCPS) to fund up to \$1.1 billion in public school facility improvements through revenue bonds to be issued by the Maryland Stadium Authority. The

partners executed a Memorandum of Understanding (MOU) that established the specific roles and responsibilities of each party to implement the construction plan. The State is contributing \$20 million annually to support debt service on the bonds with BCPS and Baltimore City each contributing \$20 million annually until the outstanding debt is retired.

The program currently anticipates a total of 26 to 28 schools to be renovated or constructed. The specific projects that will be included in the initiative contain more elementary and middle schools and fewer high schools than originally proposed. The schedule has taken longer than originally anticipated, but 10 of 11 Year 1 schools approved under the MOU have been completed, with the final Year 1 school slated to open in summer 2021. The first of 17 Year 2 schools was completed in September 2019, leaving a total of 17 remaining schools to be completed. Of those, 3 are slated to be completed and open to students in January 2020, 5 more are under construction, 6 are being designed, and 3 are undergoing feasibility studies. The program is currently anticipated to be completed by summer 2021, one year behind the original schedule.

The opening of new schools will require an increased attention to maintenance. The MOU states that BCPS must include an annual increase over the prior year maintenance appropriation of \$3 million from fiscal 2015 through 2023 until the full agreed upon amount of approximately \$42.5 million is reached. The Baltimore City fiscal 2020 budget includes the required \$3 million increase. IAC also recommended that the efforts to increase maintenance be continuously measured. BCPS has implemented a new computerized maintenance management system utilizing initiative funding that will better track progress of the maintenance program.