

Public and Private Funding Sources for K-12 Public Schools



OLO Memorandum Report 2024-6

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In the [Fiscal Year 2024 Work Program for the Office of Legislative Oversight](#) (OLO), the County Council requested OLO prepare a report that presents information on both public sector and private sector funding sources for Kindergarten through 12th Grade (K-12) public schools. More specifically, the Council tasked OLO with gathering information on:

- **Government Funding:** The relative contributions of local appropriations, state aid, and federal grants to the budgets of public school systems (known as “local education agencies”) in the State of Maryland.
- **Private Sector Funding:** Contributions to schools from private entities to support public schools, including contributions from endowment funds.

This memorandum report contains two sections corresponding to the two topics bulleted above.

Section I: Funding of Local Education Agencies in Maryland describes the sources of public school funding and presents data on the relative contributions of the three largest funding sources – local appropriations, state aid, and federal grants for each local education agency in Maryland. Information presented in this section was obtained from data compiled by the Maryland State Department of Education (MSDE). Section I begins on page 2.

Section II: Private Contributions to Public K-12 Education describes methods used to solicit contributions from private individuals, businesses, corporations, and foundations to support public school systems in the United States. This section discusses the common practice of designating private contributions for specific purposes as well as the use of endowments to provide long-term funding streams. Section II begins on page 11.

SECTION I: FUNDING OF LOCAL EDUCATION AGENCIES IN MARYLAND

In the State of Maryland, public school systems are referred to as local education agencies (LEAs). This section describes sources of funding as well as the relative contributions of the three largest funding sources for each LEA in Maryland.

1. Sources of LEA Funding

Maryland LEAs receives funding from multiple sources. The three most significant funding sources are local appropriations, state aid, and federal grants.

1. Local Appropriations

In Maryland, each County (and Baltimore City) LEA is overseen by a local Board of Education (BOE). Maryland law requires that each BOE prepare an annual operating budget for consideration by the local governing body.¹ State law further establishes a standardized method of reporting LEA expenditures into 14 defined categories.² In counties with an Executive and Council form of government (including Montgomery County), the County Executive reviews the BOE's proposed budget and must submit to the County Council any recommended modification to the dollar amount in each of the 14 expenditure categories. The County Council has final authority to appropriate County funds to the school system by category.

The amount that Counties contribute annually to its local school system is regulated by Maryland law. The "maintenance of effort" provision of state law mandates that each county, provide at least the same amount of funding, on a per pupil basis, as was appropriated in the previous fiscal year.³ As such, annual county appropriations to LEAs have a mandated minimum funding level that is a function of the previous year's per pupil appropriation and the number of students enrolled in the school system.

2. State Aid

The State of Maryland allocates funding to LEAs based on a weighted-student formula. The formula consists of three primary categories:

- *Base Amount.* A portion of state funding to LEAs is allocated according to the total number of students enrolled in the system.
- *Weighted Amounts.* Additional state LEA funding provides support for specific student groups including English Learners, students with disabilities, and economically-disadvantaged students.

¹ [Education Article, Section 5-102.](#)

² [Education Article Section 5-101.](#)

³ [Education Article, Section 5-235.](#)

- *Program Amounts.* The State of Maryland allocates funding to support specific efforts such as school transportation and the accommodations for regional cost differences for supplies and personnel.

3. Federal Grants

Federal Government assistance to schools comes in the form of grants earmarked for specified uses. Federal grants to school systems include, for example, financial assistance allocated to support:

- Schools with high numbers of children from low-income families;
- Head Start child development programs;
- Education for individuals with disabilities;
- Teacher professional development;
- English language acquisition; and
- Career and technical education.

Resources from federal grants may not be re-directed to other uses.

4. Other Revenue Sources

In addition to funding received from local appropriations, state aid, and federal grants, LEAs in Maryland also obtain resources from various other sources. For most LEAs, including the Montgomery County Public Schools (MCPS), these other revenue sources contribute a relatively small percentage of total resources to the school system's operating budget. Examples of other revenue sources in at least some Maryland LEAs include:

- Tuition for non-resident students, summer school, and outdoor education;
- Transportation fees;
- Activity fees;
- Sale of equipment; and
- Proceeds from the exchange of property.

2. Relative Contributions to LEAs from Local, State, and Federal Sources

This subsection presents data on the relative contributions of local appropriations, state aid, and federal grants for each LEA in Maryland.

