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DEPARTMENT OF LEGISLATIVE SERVICES 2015

Education

Adequacy of Education Funding Study

The adequacy of education funding for public schools study is on track to be completed by the required December 1, 2016 deadline. The study includes several additional required reports with due dates staggered across the nearly two and one-half year study, including five reports submitted in September 2015. Next steps include receipt of a delayed report on prekindergarten expansion in December 2015, as well as a report to the General Assembly on potentially changing how economically disadvantaged students are counted in the compensatory aid formula. An update of the fiscal impact of the Geographic Cost of Education Index is due in June 2016.

Work on Adequacy Study Continues

The Bridge to Excellence in Public Schools Act (Chapter 288 of 2002), which established new primary State education aid formulas based on adequacy cost studies and other education finance analyses, required the State to contract with a consultant to conduct a follow-up study of the adequacy of education funding in the State approximately 10 years after its enactment. The concept of adequacy is based on determining the level of resources that is adequate for all public school students to have the opportunity to achieve academic proficiency standards. After legislation in 2011 and 2012 delayed the beginning of the study and required additional reports to be included in the study, work on the adequacy study began in June 2014, when a contract was awarded to Augenblick, Palaich, and Associates (APA) and its team of researchers that includes Picus Odden and Associates and the Maryland Equity Project. The final report must be submitted to the Governor and General Assembly by December 1, 2016.

The primary study on adequacy of education funding is on target to be completed by October 31, 2016, using three different methodologies: evidence-based; professional judgment; and successful schools. In monthly interim progress reports, APA reported that the development of the initial evidence-based conceptual model was completed in spring 2015, and in June 2015 four evidence-based panels were convened across the State to review the conceptual model from a Maryland perspective. The first six professional judgment panels were convened in October 2015, with three additional panels to be convened by January 2016. The successful schools analysis is also progressing, with expenditure data to be collected over the winter.

APA has submitted several reports related to the adequacy study since 2014. Most recently, four final reports and one preliminary report were submitted on September 30, 2015. A comprehensive report on prekindergarten in the State was also due by September 30, 2015; however, as of November 1, 2015, the final report was not complete. The final report with recommendations is expected to be submitted in December 2015. Public presentations on the completed reports were given to the Adequacy Study Stakeholder Advisory Group in July and October 2015. All of the completed reports and APA's presentations to the Adequacy Study

Stakeholder Advisory Group can be found at <http://marylandpublicschools.org/adequacystudy/>. The key findings and recommendations of the recent reports are summarized below.

Preliminary Report

Chapter 430 of 2004 established a formula for the Geographic Cost of Education Index (GCEI), but unlike the rest of the major State education aid programs, the formula was not mandated. GCEI was not funded until fiscal 2009 and was fully funded only in fiscal 2010 through 2015; the Governor has funded it at 50% in fiscal 2016. The goal of GCEI is to recognize regional differences in the cost of educational resources and to compensate school systems where resources cost more due to factors beyond their control. Under State law, GCEI must be updated every three years. The 2012 update was delayed to incorporate it into the adequacy study. In addition to updating GCEI in the final report, the preliminary report examined the current methodology used in Maryland and other methods that could be used to account for geographic differences in cost.

The study recommends that Maryland use a Comparable Wage Index rather than the existing index. A more reliable data source, less complexity, and more accuracy led the study team to recommend the Comparable Wage Index. The Comparable Wage Index measures the variation in wages of workers similar to teachers and includes wages paid, worker preferences, and local amenities (*e.g.*, desirability of a particular area). The Comparable Wage Index would exclude student characteristic variables and energy costs from the calculation (which are included in the current State methodology) and focus solely on wages, which make up the majority of school systems' costs, and isolates the impact of geographic location. The study authors note that student characteristics are accounted for in other parts of State education funding. Using a Comparable Wage Index also takes out the subjectivity in deciding what variables to use, providing a more accurate index. However, the U.S. Census data used to construct a Comparable Wage Index would not provide a separate index for each of the 24 school systems, which the State's current index provides. Several school systems that are grouped together by the U.S. Census Bureau would have the same index.

Additionally the study recommended embedding the index into the foundation funding formula so that it is less vulnerable to budgetary reduction. However, given that Chapter 477 of 2015 makes the GCEI a mandate if it is not fully funded in fiscal 2016, this point becomes less meaningful. The next step for this study is to calculate the fiscal impact of an updated GCEI based on a methodology selected by the Maryland State Department of Education (MSDE) in consultation with the Department of Budget and Management (DBM) and Department of Legislative Services (DLS). The final report is due by June 30, 2016.

Final Report

Economically Disadvantaged Students Proxy

Since fiscal 2004, the State compensatory aid formula for students with educational needs resulting from educationally or economically disadvantaged environments has been calculated using the number of students eligible for free and reduced-price meals (FRPM). The main purpose of this report was to evaluate FRPM eligibility as a proxy for identifying economically disadvantaged students, including consideration of alternative measures in light of the new federal Community Eligibility Provision (CEP) program, which allows schools and school systems to provide free meals to *every* student if they meet certain eligibility criteria. Schools and school systems that participate in CEP are not required to collect FRPM eligibility information, which could have significant implications for calculating compensatory aid. Prior to the 2015-2016 school year, only a few schools in Maryland participated in CEP, but MSDE reports that 277 Maryland schools are participating in CEP this year, including the Baltimore City Public School system.

