Understanding how states fund their public education systems can be a complex and confusing undertaking. Education funding consists of a combination of federal, state, and local funding streams, each contributing varying portions of funds, and each with its own set of rules and regulations for determining the level of funding and how the money can be spent. Other factors, such as enrollment, the demographic characteristics of students, and local wealth and taxing ability also come into play when determining funding levels, adding to the complexity of education funding.

This brief explains how Maryland currently finances the operation of its public education system between kindergarten and high school. It also discusses how money moves between governmental levels (federal, state and local) and how the money is eventually distributed across the system’s many expenses.

Though there are more thorough and detailed accounts of this funding system, this brief is meant to serve as a primer on Maryland’s specific laws and programs and how they interact with other funding systems. Each section of the paper will first detail the methods the state uses to raise funds and then explain how the money is distributed to local school districts. For a long time there has been a lack of clear information about how money trickles down to local school systems. This opacity stems from the number of different distribution systems created for many individual programs. My goal is to resolve some of these questions by explaining the funding formulas and structures in plain terms.

This brief also aims to provide a basis for understanding any recommended changes that come out of the state’s current Study of Adequacy of Funding for Education, a legislatively mandated update to the 2002 Commission on Education Finance, Equity and Excellence adequacy study. Augenblick, Palaich & Associates, Picus Odden & Associates, and the Maryland Equity Project conducted the study. The results of the Adequacy Study, due to be completed in fall 2016, will be reviewed by the new Commission on Innovation and Excellence to suggest changes to the state’s funding formula.

Introduction to the Maryland School Funding Formula
Similar to most other states, Maryland finances its public schools through a combination of state and local funds supplemented by federal grants. This brief uses State of Maryland budget data available from FY 2013 and FY 2014 to demonstrate how the state and its local education agencies (LEAs) come together to fund public education.
In FY 2013 the total amount of money spent on primary and secondary public education in Maryland was $12.2 billion. Figures 1 and 2 show where the money comes from and how it is distributed.

**Where the money comes from (figure 1)**
- 5 percent of funds come from federal government grants distributed to both the state and districts.
- 48 percent of the funds are collected at the state level through income and retail sales taxes as well as the state lottery.
- 46 percent of the funds are collected locally at the district level, which in Maryland means they are collected through the county.
- The remaining 1 percent is made up of investment earnings and revenues generated from services provided by school districts.¹

**How the money is distributed (figure 2)**
- 97 percent of funds are spent directly on Local Education Agency (LEA) operations - both on classroom instruction and on the administration of the district and schools.
- 2 percent is spent on the administration of the State Department of Education.
- The remaining 1 percent of funds are spent on funding for the Maryland School for the Deaf (a State agency) and the Maryland School for the Blind (a non-profit organization) for the education of children with those disabilities.²

**Federal Funding for Maryland’s LEAs**
Nationwide, public education has traditionally been a state and local responsibility. Consequently, the majority of funding for public education comes through state and local means, with the federal government providing about 11 percent of the total funds spent on education nationally each year, or approximately $625 per student.³ In Maryland this share is lower, with the federal government accounting for 5 percent of the budgets of the education budgets (figure 1). Due to their relatively small budgetary role, the federal government focuses its efforts on categories of high cost students, a sort of “emergency response system” for special populations identified as in need.⁴
Federal funds allocated for public education are raised through federal taxation and then distributed to the states through a series of programs and grants. The federal government collects the majority of its taxes through three tax mechanisms: individual income taxes, corporate income taxes, and the payroll tax. The rest is made up of taxes such as the estate tax and various others.5

After the money is collected at the federal level and the Congress makes appropriation decisions, the funds are allocated to the U.S. Department of Education (ED). ED distributes the funds to State Education Agencies (SEAs) and LEAs through a variety of laws and programs in the form of either categorical or block grants.6 As shown in figure 3, Maryland receives the majority of its education funds from the federal government through Title I of the Elementary and Secondary Education Act (ESEA), the Individuals with Disabilities Education Act (IDEA), and other federal funds, primarily the Carl D. Perkins Vocational and Technical Education Act (Perkins Act).7

The Elementary and Secondary Education Act (ESEA) represents the federal government’s commitment to providing funding to improve educational opportunities for low-income students. First enacted in 1965, it was reauthorized as No Child Left Behind (NCLB) in 2002 and as the Every Child Succeeds Act (ESSA) in 2015. While each reauthorization changes some of the elements and requirements of the law, the basic funding structure remains the same. ESEA allocates money to each state through a series of categorical grants. In 2015, the state of Maryland received more than $277 million through ESEA grants. That number is expected to rise to more than $305 million by the 2017 fiscal year.8 The ESEA grants that contribute to Maryland’s budget at the highest rate are detailed below.