1. Alternative Methods of Calculating Relative Contributions

Different methods exist to compare the relative contributions from different sources of LEA funding. For all LEAs in Maryland, local appropriations, state aid, and federal grants comprise the vast majority of total school system funding. Data from the MSDE for the 2021-2022 school year indicate that these three sources (local appropriations, state aid, and federal grants) accounted for more than 96% of LEA funding statewide. With the exception of Baltimore City, no LEA received funding from other sources that exceeded 6% of total annual resources for the 2021-2022 school year.

Some of the minor revenue sources are not applicable for certain LEAs in any given year. For example, nine of the 24 LEAs in Maryland did not receive any “non-revenue”⁴ funding in the 2021-2022 school year. Moreover, the minor funding sources are more subject to annual fluctuations than the three major funding sources. As such, this report excludes the minor sources from the calculation of relative contributions to LEAs and focuses exclusively on the major sources, that is, local appropriations, state aid, and federal grants.

2. Relative Contributions: Local Appropriations, State Aid, Federal Grants

MSDE publishes annual data on funding received by LEAs. As of the writing of this report, the most recent published LEA data was for the 2021-2022 school year. Table 1 on the following page presents MSDE data on the amounts of local appropriations, state aid, and federal grants received by each LEA for the 2021-2022 school year. Table 1 also shows the relative percentage of funding from each of the three major funding categories. Figure 1 displays the relative percentages by major funding source in a graphic format.

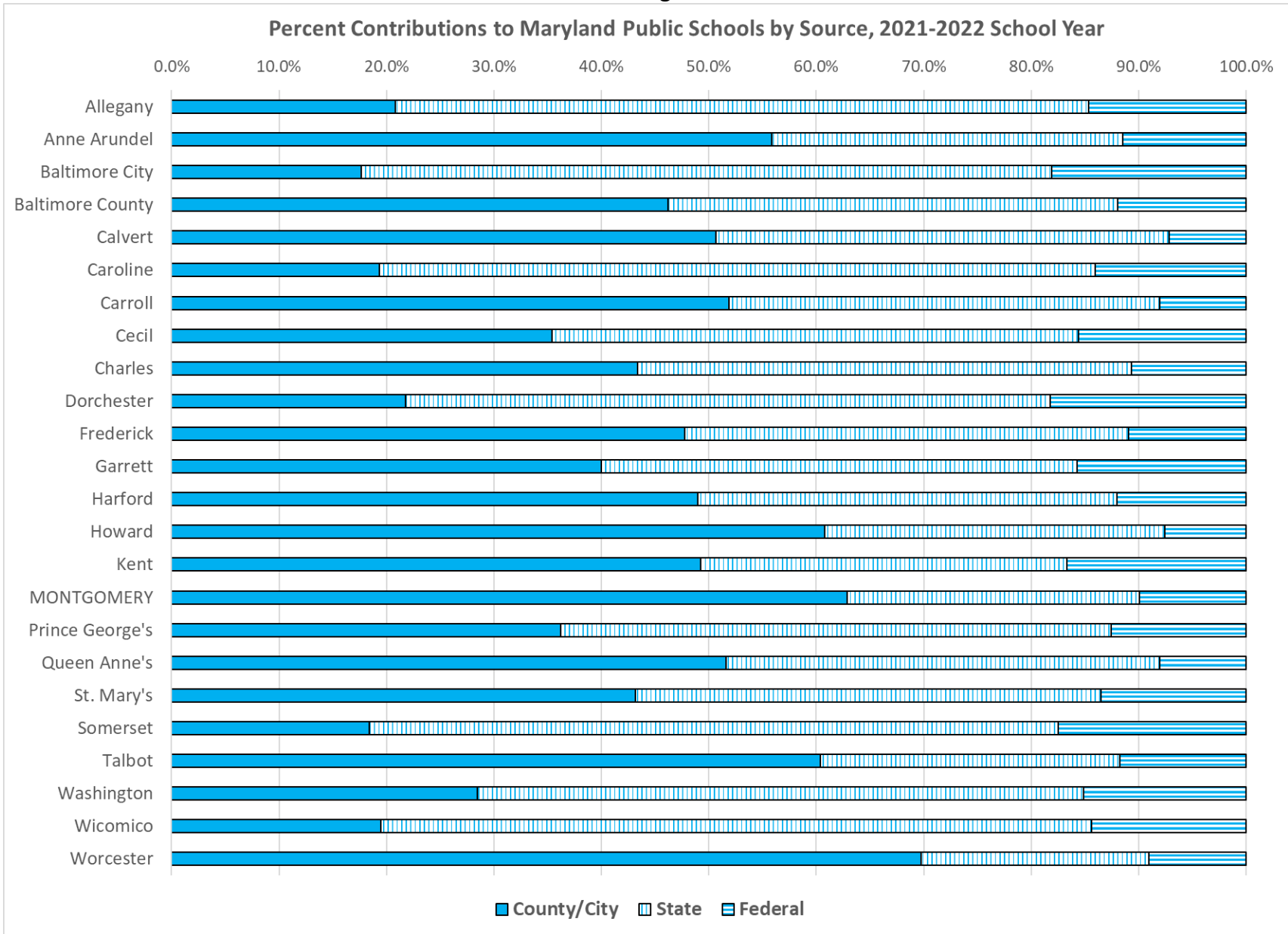
⁴ The Maryland State Department of Education defines non-revenue funding as “exchanges of property for cash or resources that incur future obligations” including sale of equipment, net insurance recovery, sale of bonds, loans, and transfers of funds between or within LEAs.

**Table 1: Local, State, and Federal Contributions to Maryland Public Schools*
2021-2022 School Year**

| | Dollars by Source of Funding | | | | Percent of Total by Source | | |
|-------------------|------------------------------|----------------------|----------------------|------------------------|----------------------------|--------------|-------------|
| | County/City | State | Federal | TOTAL | County/City | State | Federal |
| Allegany | \$33,432,541 | \$103,383,679 | \$23,454,179 | \$160,270,399 | 20.9% | 64.5% | 14.6% |
| Anne Arundel | \$921,302,210 | \$538,871,778 | \$189,785,893 | \$1,649,959,881 | 55.8% | 32.7% | 11.5% |
| Baltimore City | \$282,337,616 | \$1,025,756,506 | \$288,309,939 | \$1,596,404,061 | 17.7% | 64.3% | 18.1% |
| Baltimore County | \$996,725,381 | \$903,520,226 | \$257,406,774 | \$2,157,652,381 | 46.2% | 41.9% | 11.9% |
| Calvert | \$143,302,743 | \$119,356,639 | \$20,284,226 | \$282,943,608 | 50.6% | 42.2% | 7.2% |
| Caroline | \$21,333,848 | \$73,558,282 | \$15,529,015 | \$110,421,145 | 19.3% | 66.6% | 14.1% |
| Carroll | \$249,770,580 | \$192,746,268 | \$38,775,307 | \$481,292,155 | 51.9% | 40.0% | 8.1% |
| Cecil | \$92,670,119 | \$128,201,485 | \$40,783,343 | \$261,654,947 | 35.4% | 49.0% | 15.6% |
| Charles | \$229,637,589 | \$242,948,538 | \$56,614,931 | \$529,201,058 | 43.4% | 45.9% | 10.7% |
| Dorchester | \$20,812,142 | \$57,273,370 | \$17,419,343 | \$95,504,855 | 21.8% | 60.0% | 18.2% |
| Frederick | \$384,840,575 | \$332,164,820 | \$88,328,846 | \$805,334,241 | 47.8% | 41.2% | 11.0% |
| Garrett | \$29,254,695 | \$32,397,328 | \$11,533,213 | \$73,185,236 | 40.0% | 44.3% | 15.8% |
| Harford | \$347,491,158 | \$276,573,284 | \$85,436,883 | \$709,501,325 | 49.0% | 39.0% | 12.0% |
| Howard | \$764,264,083 | \$397,777,987 | \$95,251,991 | \$1,257,294,061 | 60.8% | 31.6% | 7.6% |
| Kent | \$18,910,164 | \$13,092,454 | \$6,400,751 | \$38,403,369 | 49.2% | 34.1% | 16.7% |
| MONTGOMERY | \$2,309,013,677 | \$999,522,357 | \$364,476,859 | \$3,673,012,893 | 62.9% | 27.2% | 9.9% |
| Prince George's | \$1,012,819,993 | \$1,434,669,957 | \$350,770,381 | \$2,798,260,331 | 36.2% | 51.3% | 12.5% |
| Queen Anne's | \$63,494,642 | \$49,738,623 | \$9,866,693 | \$123,099,958 | 51.6% | 40.4% | 8.0% |
| St. Mary's | \$133,526,848 | \$134,070,245 | \$41,777,961 | \$309,375,054 | 43.2% | 43.3% | 13.5% |
| Somerset | \$11,854,536 | \$41,351,503 | \$11,280,188 | \$64,486,227 | 18.4% | 64.1% | 17.5% |
| Talbot | \$51,230,102 | \$23,680,343 | \$9,952,930 | \$84,863,375 | 60.4% | 27.9% | 11.7% |
| Washington | \$112,357,623 | \$222,954,568 | \$59,737,918 | \$395,050,109 | 28.4% | 56.4% | 15.1% |
| Wicomico | \$57,856,093 | \$196,342,946 | \$42,602,002 | \$296,801,041 | 19.5% | 66.2% | 14.4% |
| Worcester | \$111,904,087 | \$33,954,890 | \$14,479,637 | \$160,338,614 | 69.8% | 21.2% | 9.0% |

* Excludes tuition, transportation fees, transfers from schools in other states, activity fees, proceeds from the exchange of property and other miscellaneous revenue.
Source: Maryland State Department of Education, [Selected Financial Data, Part 1- Revenue, Wealth, and Effort, 2021-2022 School Year](#)

Figure 1:



Source: Maryland State Department of Education, [Selected Financial Data, Part 1- Revenue, Wealth, and Effort, 2021-2022 School Year](#)

3. Rankings: Local Appropriations

As shown in Table 2, the Worcester County school system received nearly 70% of its funding from local appropriations, the largest local contribution of any LEA in Maryland. Montgomery County, at nearly 63%, received the second largest share of funding from local appropriations.

At the other end of the range, Baltimore City and Somerset County LEAs each received about 18% of their funding from local appropriations.

The mean share of total LEA funding coming from local appropriations for the 2021-2022 school year was 41.7%.

Note that the percentage of total LEA funding derived from local appropriations is intrinsically linked to the percentages of state aid and federal grant support. The three categories must sum to 100%; and so, the percentage total for each category reflects a relative measure compared to the other two categories. As an example, Montgomery County's large percentage from local appropriations was a function both of the County's contribution amount as well as the relatively low amount of state aid per pupil received by Montgomery County compared to other LEAs in Maryland (see next page).

Based on funding and enrollment data from MSDE for the 2021-2022 school year, Montgomery County appropriated \$14,381 per student, the second highest local contribution rate in Maryland (see Table 5 on page 10 below).

**Table 2:
Percent of Funding from
County/City Appropriations**

| | |
|-------------------|--------------|
| Worcester | 69.8% |
| MONTGOMERY | 62.9% |
| Howard | 60.8% |
| Talbot | 60.4% |
| Anne Arundel | 55.8% |
| Carroll | 51.9% |
| Queen Anne's | 51.6% |
| Calvert | 50.6% |
| Kent | 49.2% |
| Harford | 49.0% |
| Frederick | 47.8% |
| Baltimore County | 46.2% |
| Charles | 43.4% |
| St. Mary's | 43.2% |
| Garrett | 40.0% |
| Prince George's | 36.2% |
| Cecil | 35.4% |
| Washington | 28.4% |
| Dorchester | 21.8% |
| Allegany | 20.9% |
| Wicomico | 19.5% |
| Caroline | 19.3% |
| Somerset | 18.4% |
| Baltimore City | 17.7% |

4. Rankings: State Aid

As shown in Table 3, the Caroline County school system received two-thirds of its funding from state aid, the largest state aid contribution of any LEA in Maryland. Wicomico County landed as a close second receiving more than 66% of total funding from state aid.

To an extent, state aid rankings represent an inverse of local appropriation rankings. The two LEAs that received the highest percentage of funding from local appropriations, Worcester and Montgomery Counties, took the bottom two positions in the percentage of total funding coming from state aid. State aid represented only 21% of funding for the Worcester County LEA while state aid contributed about 27% of funding for the Montgomery County LEA. As described on the previous page, this inverse relationship between local appropriations and state aid is a function of the interrelationship of components that must sum to 100%; an increase in the relative percentage of one component necessarily produces a decrease in other components and vice versa.

The mean share of total LEA funding coming from state aid is 45.6%. State aid comprised more than 50% of the funding for eight of the 24 LEAs in Maryland.

Based on funding and enrollment data from MSDE for the 2021-2022 school year, Montgomery County received \$6,225 per student in state aid, the third lowest state aid rate in Maryland (see Table 5 below).

**Table 3:
Percent of Funding from
State Aid**

| | |
|-------------------|--------------|
| Caroline | 66.6% |
| Wicomico | 66.2% |
| Allegany | 64.5% |
| Baltimore City | 64.3% |
| Somerset | 64.1% |
| Dorchester | 60.0% |
| Washington | 56.4% |
| Prince George's | 51.3% |
| Cecil | 49.0% |
| Charles | 45.9% |
| Garrett | 44.3% |
| St. Mary's | 43.3% |
| Calvert | 42.2% |
| Baltimore County | 41.9% |
| Frederick | 41.2% |
| Queen Anne's | 40.4% |
| Carroll | 40.0% |
| Harford | 39.0% |
| Kent | 34.1% |
| Anne Arundel | 32.7% |
| Howard | 31.6% |
| Talbot | 27.9% |
| MONTGOMERY | 27.2% |
| Worcester | 21.2% |

5. Rankings: Federal Grants

As mentioned above, federal assistance to schools comes in the form of grants earmarked for specified uses, such as to support schools with children from low-income families, Head Start child development programs, English language acquisition, and career and technical education. These federal grants are formula driven, many based on the demographics of the local community.

As shown in Table 4, the Dorchester County school system received about 18% of total funding from federal grants, the largest federal contribution of any LEA in Maryland. Baltimore City also received about 18% of its LEA funding from federal grants.

At the other end of the range, Calvert County and Howard County received the lowest relative funding from federal grants at about seven and eight percent, respectively.

The mean share of total LEA funding coming from federal grants is 12.7%. Federal grants comprised at least 10% for 18 of the 24 LEAs in Maryland.

Based on funding and enrollment data from MSDE for the 2021-2022 school year, Montgomery County received \$2,270 per student in federal aid (see Table 5 below).

Table 4:

| Percent of Funding from Federal Grants | |
|---|-------------|
| Dorchester | 18.2% |
| Baltimore City | 18.1% |
| Somerset | 17.5% |
| Kent | 16.7% |
| Garrett | 15.8% |
| Cecil | 15.6% |
| Washington | 15.1% |
| Allegany | 14.6% |
| Wicomico | 14.4% |
| Caroline | 14.1% |
| St. Mary's | 13.5% |
| Prince George's | 12.5% |
| Harford | 12.0% |
| Baltimore County | 11.9% |
| Talbot | 11.7% |
| Anne Arundel | 11.5% |
| Frederick | 11.0% |
| Charles | 10.7% |
| MONTGOMERY | 9.9% |
| Worcester | 9.0% |
| Carroll | 8.1% |
| Queen Anne's | 8.0% |
| Howard | 7.6% |
| Calvert | 7.2% |

6. Local, State, and Federal Funding per Student

In addition to tracking data on funding for each school system in Maryland, MSDE also publishes statewide LEA enrollment data. Table 5 shows the amount of local appropriation, state aid and federal funding per student based on MSDE data for the 2021-2022 school year.

Table 5: Local, State and Federal Funding Per Student, 2021-2022 School Year

| | Dollars/Enrolled Student | | | |
|-------------------|--------------------------|----------------|----------------|-----------------|
| | County/City | State | Federal | TOTAL |
| Allegany | \$4,140 | \$12,803 | \$2,905 | \$19,848 |
| Anne Arundel | \$11,093 | \$6,488 | \$2,285 | \$19,867 |
| Baltimore City | \$3,626 | \$13,175 | \$3,703 | \$20,505 |
| Baltimore County | \$8,972 | \$8,133 | \$2,317 | \$19,421 |
| Calvert | \$9,371 | \$7,805 | \$1,326 | \$18,503 |
| Caroline | \$3,842 | \$13,247 | \$2,797 | \$19,885 |
| Carroll | \$10,167 | \$7,845 | \$1,578 | \$19,590 |
| Cecil | \$6,296 | \$8,711 | \$2,771 | \$17,778 |
| Charles | \$8,579 | \$9,076 | \$2,115 | \$19,770 |
| Dorchester | \$4,464 | \$12,285 | \$3,736 | \$20,486 |
| Frederick | \$8,904 | \$7,685 | \$2,044 | \$18,633 |
| Garrett | \$8,019 | \$8,881 | \$3,162 | \$20,062 |
| Harford | \$9,308 | \$7,408 | \$2,289 | \$19,005 |
| Howard | \$13,337 | \$6,942 | \$1,662 | \$21,942 |
| Kent | \$10,436 | \$7,225 | \$3,532 | \$21,194 |
| MONTGOMERY | \$14,381 | \$6,225 | \$2,270 | \$22,876 |
| Prince George's | \$7,693 | \$10,897 | \$2,664 | \$21,254 |
| Queen Anne's | \$8,586 | \$6,726 | \$1,334 | \$16,646 |
| St. Mary's | \$7,742 | \$7,774 | \$2,422 | \$17,939 |
| Somerset | \$4,207 | \$14,674 | \$4,003 | \$22,884 |
| Talbot | \$11,324 | \$5,234 | \$2,200 | \$18,758 |
| Washington | \$5,121 | \$10,162 | \$2,723 | \$18,007 |
| Wicomico | \$3,877 | \$13,159 | \$2,855 | \$19,891 |
| Worcester | \$16,675 | \$5,060 | \$2,158 | \$23,892 |

Source: Calculated from data in Maryland State Department of Education, [Selected Financial Data, Part 1- Revenue, Wealth, and Effort, 2021-2022 School Year](#)

SECTION II: PRIVATE CONTRIBUTIONS TO PUBLIC K-12 EDUCATION

This section describes private (that is, non-governmental) contributions to support public schools in the United States.

A. Public Education Foundations

Public Education Foundations exist in many communities in the United States, including Montgomery County. A Public Education Foundation is a nonprofit entity that solicits private contributions to supplement public school funding beyond the resources received from local, state, and federal sources. Public Education Foundations fundraise from private individuals, businesses, corporations, and other foundations and channel the contributions to support public schools. Most commonly, these foundations solicit funds for a single local school or school system and often focus their fundraising on private entities in the local area.

In Montgomery County, the [MCPS Educational Foundation](#) was founded in 1988 to support instructional enrichment and equitable educational opportunities for students enrolled in the MCPS. The MCPS Educational Foundation fundraises to raise money for grants to MCPS staff for enhanced instruction as well as to fund post-secondary scholarships for MCPS students. The most recent published financial audit indicates that the Foundation received \$736,000 in contributions in Fiscal Year 2022 and \$2,904,000 in contributions in Fiscal Year 2023.⁵ The marked increase in contributions from Fiscal Year 2022 to Fiscal Year 2023 is a result of a \$1,930,000 donation made by a single charitable foundation. That donation allowed the MCPS Foundation to increase grant and scholarship awards from a total of \$910,000 in Fiscal Year 2023 to a total of \$2,840,000 in Fiscal Year 2023.⁶

B. Targeted Spending

Almost exclusively, Public Education Foundations direct their dollars toward spending on targeted purposes (as opposed to providing supplemental resources to a school system's General Fund). Many Public Education Foundations direct resources to support educational initiatives and enrichment programs such as funding to purchase supplemental classroom supplies, computer equipment, sports equipment, and performing arts materials. Many foundations also provide grants to address educational achievement gaps for certain student populations and to reward or recognize outstanding teachers. Foundations also commonly award post-secondary scholarships to select high-achieving students.

The MCPS Educational Foundation offers grants to support music and fine arts education programs with an emphasis on projects that are innovative, community based, and support students in need. In addition, the Foundation awards small grants to educators of up to \$1,500 to support creative and innovative projects that are not funded in the MCPS operating budget.

⁵ [MCPS Educational Foundation, Inc., Financial Statements, Years Ended June 30, 2023 and 2022](#), page 4.

⁶ [Ibid](#), page 4.

A list of recently awarded grants appear on the [Foundation's grants archive webpage](#). Of note, during the pandemic in Fiscal Year 2021, the Foundation did not offer small grants, but rather made large grants in support of districtwide digital literacy and student mental health programs.

The MCPS Educational Foundation offers seven different post-secondary scholarship programs for graduating high school seniors. Most of the scholarship selection criteria consider household income and financial need. Some scholarships are restricted to certain subsets of students, such as those pursuing careers in education or cybersecurity and students who attend specific high schools. Additional details about these scholarships is available on the [Foundation's scholarship web page](#).

Some Public Education Foundations have expanded the scope of their efforts beyond traditional uses. The bullets below identify examples of Public Education Foundations that use money raised from the private sector for uses other than in-school grants and scholarship awards.

- **Family Stability Fund:** The [St. Louis Public Schools Foundation](#) provides financial assistance to students and families who have unmet basic needs including help paying security deposits, rent, and utility bills.
- **After School Programs:** The [Denver Public Schools Foundation](#) provides after school programs that offer additional instruction, enrichment and leadership development programs for students.
- **Financial Literacy:** The [Albuquerque Public Schools Foundation](#) awards grants to teach financial literacy to middle and high school students.
- **Enterprise Village:** The [Pinellas County \(Florida\) Education Foundation](#) offers elementary school student classroom economic education supplemented by a “business day” at the Enterprise Village, a mock shopping mall where students simulate working in a business as well acting as consumers.
- **Local Books Series:** The [Foundation for Tulsa Schools](#) supports the publishing of locally focused children’s books written and illustrated by Tulsa Public Schools teachers, students, and staff.

C. Designated Contributions

Donors to Public Education Foundations frequently designate their contribution for a specific use, such as a particular scholarship fund or a certain grant fund. In addition, funds contributed to an endowment (see next subsection) are restricted for perpetual use to generate investment income. As a result of these restrictions, Public Education Foundations often have limited ability to re-allocate resources among programs and uses. In the case of the MCPS Educational

Foundation, greater than 60% of total assets are restricted for use for purposes designated by donors.⁷

Table 6 below displays the top three contributors (or contribution campaigns) to the MCPS Foundation, the amounts of the contribution, and the designated use for the contributed funds for each of the past five years.

Table 6: Largest Contributors/Campaigns to MCPS Foundation, Fiscal Years 2019-2023⁸

| Year | Contributor/Campaign | Amount | Designated Use |
|------------------|----------------------------------|-------------|--------------------------------|
| Fiscal Year 2023 | Ruth and Norman Rales Foundation | \$1,930,000 | Scholarships |
| | Howard Hughes Medical Institute | \$362,671 | Science instruction |
| | Joseph D. Byrd Fund | \$165,000 | Scholarships |
| Fiscal Year 2022 | GIVE BACKpacks Campaign | \$165,048 | Backpacks/school supplies |
| | Howard Hughes Medical Institute | \$362,671 | Science instruction |
| | Lavinia Group | \$104,646 | Teacher development |
| Fiscal Year 2021 | Howard Hughes Medical Institute | \$478,024 | Science instruction |
| | GIVE BACKpacks Campaign | \$158,808 | Backpacks/school supplies |
| | Multiple sources | \$82,590 | Enhanced learning during Covid |
| Fiscal Year 2020 | Howard Hughes Medical Institute | \$500,000 | Science instruction |
| | Dine with Dignity Campaign | \$188,720 | Lunches for students in need |
| | GIVE BACKpacks Campaign | \$132,555 | Backpacks/school supplies |
| Fiscal Year 2019 | Howard Hughes Medical Institute | \$545,000 | Science instruction |
| | GIVE BACKpacks Campaign | \$152,184 | Backpacks/school supplies |
| | Dine with Dignity Campaign | \$97,000 | Lunches for students in need |

D. Endowments

Many private donors to Public Education Foundations direct their contributions to endowment funds. An endowment is a perpetual, self-sustaining fund maintained by a nonprofit organization. Endowment assets are invested to generate additional dollars. Endowments expend a portion of assets (typically about 3% to 5% of total assets annually) to fund a specified

⁷ *ibid*, page 4.

⁸ Source: MCPS Educational Foundation Income Tax Forms 990. For more details on the contributions summarized in this table, see 990 forms posted on the [MCPS Educational Foundation's website](#).

purpose. Annual investment returns that exceed expenditures remain in the fund to increase overall assets.

Consistent with the practices of nearly every Public Education Foundation in the United States, the MCPS Educational Foundation manages endowments that distribute funds to support specified uses. The MCPS Educational Foundation maintains 19 donor-restricted endowments; eleven of these endowments fund scholarships while eight provide resources for grants and awards. The most recent published financial audit indicates that the MCPS Educational Foundation endowments held a combined \$2,535,000 in donor restricted net assets and \$191,000 in non-restricted net assets as of June 30, 2023.⁹

Many colleges, universities, and private K-12 schools maintain endowments that disperse non-targeted funds to support the institution's General Fund, that is, undesignated funds to support the overall school operating costs. The use of endowments to support General Fund expenditures is extremely uncommon among public K-12 schools.

OLO's research identified two endowments – one at the state-level and one local-level – that provide funds to support the general operations of K-12 public schools. An endowment that annually funds public school general operations exists in the State of Idaho, albeit with an unusual history. In 1890, Idaho was admitted as the 43rd State of the Union. At that time, the United States Congress granted 3.6 million acres of land to Idaho for the sole purpose of funding specified beneficiaries, primarily the state's public schools. Proceeds from revenue generated from that land, primarily timber sales, are channeled into an endowment that annually distributes funds to public school systems throughout Idaho. These resources are available for general, undesignated use by the schools. From 2013 through 2022, the endowment dispersed \$419 million to Idaho public schools.¹⁰

The Rancho Santa Fe School District in San Diego County, California operates a single K-8 school serving approximately 600 students. The Rancho Santa Fe Education Foundation raises funds from private individuals and businesses to build the principal of its long-term endowment. The Rancho Santa Fe Education Foundation distributes 3% to 5% of endowment assets (currently about \$6.1 million) annually to the School District's General Fund "to ensure the hiring of additional teachers to maintain small class sizes and individualized instruction."¹¹

A clear reason exists to explain why Public Education Foundations rarely employ the use of endowments to support K-12 public school General Fund expenditures. An endowment must have an exceptionally large asset base in order to generate sufficient investment returns to have a meaningful impact on a school system's annual operating budget. Endowments typically disperse no more than 5% of assets per year in order to supply funds in perpetuity; as such, an endowment's asset base needs to be about 20 times larger than its annual disbursement

⁹ [Ibid](#), page 13.

¹⁰ Idaho Department of Lands, [2021 Annual Report](#).

¹¹ [Rancho Santa Fe School District Education Foundation](#).

amount. For example, an endowment with \$1 million dollars in assets could disburse \$50,000 annually (assuming that a 5% investment rate of return to replenish the fund balance). Public Education Foundations face several challenges in building up a large enough endowment asset base to meaningfully supplement General Fund spending. These challenges include:

1. Donations to Public Education Foundations generally are insufficient to amass endowment assets in the tens or hundreds of millions of dollars needed to provide ongoing school system operational funding.
2. Foundations and their donors often wish to expend resources to address immediate needs (such as current year in-school projects or scholarships) rather than to keep resources unspent to build up an endowment’s assets.
3. Donors frequently desire to designate their contributions for specific projects and purposes rather than for general operating budget use.

To illustrate these challenges, OLO calculated the number of years that would be needed to amass endowment assets sufficient to fund 1% of the County appropriation to MCPS.¹² OLO ran six scenarios involving assumed annual endowment contributions of \$1 million, \$2.5 million, and \$5 million with assumed annual rates of investment returns of 5.0% and 7.5%. As shown in Table 7, these annual contributions would need to remain untouched in the endowment for between 27 and 70 years to build up sufficient assets so that the annual return on investment would generate resources equal to 1% of the County appropriation to MCPS.

Table 7: Number of Years Needed to Generate Endowment Fund Investment Income Equal to One Percent of Montgomery County Appropriation to MCPS

| Annual Contributions | Rate of Investment Return | Years to Generate Investment Income Equal to 1% of Annual County Appropriation to MCPS |
|-----------------------------|----------------------------------|---|
| \$1,000,000 | 5.0% | 70 years |
| \$2,500,000 | 5.0% | 53 years |
| \$5,000,000 | 5.0% | 40 years |
| \$1,000,000 | 7.5% | 48 years |
| \$2,500,000 | 7.5% | 36 years |
| \$5,000,000 | 7.5% | 27 years |

¹² This calculation is based on the FY24 County appropriation of \$2,954 million to MCPS and the present value of future year contributions.