The study team reviewed various indicators of low-income status such as FRPM-based hybrid models, free meal counts, direct certification, and Title I counts. They concluded that although each indicator reviewed in the study provides a reasonable proxy for economic need or low-income status, FRPM eligibility or the use of direct certification are the best proxies for identifying economically disadvantaged students in Maryland. Using FRPM eligibility maintains the status quo for calculating compensatory aid but would require school systems participating in CEP to collect FRPM eligibility information.

Using direct certification as an indicator of low-income status would represent a major change in the State's compensatory education formula. Direct certification uses a lower income threshold to identify low-income students, resulting in a lower count than the FRPM count. This would direct greater aid to local school systems and schools that serve a higher proportion of more severely economically disadvantaged students. The study team suggested that a switch to direct certification would have to occur over time. The study team also suggested expanding the number of social services used to identify economically disadvantaged students to capture more students because direct certification verifies FRPM eligibility by computer matching data records for various social programs with local school system enrollment lists.

Chapter 291 of 2015, which established a short-term alternative FRPM count for school systems participating in CEP in fiscal 2017 and 2018, requires MSDE, DBM, and DLS to review the study and make recommendations on an alternative FRPM proxy and any changes to the compensatory aid formula to the General Assembly by December 1, 2015.

Increasing and Declining Enrollment

The study assessed the impact of enrollment changes on district finances and included an analysis of enrollment trends and their relationship to local school system characteristics and

operational and transportation costs. The study examined Maryland school district responses to enrollment changes from 2005 to 2014 and found that generally most school districts appear to manage their school facilities and adjust instructional and noninstructional staffing to respond to enrollment changes. In addition, the study examined how fixed and variable costs are impacted differently by enrollment changes and described options and limitations districts face when experiencing enrollment changes.

The research team found that as of December 2014, 16 states, including Maryland, have no provisions in their funding formulas to accommodate declining enrollment. The states that do address the funding consequences of school enrollment declines take a number of different approaches and, for Maryland, the study team recommended changing the student count used in the foundation formula calculations to a multi-year rolling average of the full-time equivalent enrollment count currently used. The rolling average, which would average a district's full-time equivalent enrollment count over two to four years, would temporarily reduce the funding impact of declining enrollment. Using the higher of the two numbers prevents districts experiencing enrollment growth from being penalized.

The study team found that Maryland's transportation costs vary widely in school districts based on certain geographic factors, including population density and school location. Maryland's funding formula does not incorporate some of the features that other states commonly use to promote efficiency, such as decreasing transportation funding when total enrollment declines. The study team recommended that Maryland modernize its transportation funding formula in an effort to equalize the allocation process. The study team noted that some local decisions greatly affect transportation costs, such as threshold walking distances and maximum ride times, and recommended that factors that depend on local school system decisions should not be as important to the transportation funding formula as factors that are beyond local control. Implementing a more sophisticated funding formula will require timely submission of extensive data on transportation cost factors, and the model may result in a significant redistribution of funding; therefore, the study recommended a transition period.

School Finance Equity and Local Wealth Measures

The study analyzed fiscal neutrality and equity of school funding in Maryland and addressed a series of issues pertaining to the measurement of wealth or fiscal capacity of Maryland school districts. The study looked at measures of the fiscal neutrality of the system (*i.e.*, the degree to which revenues and expenditures are related to local measures of fiscal capacity and measures of the equality or equity of per pupil revenues and expenditures across school districts in the State). The analysis showed a relationship between wealth and funding in Maryland, but that the relationship has decreased over time. Thus, the system has become more fiscally neutral since 2002 when the Bridge to Excellence in Public Schools Act was enacted.

In looking at local wealth, the study considered combining property values and net taxable income (NTI) to determine local fiscal capacity. Maryland's three-year reappraisal process for assessing property wealth was found to be reasonable. The study recommended that, similar to 10 other states, a portion of the assessed value effectively lost through tax increment financing

should be subtracted from the calculation of local wealth so districts' equalization funding is more closely related to what is actually raised through property taxes. The study team also suggested that the State move incrementally from measuring NTI in both September and November, with districts receiving the larger amount of aid generated by the two measures, to only using the November measure. Finally the study recommended that the State consider replacing its current approach of adding income and property components to determine local wealth, with an adjustment of property value as multiplied by the ratio of a district's NTI to the State average NTI. However, no state in the country uses the recommended method.

School Size Study

The study examined certain aspects of school size, such as the impact on student achievement, operating costs, and school construction funding programs. The study found that the cost per student is highest at the extremes (*i.e.*, the smallest and largest schools) and recommended enrollment limits for new schools based on the points at which schools in Maryland start becoming both less cost efficient and less productive: 700 students in elementary schools; 900 students in middle schools; and 1,700 students in high schools.

The study also recommended that the State develop a small schools incentive grant program that would provide financial incentives and support for replacing the State's largest, low-performing schools or for renovating existing large school buildings. Eligibility criteria laid out by the research team offered two benchmarks: (1) schools that have fewer than 70% of the students achieving proficiency or higher on State assessments and (2) schools that exceed the following numbers of students: 550 students for elementary schools; 750 students for middle schools; and 1,000 students for high schools. Based on the criteria presented, 9 high schools, 12 middle schools, and 24 elementary schools could qualify for the small school incentive grant with a potential fiscal impact of up to \$2.5 billion.