- **Title I** grants provide assistance to school districts with a high percentage of children that are identified as poor in an effort to support the academic achievement of these disadvantaged students. Schools in all 24 LEAs in Maryland receive Title I money. These grants support academic achievement through targeted spending on instruction in reading and math. The grants can also be used to support the costs of additional teachers, instructional materials, and extended learning opportunities.9 After Congress determines the annual Title I funding levels, funds pass through ED to the SEAs through a series of formula grant measures.10 Finally, the SEAs allocate the funds to LEAs with Title I eligible schools that provide a written plan for how they will use the funds to improve the academic achievement of disadvantaged students.11

- **Title II** funds are provided to states that apply to the associated grant opportunities. Maryland receives most of its Title II funds through Part A, the Improving Teacher Quality State Grant, a program designed to improve and ensure teacher and
administrator quality. The grant pays for programs that increase teacher collaboration, provide professional development, or encourage teacher and administrator development in other ways. Maryland uses these funds to support LEA efforts such as hiring National Board Certified Teachers, providing Quality Teacher Incentives, providing professional development, and awarding the Governor’s Award for Teacher Excellence. To qualify for Teacher Quality grants, LEAs apply for a subgrant from the state. In its application, each LEA proposes activities that are grounded in scientifically based research and are aligned with the state’s goals of improving academic achievement.

- **Title III** grant funds are provided to states through the English Language Acquisition State Grant that is designed to improve education for Limited English Proficient (LEP) students, generally immigrant children and youths. Grant funds are distributed to states based on a formula that takes into account the number of immigrant and LEP students in the state. To receive a grant, Maryland is required to develop language instructional programs that help LEP students become proficient in English and meet academic achievement standards. After Maryland receives the grant money from the federal government, it is allocated to the LEAs to implement language instructional programs grounded in scientifically based research.

*The Individuals with Disabilities Education Act* grant funds enable Maryland and its LEAs to improve and expand educational programs for students with disabilities. IDEA-Part B allocates funds to states based on the number of elementary and secondary school age children with disabilities in the state. In FY 2014, Maryland received more than $188 million dollars in IDEA grants. Similar grants aimed at preschool children with disabilities brought more than $12 million.

*The Perkins Act* promotes career and technical education programs and distributes funds to states through the Vocational Education- Basic Grants to States grant. States use funds to support the development and expansion of career and technical education programs at the secondary and postsecondary level. They may also use funds to cover the costs of teacher licensing in specialized fields, to hire specialists, or finance the creation of appropriate school facilities used for these programs. Nearly $13 million dollars were granted to Maryland in FY 2014 to provide for career and technical education in the state. The state may distribute the funds to schools using either the needs-based formula or an alternate formula that targets disadvantaged schools and students.

*Expected Changes Under the Every Student Succeeds Act*

On December 10, 2015, President Barack Obama signed into law the most recent reauthorization of the Elementary and Secondary Education Act, called the Every Student Succeeds Act (ESSA). In January 2016, a “Dear Colleague” letter from the Office of the Assistant Secretary for Elementary and Secondary Education assured state lawmakers that funding changes based on ESSA rules would not go into effect until at least FY 2017. In 2017, lawmakers should expect changes to the methodology for identifying Title I schools, academic assessment and state planning requirements, and the Title II allotment formula. The accountability provisions for English language learners were moved from Title III to Title I to show that proficiency for LEP students was as important as for other students.
There were exceptions to the 2017 timeline. Competitive grants continued to operate under the ESSA statute (rather than the NCLB statute) until October 2016.20

The most significant changes between the NCLB and ESSA statutes were policies on how Title I schools receive existing grants and new rules on how Title I funds can be used.21 A conflict arose during negotiated rulemaking on whether the federal government can or should order states to use Title I funds only to supplant their spending on Title I eligible schools, or if states can use Title I funds to supplant state and local funding efforts.22 Though this provision existed in previous iterations of the federal education law, ED proposed changes to the rules on how districts must prove they are meeting the supplement not supplant requirement. Senate Republicans on the Health, Education, Labor and Pensions Committee opposed the rules, arguing they were in conflict with other provisions in the law designed to give budgetary flexibility to states and districts. As of June 2016 this disagreement had not been resolved.

State Funding for Maryland’s LEAs
The majority of the state funds allocated for public education are collected annually through state taxes and amassed into the state’s general fund. General fund revenues are collected through state income taxes, retail sales taxes and the state lottery. Other sources of general fund revenues include the corporate income tax, alcohol and tobacco sales taxes, as well as others.23 Together these tax collections made up the $6 billion of state aid to education in FY 2013. Some other funds for education are collected through the state’s various special funds, which are made up of revenues that are statutorily mandated for specific purposes, including financing education.

The Adequacy Model
Although the state and local districts have a responsibility to fund public education, funding based on a commitment to providing equitable educational opportunities is a relatively recent occurrence. In 1983, Hornbeck v Somerset County Board of Education set a new funding standard in Maryland, ruling that all students were guaranteed, “an adequate education measured by contemporary educational standards.”24 The concept of measuring adequacy based on “contemporary educational standards” is difficult to pin down because it requires that the state have some set of standards against which to measure whether the state is providing an “adequate” education.

In the decade that followed, the ACLU and the City of Baltimore initiated a number of lawsuits arguing that the state’s education finance system was not providing an “adequate” education to all students. The state responded to the pressures by creating the Commission on Education Finance, Equity, and Excellence (often referred to as the Thornton Commission). The Thornton Commission met for three years between 1999 and 2002 and was charged with studying and making recommendations on how the state could:

• ensure adequate school funding,
• reduce funding inequities among school districts, and
• ensure excellence in school systems and student performance.

Based on recommendations of the Thornton Commission, the Maryland General Assembly passed the Bridge to Excellence in Public Schools Act of 2002. The Act restructured Maryland’s public school finance system and increased state aid to public schools by
creating a new school finance formula that linked resources with students’ needs and accounted for differences in local wealth. The goal was to ensure that all schools were adequately funded to meet state education standards.

The adequacy model has three components:

1. Providing districts, through a combination of state and local funding, with a uniform per pupil base amount of funding that the state estimates to be the minimum amount required to provide general educational services.
2. Adjusting funding provided to districts to account for the costs associated with providing educational services to special education students, English language learners and students eligible for free and reduced price meals.
3. Adjusting funding provided to districts to account for the local or regional differences that impact the costs of providing educational services.

Under the adequacy model, state aid is distributed chiefly based on total enrollments, enrollment of students with special needs, and local wealth (measured through property value). However there is considerable variability across Maryland’s 24 LEAs on the number of at-risk students they serve, the relative costs of providing educational services, and their local wealth. To offset disparities in taxable wealth between the counties Maryland uses a wealth equalization formula. As such, the individual LEAs have vastly different combinations of state, local and federal funds that make up their final budgets.

A recent study of Maryland’s adequacy model concluded that while the funding model was successful in promoting adequate funding to LEAs, the formula applied unusually high weights to at-risk students in order to achieve equitable distribution of funds across districts. The study authors suggested a number of ways that the model could be modified to create a system less dependent on high student weights and still provide adequate funding. These recommendations, as well as others that are part of the 10-year review of the adequacy model, are currently under review by the Maryland State Department of Education and may impact future decisions about the model.

Allocation of State Funds
State funds are allocated to LEAs through three mechanisms- 1) general education aid, 2) targeted education aid, and 3) other aid.

1. **General Education Aid** funded programs provide LEAs with the minimum level of funding determined by the state to be essential for providing general educational services.

    • **The Foundation Program** provides the funding base for the General Education Aid program. It uses a formula to determine a minimum per pupil funding level and the share of the per-pupil funding carried by the SEA and by the LEA. The foundation program accounts for nearly half of the aid provided for education by the state. To determine the foundation funding level the state measures the number of full-time students enrolled in an LEA and then subtracts a share based on the wealth of a district (referred to as the Wealth Equalization adjustment). This adjustment measures a district’s wealth by determining the
eligible level of assessable property and net taxable income! Due to the adjustment, districts with higher wealth contribute more of the cost while the state picks up the larger share for poorer districts.

The state’s share of the foundation program for a specific district is calculated with the following formula:

\[
(\text{Per-pupil foundation} \times \text{Local enrollment}) - (\text{Local contribution rate} \times \text{Local wealth})
\]

- **The Geographic Cost of Education Index (GCEI)** was created to account for regional differences in the cost of educational resources that are outside of the control of the LEA. These costs can include cost-of-living influenced wage differences, climate influenced costs of energy, or low or high access to transportation options. The law states that the GCEI must be updated every three years to ensure that the factors it relies on are still accurate. 29

The index's influence on the state funding sent to LEAs is calculated with the following formula:

\[
(\text{FTE enrollment} \times \text{Per-pupil foundation amount} \times (\text{GCEI value} - 1))
\]

Originally, the GCEI model was included in the state general aid program as an add-on to the foundation program and the state was not required to fully fund it or even to fund it at all. 30 In 2015, after a brief period when the Index was not funded, the state legislature passed legislation mandating that the GCEI be fully funded and included in state spending on education. 31

- **Other funding** provided by the state to LEAs include supplemental grants to LEAs whose local shares of the foundation level grow at a lower than expected rate, payments for teacher pensions, the provision of net taxable income grants, a guaranteed tax base for spending over the foundation level, declining enrollment grants, cross-county grants, and many other small programs. 32

2. **Targeted Aid** funded programs provide LEAs with additional funds based on their enrollments of students with special educational needs. The funds are allocated to the districts based on the estimated cost, above and beyond the foundation cost, of educating each group of at-risk students. Targeted aid is provided to districts for special education students, students eligible for free and reduced price lunch, and students with limited English proficiency.

Each type of targeted aid is distributed through the following formula:

\[
(\text{State aid amount per at-risk pupil} \times \text{Enrollment of at-risk students}) / (\text{Local wealth per pupil} / \text{Statewide wealth per pupil})
\]

- **Special Education** funds are allocated to LEAs for the “free appropriate education for students with disabilities up until age 21.” Appropriate special
education services are available to most students within their local public school or specialized programs offered by the public schools. However, when appropriate educational services are not available in the public schools, the funds can be used to provide aid for non-public school placements.

Under the Bridge to Excellence Act, the weight applied to special education students is 0.74, or an additional 74% of the base. Combining these funds and funds allocated for special education by the federal government brings the aid for each special education student to nearly 1.2 times the aid provided at the base per pupil funding level.\(^\text{33}\)

- **Compensatory Education** funds are allocated to LEAs to support students at risk of not meeting state academic achievement standards. LEAs are required to develop plans that promote the improved academic performance of all students, not just those identified as at-risk. This model is similar to that of the federal Title I grant—schools with the most at-risk students are identified for funding but the spending should comprehensively support the entire school. Students are identified as at risk of not meeting state standards based on their eligibility for free and reduced price meals as well as by local wealth, an accepted indicator of poverty and a predictor of low test scores.\(^\text{34}\)

Under the Bridge to Excellence Act, the weight applied to free and reduced price lunch students is 0.97, or an additional 97% of the base. Combining these funds and funds allocated for poor students by the federal government under programs like Title I brings the aid per student to approximately 1.1 times the aid provided at the base per pupil funding level.\(^\text{35}\)

- **Limited English Proficiency** funds are allocated to LEAs with the goal of supporting and promoting improved English language instruction for students with limited English proficiency (LEP). Students are identified for services based on the English Language Proficiency test given at the time of enrollment. The test is designed to identify the English language proficiency of students whose primary language is not English.\(^\text{36}\)

Under the Bridge to Excellence Act, the weight applied to LEP students is 1.00, or an additional 100% of the base. Combining these funds and funds allocated for limited English proficiency students by the federal government under programs like Title III brings the aid per student to approximately 1.1 times the aid provided at the base per pupil funding level.\(^\text{37}\)

- **Other Funds** are distributed to LEAs by the state for a broad variety of non-academic, but critical school activities. These programs include supports for student transportation and paratransit (transportation outfitted for use by people with disabilities), matching funds to those provided by the federal government for school meals, funds for adult education programs and more.\(^\text{38}\) Funds for each of these programs are distributed either by formulas based on student enrollments or by individual measures of eligibility.
**County Spending for Maryland’s LEAs**

Maryland’s LEAs do not have independent authority to collect taxes and therefore require their corresponding county (or in the case of Baltimore City, their corresponding city) governments to raise funds to cover the LEA budgets. Thus, state law mandates that Maryland’s counties provide a share of the costs through state formulas. County funds account for nearly half of the total funding for Maryland’s school systems. In addition to county funding provided through the state funding formula discussed previously, all 24 counties in Maryland provide supplemental funds to their LEA. These funds are not mandated by the state and are based on local taxing capacity and the local willingness to support education, that is the willingness to raise taxes to support education. Nonetheless, they are subject to the state’s maintenance of effort requirement that is discussed later on.

Figure 4 is a visual representation of how the Maryland funding model approximately funds schools. The state funds the foundation level in inverse proportion to local wealth (bottom of figure). Building up from the shared foundation level, the state adds targeted funds for special need student populations (second level). These funds vary depending on the number of at-risk students enrolled in a district. Finally, the county adds supplemental funds based on its local wealth and willingness (effort) to provide additional funding (top level).

Figure 4: Maryland funding model

<table>
<thead>
<tr>
<th>Local Supplemental Share</th>
<th>$</th>
<th>District Wealth and Effort</th>
<th>$$$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Targeted State Share</td>
<td>Low</td>
<td>District # of At-Risk Students</td>
<td>High</td>
</tr>
<tr>
<td>Foundation State &amp; Local Shares</td>
<td>$$$</td>
<td>District Wealth</td>
<td>$</td>
</tr>
</tbody>
</table>
Figure 5 (page 12) shows the proportion various funding sources (local, state, federal, other) contribute to each county’s education funding. As this figure shows, there is considerable variation across counties. For example, the local share of the foundation level ranges from 61 percent of total funding in Talbot County to 11 percent in Baltimore City. However, the contribution of local supplemental funding adds considerably to the total local share, particularly in Anne Arundel (58 percent of total funding is from local sources), Howard (62 percent), Montgomery (64 percent), and Worcester (70 percent). Local supplemental contributions vary between counties. In Talbot county, the local supplemental contribution ($612) is an additional 8 percent of their required per pupil contribution ($7,569), or 5 percent of their total funding where as in Howard County the supplemental contribution ($5,868) is 159 percent of their required per pupil amount ($3,688), or 38 percent of their total budget. Again, local supplemental contributions are not mandated by the state but are subject to maintenance of effort requirements. While the relationship between wealth and effort is not 1:1, it is clear from Figure 5 that wealthier districts can add a substantial supplemental effort to their local mandated spending.

**Maintenance of Effort Requirement**

Counties are required to maintain a minimum annual appropriation to the LEA budget that is the greater of either 1) the local share of foundation program or 2) the per pupil amount provided in the previous year. This rule is in place to ensure a more equal partnership between the counties and the state in funding education. Because most counties have historically contributed funds in excess of their required foundation amount, county contributions are generally maintained year to year.

Counties can apply for waivers from the maintenance of effort requirement if its “fiscal condition significantly impede [es] the county’s ability to fund the maintenance of effort requirement.” When six of the state’s 24 counties applied for waivers in 2012, the state was unable to meet their requests for increased state funds and the counties were allowed to reduce their funding without penalty. This led the Maryland General Assembly to renew its interest in the funding formula and provide funding for the Study of Adequacy of Funding for Education mandated under the 2002 Bridge to Excellence legislation.

**Charter Schools**

Under Maryland law, charter schools are entitled to commensurate funding with traditional public schools in their local jurisdiction. Charter schools receive the same per pupil amount as other schools in their district and they may not charge tuition or raise funds in any way that does not comply with the laws, regulations and policies of their school district. Unlike in other states, Maryland’s charter schools do not receive any state aid to support their facilities.

**Summary**

Maryland’s public school funds represent a complex combination of federal, state and local contributions. The rules governing each funding source represent the goals of the funder and student populations that they prioritize. For example, local funds are spent on programs available to all students; state funds supplement local funds by providing a base level of funding for all students and supporting programs for at-risk students; and federal funds are targeted primarily on at-risk populations including low-income and special education students.
The Maryland funding formula is designed to account for the variable costs of educating different types of students while also maintaining the autonomy of individual districts. Understanding the various sources of funds, the rules governing the level of funding and how it can be spent, and the contribution each makes to education funding should help readers interpret the findings from the Maryland Adequacy Study. This information should also be useful for those participating in or observing the upcoming Commission on Innovation and Excellence’s effort to recommend changes to the state funding formula.
Per Pupil Fundings and Sources of Funding
FY 2013

Figure 5: Per pupil funding and sources of funding, FY 2013
Endnotes

1 Wealth Equalization = (local contribution rate X local wealth) where the local contribution rate is measured by (per pupil foundation X 50% X FTE enrollment)/ the wealth base

References

13 Elementary and Secondary Education Act, Title II § 2123
15 Ibid.


About the Maryland Equity Project

The Maryland Equity Project seeks to improve education through research that supports an informed public policy debate on the quality and distribution of educational opportunities. It conducts, synthesizes, and distributes research on key educational issues in Maryland and facilitates collaboration between researchers and policymakers. The Maryland Equity Project is a program in the Department of Teaching and Learning, Policy and Leadership in the College of Education at The University of Maryland.

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This publication should be cited as: Checovich, L. (2016). Funding formulas and revenue streams: A primer on public school finance in Maryland. College Park, MD: Maryland Equity Project, The University of Maryland.

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