

Department of Legislative Services
Maryland General Assembly
2000 Session

FISCAL NOTE

House Bill 1379 (Delegate La Vav. *et al.*)

Ways and Means

Education - State Funding - Social Security Contributions

This bill requires the State to pay the employer share of the Social Security cost for eligible public school, community college, and local library employees beginning in fiscal 2002. The bill takes effect July 1, 2000.

Fiscal Summary

State Effect: General fund expenditures would increase by \$268.9 million beginning in FY 2002. Future year expenditures reflect growth in the salary base.

(in millions)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
GF Revenues	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
GF Expenditures	0.0	268.9	279.2	289.4	299.1
Net Effect	\$0.0	(\$268.9)	(\$279.2)	(\$289.4)	(\$299.1)

Note: () = decrease; GF = general funds

Local Effect: State aid to local governments would increase by \$268.9 million in FY 2002. Expenditures would not be directly affected.

Small Business Effect: None.

Analysis

Current Law: The State is not responsible for paying the employer portion of Social

Security for local school, library, and community college employees.

Background: Prior to fiscal 1994, the State reimbursed local school boards for a portion of the Social Security costs for eligible employees of the school boards. