The Bridge to Excellence in Public Schools Act of 2002

Its Origins, Components, and Future

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Introduction

When it enacted Senate Bill 856 on May 6, 2002, (the Bridge to Excellence in Public Schools Act of 2002), Maryland became the first State in the country to endorse a comprehensive reform of its school finance system based on principles of adequacy and equity without being forced to do so by a court order. The legislation calls for a dramatic restructuring of the State's school finance system, including substantial increases in State aid for education phased in over a period of six years. The legislation provides an additional $74.7 million in State education aid in fiscal 2003 that is financed through a 34-cent increase in the State tax on cigarettes. By fiscal 2008, the legislation calls for the State to provide an additional $1.3 billion in education funding to local school systems above the amount that the State would have provided under the prior school finance structure. In total, State aid will increase by 75 percent between fiscal 2002 and 2008.

The principles of adequacy and equity that are reflected in Senate Bill 856 were developed by the Commission on Education Finance, Equity, and Excellence, which studied issues relating to school finance in Maryland for two years before issuing its final report in January 2002. The Commission's final recommendations were incorporated into the original version of Senate Bill 856 (i.e., the first reader version). However, before passing the bill, the General Assembly adopted a number of amendments that modified various components of the school finance system recommended by the Commission.

This document includes a discussion of the context in which the Commission began its work in the fall of 1999, which consisted primarily of a variety of policies that had been adopted and implemented by the State during the 1990s regarding performance standards, accountability, and school finance. This document also includes a discussion of the guiding principles adopted by the Commission, the school finance model set forth in the original version of Senate Bill 856, and the amendments that were adopted by the General Assembly. It also compares the education funding characteristics of the prior school finance system with the education funding characteristics of the school finance systems reflected in both the original and final versions of Senate Bill 856.

Education Policy in the 1990s

Legislation typically evolves from a set of conditions that help to define the issues that are being addressed. Pivotal changes in education policy and financing during the 1990s moved Maryland in the direction of a new education funding philosophy and structure. In particular, two trends emerged and set the stage for the enactment of Senate Bill 856. First, greater emphasis was placed on statewide academic performance standards and the ability of students, schools, and school systems to achieve the standards. Second, a greater proportion of State aid was being distributed through prescriptive categorical programs that were targeted to special purposes and populations.

Standards and Accountability

In 1993 the State Board of Education (State Board) and the Maryland State Department of Education (MSDE) began reporting the overall academic performance of students at the State, district, and school levels using the Maryland School Performance Assessment Program (MSPAP). The MSPAP tests, administered to students in grades 3, 5, and 8 every spring, required students to apply their knowledge in reading, mathematics, writing, language usage, science, and social studies at a high level. The MSPAP tests became the central component of the State's accountability system. Schools and school systems were expected to show improvement on the tests each year and to eventually achieve a 70 percent passage rate for students, the State standard. Schools that failed over a number of years to show improvement towards meeting standards would be provided with additional resources and technical assistance and placed on a list to be considered for further State action. If student performance continued to suffer, schools could be reconstituted (i.e., taken over) by the State at the expense of the local school system.

By the end of the 1990s, the implementation of new high school assessments was also approaching rapidly. In the fall of 1999, the State Board announced that "high stakes" assessments, which students must pass in order to receive a high school diploma, would be administered for the first time in January 2002 and that students in the class of 2005 (entering grade 9 in 2001) would be the first cohort required to pass the assessments to graduate with high school diplomas.[1] The expected arrival of these high stakes high school assessments, therefore, was a part of the context in which the Commission began its work in 1999.

During the 1990s, while performance expectations were increasing and consequences for students, schools, and school systems that fail to achieve them were becoming more severe, per pupil spending in public schools did not increase at the same rapid rate. Statewide per pupil spending for education during this period increased at a pace roughly equal to inflation.[2] By the end of the decade, the contrast between the rate at which the State's accountability system was expanding and the rate at which spending for education services was increasing gave rise to a concern that the funding level for the State's public schools was not sufficient to meet the increasing demands of the State's accountability system.

By the 1999-2000 school year, no school system had fully achieved the State standards, and 97 schools had been placed on the reconstitution-eligible list. The following year, three Baltimore City schools were the first to be placed under State reconstitution, and responsibility

[1] As expected, the first phase of the new high school assessments began in January 2002. However, the State Board's current policy is that passing these assessments will not be a graduation requirement until 2007. As an intermediate step, the results of the high school assessments will appear on the transcripts of students graduating in 2005 and 2006.

[2] *See* page 16 of the Interim Report of the Commission on Education Finance, Equity, and Excellence (December 2000).

for the operations and management of the schools was transferred to a private education provider at the expense of the Baltimore City Public School System.

State Aid for Education

Although overall spending for schools did not increase beyond the rate of inflation in the 1990s, the complexity of the State financing structure increased considerably. Increases in State education aid during the 1980s and early 1990s focused on increasing the per pupil foundation amount used to determine State aid through the basic current expense formula. In contrast, numerous new categorical programs were created in the late 1990s. From 1997 to 2000, major State categorical aid programs were established annually through legislation passed by the General Assembly. Unlike the basic current expense formula, which provided flexible funding to local school districts, the new programs generally provided funding that targeted specific purposes or student subgroups.

The trend in restricting new State aid to specific purposes began to emerge in 1997 with the enactment of legislation that created the Baltimore City-State Partnership (Partnership) and replaced the elected Baltimore City Board of School Commissioners with a new appointed board. The Partnership legislation also provided additional funding for Baltimore City schools and created multiple smaller funding streams for other school systems, including targeted poverty grants, limited English proficiency grants, funding for teacher mentoring and gifted and talented students, and the aging schools program. The following year, the General Assembly passed the School Accountability Funding for Excellence (SAFE) legislation, which also created a number of new categorical funding programs, including (to name a few) targeted improvement grants, teacher development grants, a professional development program, and school library grants. Two more bills enacted in 1999 and 2000, respectively, provided funding to reduce class sizes and increase teachers' salaries. In fiscal 2002, categorical State aid distributed under these four pieces of legislation totaled $263 million, and the majority of the new funding was restricted to specific purposes.

By the late 1990s, the trend in providing enhanced funding for students with special needs was also evident. Two legislative initiatives, the Partnership and SAFE legislation, established three separate programs – new targeted poverty grants, additional poverty grants, and targeted improvement grants – that provided additional funds to local school systems based on their enrollment of students eligible for free and reduced price meals (i.e., economically disadvantaged students). Additional State aid for students with limited English proficiency, which was first provided through the State budget in fiscal 1994, became a mandatory aid program when the Partnership legislation was enacted in 1997. The following year, the SAFE legislation increased the grants for students with limited English proficiency from $500 to $1,350 per pupil. During the 1990s and early 2000s, categorical funding for special education was not enhanced; however, the Governor's fiscal 2002 early childhood education budget initiative distributed $19 million based on special education enrollments.

To add to the confusion of a structure that included approximately 50 State aid programs in fiscal 2002, many of the new programs established from 1997 to 2000 were scheduled to terminate after fiscal 2002. There was no guarantee that the newly established funding streams would continue beyond that date. It was within this environment that the Commission on Education Finance, Equity, and Excellence was established.

Commission on Education Finance, Equity, and Excellence

The Commission on Education Finance, Equity, and Excellence (Thornton Commission) was established by Chapter 601 of 1999 and appointed in the fall of 1999. The Commission was charged with reviewing the State's current school finance system and accountability measures and making recommendations: (1) for ensuring adequacy of funding for students in public schools; (2) for ensuring equity in funding for students in public schools; (3) for ensuring excellence in school systems and student performance; (4) that provide for a smooth transition when current educational funding initiatives terminate at the end of fiscal 2002; (5) regarding the issue of whether it is more effective to provide additional State aid in the form of targeted grants or by increasing funding through the base formula; and (6) for ensuring that local property tax policies did not affect the equitable allocation of funding for students in public schools.

The Commission worked throughout the 2000 legislative interim and submitted an interim report in December 2000. As an intermediary step before the Commission presented its final recommendations the following year, the report proposed an increase of $133 million in State aid for education in fiscal 2002 and recommended that the programs due to terminate after fiscal 2002 be extended for an additional year. The legislative members of the Commission introduced a bill during the 2001 session that would have implemented the Commission's recommendations. The final bill that was enacted by the General Assembly that year included the funding extensions, but did not provide the additional funding recommended by the Commission. The Commission continued its work during the 2001 interim and submitted its final report in January 2002. In its final report, the Commission proposed a comprehensive reform of the State's school finance system based on principles of adequacy and equity. The bill to implement the Commission's recommendations, Senate Bill 856, eventually became the Bridge to Excellence in Public Schools Act of 2002.

Adequacy

The task of the Thornton Commission, as expressed in its charge, was to redesign a cumbersome school finance system in order to achieve excellence in public schools through adequate and equitable funding. As the Commission continued its work during the 2001 legislative interim, it became increasingly clear that the standards-based approach to school financing embodied these principles. This approach formed the foundation of the Commission's work and Senate Bill 856.

Under the standards-based approach to school finance, the State's role is very clear. The State must: (1) establish performance standards for students, schools, and school systems; (2) provide for a financing system that ensures schools and school systems that they will have sufficient funding to meet the standards; and (3) hold students, schools, and school systems accountable when they fail to meet standards. By the mid-1990s, the State had instituted high academic standards and developed a nationally-recognized system of school accountability. However, no attempt had been made to connect expected outcomes with the funding needed to achieve the outcomes. This set the stage for the development of the Commission's first, and perhaps most important, guiding principle – the establishment of a rational link between expected student outcomes and school funding. Viewed from this perspective, adequate funding for the State's public schools is an estimate of the amount of funding that is sufficient to reasonably expect that students will be able to meet State standards. More specifically, adequacy can be defined as the amount of funding that schools and school systems require to obtain the resources they need to enable students to meet the State's academic performance standards. To assist in its efforts to determine what constitutes an adequate level of funding for Maryland's public schools, the Commission contracted with Augenblick & Myers, Inc. (A&M), a private consulting company specializing in educational research, to conduct two adequacy studies.

The Professional Judgement Study

The professional judgement study employed seven panels of education experts and practitioners to estimate the programs and resources that would be needed in a typical Maryland school to enable students to meet performance standards. Two panels estimated the resources needed in elementary schools; two panels estimated the resources needed in middle schools; two panels estimated the resources needed in high schools; and one oversight panel consolidated the work of the first six teams and estimated districtwide resource needs.

Augenblick & Myers then estimated the costs associated with resources and programs recommended by the professional judgement teams. In addition, based on comments made by panelists as they were designing the schools, A&M separated the resources identified for the purpose of educating the general student population from the resources identified for the purpose of educating special education students and students at risk of failing.[3] Thus, the study produced an estimate of the base per pupil cost needed to provide educational services to all students and estimates of the additional costs associated with educating two special student populations. The costs for special needs students were expressed as per pupil "weights," which represented the additional proportion of the base per pupil cost needed to provide educational resources and programs for special populations. As seen in **Exhibit 1**, the base per pupil cost was estimated at \$6,612 and the pupil weights were estimated at 1.17 for special education students and 1.39 for students eligible for free and reduced price meals. Because the professional judgement panels

[3] The number of students eligible for free and reduced price meals (i.e., economically disadvantaged students) is used as a proxy for the number of students who are at risk of failing. Depending on the context, the term "economically disadvantaged" or "at-risk" is used to designate the population. Economically disadvantaged is used in discussions regarding the estimation of costs or the provision of funds. At-risk is used in discussions about the population that is in need of or is receiving special services.

were unable to estimate resources for a small population of limited English proficient (LEP) students that would be present in the "average" Maryland School, A&M estimated a weight of 1.00 for this special student group.

The Successful Schools Study

To conduct the successful schools study, A&M gathered actual spending data – including both school-level and district-level data – from 59 schools generally meeting State performance standards. The schools selected for the study consisted of 33 elementary schools, 10 middle schools, and 16 high schools. They represented 10 of Maryland's 24 school systems and included schools from each of the State's five regional areas: the Baltimore Metropolitan Area; the Eastern Shore; Southern Maryland; the Washington, DC Metropolitan Area; and Western Maryland. The schools as a whole had special needs populations below the Statewide averages, but a few of the selected schools included significant populations of special education, economically disadvantaged, and LEP students.

When calculating spending within the schools selected for the study, spending devoted to educational programs and resources that serve special needs students was intentionally excluded from the analysis in order to estimate only a base per pupil cost associated with serving the average student with no special needs. Once a per pupil spending estimate was available for each school, A&M adjusted the figure (upwards or downwards) for regional differences in the cost of providing education services. Regional differences were estimated using the Geographic Cost of Education Index (GCEI) developed for the National Center for Education Statistics (NCES).[4] Adjusted per pupil spending ranged from $4,435 to $10,100 and averaged $5,969 (as seen in Exhibit 1). The successful schools study did not attempt to measure the additional resources needed to adequately serve students with special needs.

Another contribution of the successful schools study was a school questionnaire that was sent to each of the 59 schools involved in the study. Fifty-five schools completed and returned the surveys, which contained questions about private donations, volunteer assistance, teacher professional development, school facilities, availability of technology equipment, average class sizes, special programs, and extracurricular activities in the schools.

Using the Results of the Adequacy Studies

After carefully reviewing the results of the adequacy studies during the summer of 2001, the Commission formulated its own measure of adequacy by combining the results of the professional judgement study and the successful schools study, and incorporating some minor adjustments made by the Commission. (See Exhibit 1.) The resulting measure consisted of a base per pupil cost and two adjustments to the base per pupil cost, one to recognize the higher costs related to special needs students and a second to recognize regional differences in the costs of educational resources. The Commission adopted the successful schools base cost per pupil of

[4] This index is based on 1994 data.

$5,969 and, with one exception, accepted the per pupil weights derived from the professional judgement study. The professional judgement weight for economically disadvantaged students (1.39) was reduced by 21 percent to 1.10 to account for a 21 percent overlap of students eligible for free and reduced price meals and one or both of the other two special needs populations. The adequacy studies did not attempt to measure regional cost differences, and the Commission had concerns about using the GCEI developed for NCES because the data used to create the index were somewhat outdated and were not specific to Maryland. The Commission continued to use the GCEI to estimate regional cost differences in its reports because it was the best available index. However, the Commission also decided that a new Maryland-specific index would be needed to determine more accurately the cost differences between the State's school systems.

In sum, the formula that the Commission used to estimate adequate funding for a school system is:

K-12 enrollment x base per pupil cost
+
Special education enrollment x 1.17 x base per pupil cost
+
Free and reduced price meal enrollment x 1.10 x base per pupil cost
+
Limited English proficiency enrollment x 1.00 x base per pupil cost

To calculate an "adequacy target" for a school system, the resulting sum is then multiplied by the jurisdiction's regional cost of education index factor, a number greater than one for high cost counties and less than one for low cost counties.

Due to differences in proportions of special needs students and costs for educational resources, the per pupil adequacy targets are different in each jurisdiction. **Exhibit 2** displays the calculation of this formula for fiscal 2002, using the GCEI as an estimate for the regional differences in education costs.[5] As shown in the table, the highest total estimated needs are in Prince George's County (which would have needed an estimated $1.3 billion in fiscal 2002 to meet its adequacy target) and Montgomery County (which would have needed $1.2 billion in fiscal 2002 to meet its adequacy target). The highest per pupil need, however, exists in Baltimore City, where the proportion of special needs students is highest. Carroll County, which has the lowest proportion of special needs students, has the lowest per pupil adequacy target.

[5] It is important to note that the formula does not include costs associated with non-instructional programs such as student transportation, food service, school construction, and school construction debt service. The concept of adequacy, as defined by the Thornton Commission, only encompasses costs related to instruction. However, this does not mean the other programs are adequately funded. In fact, the Thornton Commission recommended increases to State aid for student transportation and the creation of a task force to study Maryland's school facilities. Both of these recommendations were included in the final version of Senate Bill 856.

Fiscal 2002 adequacy targets and budgeted revenues are compared in **Exhibit 3**. The exhibit reveals that only two school systems, Howard and Montgomery counties, met their estimated adequacy goals in fiscal 2002. The exhibit also shows that, despite having the second highest revenues per pupil in the State, Baltimore City had the largest differential between its adequacy target and budgeted revenues.

Equity

Once the Commission had estimated the amounts that constitute adequate funding for the State's public schools, the Commission's next task was to determine the manner in which State aid should be distributed within the existing structure of shared State and local responsibility for education funding. In the context of a school finance system, "equity" can be measured by examining the relationships between total revenues available for a school system (including federal, State, and local revenues) and the jurisdiction's needs and local tax effort. In an equitable system, local needs and local efforts should be positively related to total revenues. In addition, the aid that the State provides should be inversely related to local wealth to ensure that total revenues available to a school system are unrelated to local wealth. This concept of equity gave the Thornton Commission guidance as it identified ways to improve the equity of the State's school finance system.

The Importance of Equity in State Aid Distributions

In Maryland, funding for education has historically been a shared State and local function, with the State providing roughly 40 percent of the funding and local governments providing approximately 55 percent. The federal government generally contributes 4 to 5 percent of education funding annually. These percent shares have remained remarkably stable over the last 20 years, with only minor variations of a percentage point or two. If only the State – rather than the State and local governments – provided financial support for education, the State could distribute funds equitably by estimating the financial needs of each school system (using, for example, the Commission's formula) and distribute funding accordingly without considering local wealth. However, because jurisdictions possess very different wealth bases from which they can collect tax revenues to support public education, the State must equalize the funding it distributes in order to ensure that all jurisdictions have a fair opportunity to meet their adequate funding goals.

For illustrative purposes, **Exhibit 4** shows each school system's per pupil adequacy target and the local per pupil appropriation that would be generated if each school system contributed exactly 1.5 percent of its wealth base to the local school board.[6] The exhibit, which shows school systems needing additional funds that range from a high of $10,028 in Baltimore City to a low of $910 in Talbot County to reach their adequacy targets, demonstrates the importance of

[6] In fiscal 2002, local governments contributed an average of 1.65 percent of their assessable wealth bases to the operating budgets of local school boards. However, a portion of the funding is used for student transportation or for other non-instructional programs.

distributing State funds in an equitable manner. The exhibit also shows that higher per pupil adequacy targets (driven mostly by higher proportions of special needs students) are often present in jurisdictions with lower wealth. Funding from the federal government, most of which is provided to jurisdictions with high proportions of special needs students, helps to offset some of the wide differences between counties. State aid, however, is the primary tool for responding to diverse local needs.

Using State Aid to Equalize Education Funding

Given the existence of varying local needs and wealth bases, the Thornton Commission identified several ways the State's education finance system could operate to provide each school system with a fair opportunity to reach its adequate funding targets. The State could: (1) provide a greater share of aid based on enrollments of special student populations; (2) wealth equalize a greater proportion of aid; and (3) provide a greater share of overall funding for education. (**Exhibit 5** shows these education funding characteristics for fiscal 2002.) In addition, to ensure a greater relationship between local education tax effort and total funding for schools, the State could provide incentives to low wealth jurisdictions based on their tax efforts. Local education tax effort was not used to distribute State aid in fiscal 2002.

- *Targeting State aid based on student needs:* The adequacy studies estimated that the funding needed to support a student with special needs is at least twice the amount needed to support a student with no special needs. In fiscal 2002, however, the State provided approximately $2,600 per pupil overall and an additional $1,700 per special education student, $1,300 per student eligible for free and reduced price meals, and $1,250 per LEP pupil. This suggested that, despite the proliferation of targeted State programs in the late 1990s, a greater proportion of State aid should be distributed based on local populations of students with special needs. In fiscal 2002, 19 percent of State aid was targeted to students with special needs, compared with 75 percent targeted to the general education category. Another 6 percent of State aid was allocated for non-instructional categorical programs.

- *Equalizing State aid:* Analyses conducted by the Thornton Commission repeatedly showed that less wealthy counties were further from their adequacy targets than more wealthy counties. An obvious method of increasing equity is to wealth equalize a greater portion of overall State aid. In fiscal 2002, 65 percent of State aid was provided using a wealth-equalization formula, meaning that more wealthy counties received less State aid per pupil and less wealthy counties received more State aid per pupil. To the extent that this percentage could be increased, the equity of the State's finance system could be improved.

- *Enhancing the State share of education revenues:* As noted above, the State wealth-equalized a substantial portion of the education aid it provided in fiscal 2002. Therefore, if the State provided a greater share of overall funding for education, there would (presumably) be more equitable spending levels among the local school systems. In fiscal 2002, the State provided approximately 41 percent of total education revenues, local governments contributed 54 percent, and the federal government supplied 5 percent.

- *Providing State aid on the basis of local education tax effort:* In fiscal 2002, local education appropriations ranged from 1.06 percent of assessable wealth to 1.85 percent. In more wealthy counties, where a greater percentage of funding for schools comes from local appropriations, aggregate school revenues are negatively impacted by below-average tax effort. In less wealthy counties, however, greater local effort does not provide significant rewards because assessable wealth bases are small. For this reason, the Commission considered the possibility of providing increased State aid to low-wealth jurisdictions based on their local education tax effort.

The adequacy studies and the Thornton Commission's subsequent analyses of adequacy attempted to define the needs of each school system in measurable quantities. The Commission's investigation of equity then attempted to identify methods that would allow every school system to meet its needs within a structure of shared State and local funding. The Commission realized, however, that the ultimate goal was the achievement of State performance standards in all school systems, not the realization of calculated adequacy targets.

Accountability

Accountability was the third major principle adopted by the Commission as it formulated its recommendations. A standards-based school finance system requires strong accountability measures based on student outcomes. In the years leading up to the establishment of the Thornton Commission, however, Maryland's finance system had placed increased emphasis on accountability for "inputs" (e.g., specific class sizes or teacher salaries). This approach is inconsistent with the theory underlying the standards-based approach to school finance, which generally limits the role of the State to accountability for student performance. Within this model, it is important for each school system to have an articulated strategy for enabling students to achieve standards, but it is not important for all school systems to use the same strategies. The State, on the other hand, must establish clear statewide standards that apply to all student groups, measure performance based on the standards, and enforce consequences for students, schools, and school systems that fail to achieve standards. The State's responsibilities do not change until a school has been provided adequate funding but fails to make sufficient progress towards meeting standards. In this situation, the State has a responsibility to take affirmative steps to improve the school's performance, including the imposition of restrictions on school system "inputs."

Simplicity

The final guiding principle endorsed by the Thornton Commission in its review of Maryland's education finance structure was simplicity. An examination of the State's school finance system led to the obvious conclusion that the system was unreasonably complex and administratively burdensome. In fiscal 2002, more than 50 programs provided State aid to local school systems.[7] Considering that there were four major student populations identified by the Commission as groups that require specific amounts of support (the general student population as well as special education students, at-risk students, and LEP students), this number seemed unnecessarily high. The Commission determined that a less complex system that provides per pupil aid based on enrollment counts for these four populations could be devised and would be preferable.

The Original Version of Senate Bill 856

The recommendations of the Thornton Commission were incorporated in the original version of Senate Bill 856 (i.e., the first reader version). However, before passing the bill, the General Assembly adopted a number of amendments to the bill. This section outlines the major components of the Commission's proposal. Many of these components are reflected in **Exhibit 6**, which provides an overview of the school finance model outlined in the first reader version of Senate Bill 856. The next section of this document explains the amendments that were adopted by the General Assembly and provides specific data regarding State aid provided under the final bill.

The Basic Structure

Consolidation of Funding Programs

The Commission's model consolidated many of the 50 existing State aid programs into a new foundation program and three new funding programs for special needs students. As shown in **Exhibit 7**, a total of thirty-one State aid programs were consolidated into one of these four programs. Eleven general education programs were rolled into the new foundation program. Another eleven general education programs, including the teachers' retirement program, continued as separate programs. Eighteen categorical programs were rolled into a new formula under which aid would be distributed based on the number of economically disadvantaged students in each jurisdiction, and six categorical programs that provide funds for at-risk students continued as separate programs. Two new formulas replaced the existing special education and LEP programs.

Foundation Program

The Thornton Commission recommended that the name of the State aid program under which the State provides per pupil funding for all students be changed from the "Basic Current Expense Formula" to the "Foundation Program" to clarify the role that this program plays in the State's school finance system. The Commission's model phased in a higher per pupil amount to be shared by the State and local governments (based on the base cost figure of $5,969 derived

[7] Approximately eight of these programs provided aid for functions other than primary and secondary instruction.

from the successful schools study)[8] between fiscal 2003 and 2007. Under the Commission's model, the overall State share of the per pupil amount was 50 percent for the first $4,124 (i.e. the per pupil amount for fiscal 2002 under the Basic Current Expense Formula) and 45 percent for any amount in excess of $4,124 (i.e., enhancements to the per pupil amount beyond the fiscal 2002 level).[9] The State's share for any one jurisdiction, however, was dependent on local wealth. Less wealthy jurisdictions received a greater share of the base per pupil amount than more wealthy jurisdictions. The Commission's model also established a minimum 15 percent State share of the per pupil amount, regardless of local wealth.

The Commission's model changed the way in which kindergarten students are counted for the purpose of calculating aid amounts under the formula so that by fiscal 2007 every kindergarten student in the State would be counted as one full-time-equivalent rather than one-half of a full-time equivalent.[10] In addition, the model required the State to develop a geographic cost of education index to be used to adjust the amount of aid received by school districts under the foundation program beginning in fiscal 2005.

Funding for Special Needs Students

The Commission's model included three new funding programs for special needs students to be phased in between fiscal 2003 and 2007. The amount of funding for each program was based on the per pupil weights derived from the professional judgement study – i.e., 1.17 for special education students, 1.10 for economically disadvantaged students, and 1.00 for students with limited English proficiency.[11] Between fiscal 2003 and 3007, the Commission's model phased in an overall State share of 50 percent of the per pupil funding levels. By fiscal 2007, all funds distributed under the new funding programs for special education and at-risk students would be wealth-equalized. Under the new LEP funding program, only State funding above the LEP per pupil amount for fiscal 2002 ($1,350) was wealth equalized.

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[8]The per pupil amount used to determine aid amounts under the new foundation program was derived by adjusting the $5,969 base cost figure calculated in the successful schools study downward to account for general education funding that continues under other State and federal programs, including: (1) the teachers' retirement program and other State-funded general education programs that continue outside the foundation program; and (2) four general education programs that are federally funded. This adjustment resulted in a per pupil amount of $5,634 for fiscal 2003 (to be adjusted in each subsequent year to reflect inflation), which is significantly higher than the $4,124 per pupil amount that was used to determine aid amounts under the Basic Current Expense Formula in fiscal 2002.

[9] Under the Basic Current Expense Formula, the State's share of the per pupil amount was 55 percent for the first $624 and 50 percent for any amount in excess of $624.

[10]In fiscal 2002, except for students in Garrett County, each kindergarten student in the State was counted as one-half of a full-time-equivalent student for the purpose of calculating aid under the Basic Current Expense Formula. All kindergarten students in Garrett County were counted as full-time-equivalent students.

[11] For the purpose of calculating aid amounts to be distributed under each of the three new special needs formulas, these weights were adjusted downward to account for programs serving special needs students that would continue to be funded by other State and federal programs. The adjusted weights are 0.74 for special education students, 0.97 for economically disadvantaged students, and 0.99 for students with limited English proficiency.

Guaranteed Tax Base Program

The Commission's model created a new Guaranteed Tax Base (GTB) program to be phased in between fiscal 2003 and 2007. A school district is eligible to receive aid under this program if the jurisdiction's local wealth per pupil is less than 80 percent of the statewide wealth per pupil and the jurisdiction provides more local education funding than is required under the foundation program. An eligible jurisdiction may receive State aid (up to a certain maximum amount) that is equal to the additional funding that would have been provided by the local jurisdiction itself if the jurisdiction made the same local effort and the jurisdiction had the "guaranteed" wealth base (i.e., 80 percent of the Statewide wealth per pupil). The Commission's model limited the State aid that a jurisdiction could receive under the GTB program to no more than 20 percent of the per pupil foundation amount.

Additional Funding Not Associated With the Concept of Adequacy

Because the Commission's work focused on the estimated cost of providing resources necessary for students to meet State standards, the concept of adequacy accepted by the Commission related to the cost of services for instruction and administration. Other school system costs, such as transportation, food service, and capital expenditures were not measured by the Commission's adequacy studies. However, the Commission's final report discussed several concerns relating to the State's current transportation funding formulas and its school finance proposal included enhancements to base transportation grants as well as grants for the transportation of disabled students.

Under the Commission's model, the base transportation grant was enhanced for 15 counties that experienced aggregate enrollment increases between 1980 and 1995, a period during which the base transportation grants did not include annual adjustments for enrollment increases. For eligible local school systems, the enhancements were equal to the product of the increase in full-time equivalent enrollment between September 30, 1980, and September 30, 1995, and the fiscal 2002 statewide average per pupil base transportation grant. Between fiscal 2003 and 2007, the Commission's model also phased in an increase to the per pupil grant that a school district receives for disabled students needing special transportation services. During this period, the per pupil grant would be increased from $500 to $1,000. In addition, the existing offset for the number of disabled students transported during the 1980-1981 school year would be eliminated.

Accountability

The success of the Commission's standards-based school finance model depends in part on the steps that are taken to hold students, schools, and school systems accountable for making progress toward, and ultimately meeting, the State's performance standards. To facilitate this type of accountability, the Commission's proposal included a requirement that each local school system develop a 5-year comprehensive master plan that outlines the steps that are being taken to improve student achievement in every segment of the student population. The Commission intended that the master plan be used as a mechanism for holding a school system accountable for allocating resources in a way that enables it to meet the needs of all students, while providing maximum flexibility regarding the use State funds.

The Commission's proposal required each school system to submit its master plan to MSDE by October 1, 2003, and to update the plan each year. The master plan must: (1) link funding from State, local, and federal sources with strategies for meeting the needs of special education students, LEP students, and students at risk of failing in school, as well as the general student population; and (2) outline programmatic elements relating to services for pre-kindergarten, kindergarten, career technology, and gifted and talented students.

The State Superintendent of Schools (State Superintendent) must review each master plan to determine, at a minimum, whether the plan includes all of the required elements. The State Superintendent also has the authority to review and analyze a master plan in more detail at any time. If a local school system fails to demonstrate progress toward improving the achievement of students in every segment of the student population, the State Superintendent is required to review and approve the content of the school system's master plan. If the State Superintendent determines after reviewing the plan that it would not have the effect of improving student achievement and increasing progress toward meeting State performance standards, the State Superintendent is required to make specific revisions to the plan.

The State Board of Education (State Board) was given authority to withhold resources from a school system if the school system fails to: (1) demonstrate annual progress toward improving student achievement and meeting State performance standards in every segment of the student population; and (2) submit a plan that, according to the State Superintendent, will allow the school system to make progress toward improving student performance. Finally, the Commission's model required MSDE to modify existing programs for awards to high performing schools and sanctions to low performing schools to reflect student performance on a disaggregated basis as well as overall school performance. Under the old school finance system, these types of programs were based only on overall performance.

Early Childhood Education – Mandatory Programs

Under the Commission's proposal, all of the funds distributed to local school districts under the new foundation program and the three new special needs formulas were distributed as unrestricted block grants. This aspect of the Commission's proposal reflected its belief that a standards-based school finance system should focus on outcomes rather than required programs. However, the Commission departed from this general rule when it came to early childhood education programs. As discussed above in connection with the foundation program, the Commission's model modified the way that kindergarten students are counted for the purpose of calculating aid under the foundation program so that each kindergarten student would be counted as one full-time-equivalent by the end of the 5-year implementation period. Consistent with this funding decision, the Commission's model mandated the implementation of full-day kindergarten programs throughout the State by the 2007-2008 school year. The Commission's proposal also mandated that pre-kindergarten programs be made available to all economically disadvantaged four-year-old children by the 2007-2008 school year. Funding for the pre-kindergarten programs is linked to the per pupil weight for economically disadvantaged students.

Local Tax Policies

Under the Commission's proposal, funding for the State's public schools remains a shared responsibility of the State and local governments. In its final report, the Commission stated that achieving adequate funding for public schools would require counties to display a level of commitment to public education that exceeds the maintenance of effort requirement for the foundation program (a level of commitment that the majority of counties have demonstrated repeatedly in the past). In light of the importance of increased local funding to the State's goal of reaching the adequacy targets developed by the Commission, the Commission's model included a provision that gave county councils the authority to override charter tax limitations to increase funding for education.

The Final Version of Senate Bill 856

The General Assembly adopted numerous amendments to the first reader version of Senate Bill 856 that changed the components of the school finance system recommended by the Thornton Commission. The major components of the school finance system reflected in the final version of Senate Bill 856 are shown in **Exhibit 8**. The major differences between the original and final versions of Senate Bill 856 are summarized in **Exhibit 9**.

Changes Made to Thornton Commission's Proposal

Phase-in Period

As introduced, Senate Bill 856 would have phased in new funding formulas between fiscal 2003 and 2007. The final version of Senate Bill 856 phases in the new funding formulas between fiscal 2004 and 2008.

Fiscal 2003 "Bridge" Funding

The final bill makes no substantive changes to the existing education funding formulas for fiscal 2003 but provides an additional $74.7 million in unrestricted grants for school systems.[12] This new funding consists of: (1) $60 million in grants allocated among all school systems in a way that is proportionate to the amount of funding that the school systems would

[12] Senate Bill 856 also provides an additional $5.9 funding in fiscal 2002 – $4.8 million to fund the State's infants and toddlers program and $1.1 million to fund adult education programs.

have received in fiscal 2003 under Senate Bill 856 if the phase-in of the new financing system had started in fiscal 2003; (2) $10 million to support the restructuring of the Prince George's County Board of Education; (3) three $1 million grants to Allegany, Anne Arundel, and Baltimore counties, respectively; and (4) $1.7 million to guarantee an increase of at least 2 percent in the foundation formula between fiscal 2002 and 2003 for six counties with declining enrollments. To be eligible to receive the full grant amounts, Montgomery, Talbot, and Worcester counties must provide local education appropriations that represent at least 80 percent of the statewide average education tax effort. If the counties fail to provide this level of support, their grants will be reduced.

Tobacco Tax

The final version of the bill included an increase of 34 cents on the tax on a pack of cigarettes, raising the tax from 64 cents to $1. It is estimated that this will provide sufficient revenues to cover the cost of the $74.7 million bridge funding for fiscal 2003.

Total Additional Cost

It is estimated that the original version of Senate Bill 856 would have resulted in additional funding of $1.1 billion – above the funding that would have been required under the prior school finance system – by the end of the phase-in period for the new funding formulas. It is estimated that the final bill will cost an additional $1.3 billion – above the funding that would have been required under the prior school finance system – by the end of the phase-in period for the new funding formulas.

State Share of Growth in the Foundation Per Pupil Amount

Under the Commission's model, the overall State share of the per pupil amount would have been 50 percent for the first $4,124 (i.e. the per pupil amount for fiscal 2002 under the Basic Current Expense Formula) and 45 percent for any amount in excess of $4,124 (i.e., enhancements to the per pupil amount beyond the fiscal 2002 level). Under the final version of Senate Bill 856, the State's overall share is 50 percent of the entire per pupil amount.

Minimum Grant Under the Foundation Formula

Under the foundation program established in the original version of Senate Bill 856, each local jurisdiction would have received a minimum per pupil grant equal to 15 percent of the foundation formula's per pupil amount. The final bill provides that the minimum per pupil grant in fiscal 2004 will be 25 percent of the foundation formula's per pupil amount. The minimum per pupil grant will be reduced incrementally in each subsequent fiscal year until it reaches 15 percent of the foundation formula's per pupil amount in fiscal 2008.

Minimum Grants Under Special Needs Formulas

Under the original version of Senate Bill 856, with the exception of LEP funding up to $1,350 per pupil, all of the funding distributed through the three special needs formulas would have been adjusted to reflect the wealth of local jurisdictions. The final version of Senate Bill 856 requires that the State distribute minimum per pupil grants that equal 40 percent of the per pupil amount for each formula.

Geographic Cost of Education Index

The original version of Senate Bill 856 required MSDE to contract with a private entity to develop a geographic cost of education index to be applied to the foundation formula beginning in fiscal 2005. The final version of Senate Bill 856 requires that funding distributed under the foundation formula be increased in four jurisdictions (Baltimore City and Anne Arundel, Howard, and Montgomery counties) in fiscal 2004 to reflect higher cost of education services in these jurisdictions. The one-year adjustments are based on the GCEI developed for NCES. The final bill also requires MSDE to contract with a private entity to develop a Maryland-specific geographic cost of education index to be applied to the foundation formula beginning in fiscal 2005.

Enrollment Counts for Special Needs Formulas

As introduced, Senate Bill 856 required that the foundation formula be based on enrollment data from the prior school year and that the special needs formulas be based on enrollment data from the second prior school year. These aspects of the bill are simply a continuation of existing law. With one exception, the final bill requires that the special needs formulas be based on enrollment data from the prior school year. To phase in the change in enrollment counts, in fiscal 2004, enrollment from the second prior fiscal year will be used for school systems with declining enrollment.

Fiscal Responsibility

The final version of Senate Bill 856 includes a provision that reflects the General Assembly's desire to balance the education and fiscal needs of the State. The provision requires the General Assembly to re-examine the State's ability to support the enhanced State aid mandated by Senate Bill 856 during the 2004 legislative session. If the General Assembly does not determine that funding is within the State's means for fiscal 2005 (and pass a Joint Resolution affirming this conclusion), more modest increases in education spending will occur between fiscal 2005 and 2008. In the meantime, a task force has been established to study the State's fiscal structure and examine ways for Maryland to generate new revenue or realign its current funding priorities.

Local Tax Policies

The General Assembly adopted an amendment to the original version of Senate Bill 856 that eliminated the language that would have granted county councils the authority to override charter tax limitations to increase funding for education.

Total State Aid

An overview of the characteristics of the school finance model reflected in the final version of Senate Bill 856 is shown in Exhibit 8 on page 16 of this document. The exhibit shows estimates of total State funding for fiscal 2002 through 2008 and estimated increases in State education funding between fiscal 2003 and 2008, above those that would occur if current law were not changed. Under the model, State funding increases by approximately $2.2 billion between fiscal 2002 and 2008, from a total of $2.9 billion in fiscal 2002 to a total of $5.1 billion in fiscal 2008. Approximately $900 million of this $2.2 billion increase would have occurred under the prior law governing Maryland's school finance system. Thus, the new model calls for an increase in funding of approximately $1.3 billion by fiscal 2008. The figures in **Exhibit 10** reflect the total estimated State aid that will be provided through particular State aid programs between fiscal 2004 and 2008.

State Aid Provided to Local School Systems

The total estimated State aid that will be provided to each local school system between fiscal 2003 and 2008 if the new school finance system established in Senate Bill 856 is fully implemented (i.e., if the General Assembly passes a Joint Resolution during the 2004 Session that affirms that the additional State aid required for fiscal 2005 is within the State's fiscal resources) is shown in **Exhibit 11**. The exhibit shows an upward trend in total State education funding from fiscal 2002, when State aid for education was approximately $2.9 billion, to fiscal 2008, when State aid under the Commission's model is estimated at approximately $5.1 billion. The last two columns of the exhibit show the estimated increases in State aid during the six-year implementation period, in both total dollars and percent. Statewide, funding for education will increase by 76 percent, with increases for individual school systems ranging from 45 percent to 107 percent. Estimated State aid on a per pupil basis is shown in **Exhibit 12**.

If the General Assembly does not pass a Joint Resolution during the 2004 Session that affirms that State's ability to pay for the additional aid required for full implementation of the new school finance system in fiscal 2005, State aid will increase by approximately 5 percent each year between fiscal 2005 and 2008. More specifically, Senate Bill 856 requires that State aid increase between fiscal 2005 and 2008 by the following specific percentages over the fiscal 2004 State aid levels: 5 percent in fiscal 2005; 10.25 percent in fiscal 2006; 15.75 percent in fiscal 2007; and 21.5 percent in fiscal 2008. **Exhibit 13** and **Exhibit 14** show estimates of total State aid and per pupil State aid that will be provided if the Joint Resolution is not passed during the 2004 Session. The estimates assume that the programs established or affected by Senate Bill 856 (e.g., the foundation program, the three new categorical programs for special needs students, and student transportation) would increase over their fiscal 2004 levels by the percentages specified in Senate Bill 856. However, the estimates assume that funding for State aid programs that were not influenced by the legislation (e.g., non-public special education placements and Judy Hoyer Centers) would continue without being affected by the spending limits.

Comparison of State Aid Provided Under the Original and Final Versions of Senate Bill 856

One of the major effects of the amendments that were made to the original version of Senate Bill 856 was to provide more funding to wealthier counties. Although it is estimated that all counties will receive more funding under the final version of Senate Bill 856 than they would have received under the original version of Senate Bill 856, wealthier counties were the greatest beneficiaries of the amendments to Senate Bill 856. The impact of the amendments on particular counties is shown in **Exhibit 15**, which indicates that the amendments provided the largest per pupil State aid increases to the six wealthiest counties (i.e., Anne Arundel, Howard, Kent, Montgomery, Talbot, and Worcestor).

The benefit that wealthier counties received from the amendments to Senate Bill 856 can also be seen by comparing characteristics of State education funding for fiscal 2002 (i.e., State aid allocated under the old school finance system) with the characteristics of State education funding for the final year of the phase-in period under both the original and final versions of Senate Bill 856. These funding characteristics are shown in **Exhibit 16**. In fiscal 2002, 19 percent of State aid was targeted to special needs populations. It is estimated that this percentage will increase to 29 percent by fiscal 2008. In fiscal 2002, 65 percent of State aid was adjusted to reflect local wealth. It is estimated that 80 percent of State aid would have been wealth-equalized under the original version of Senate Bill 856 and that 74 percent of State aid will be wealth-equalized under the final version of Senate Bill 856.

Exhibit 16 also shows how the amendments to Senate Bill 856 reflect the State's commitment to taking more responsibility for education funding. In fiscal 2002, the State provided 41 percent of all education funding in Maryland (i.e., State, local, and federal funding). It is estimated that the State share of total funding would have increased to 49 percent under the original version of Senate Bill 856 and that the State share of total funding will increase to 50 percent under the final version of Senate Bill 856.

Conclusion

Although the amendments to Senate Bill 856 resulted in greater State aid increases for wealthier jurisdictions, the final version of Senate Bill 856 reflects a strong commitment to the goals of adequacy and equity. As shown in Exhibit 16, the final version of Senate Bill 856 is expected to increase the amount of State aid provided on the basis of special needs enrollments from 19 percent to 29 percent. Exhibit 16 also shows that the percent of State aid that is adjusted to reflect local wealth is expected to increase from 65 percent to 74 percent. **Exhibit 17** shows the projected percentages of special needs students, projected wealth per pupil, and estimated State aid per pupil for each jurisdiction in fiscal 2008. This exhibit reveals that amount of State aid provided to each school system can be explained in the context of its wealth and needs. This confirms that the final version of Senate Bill 856 remains grounded in the guiding principles adopted by the Thornton Commission.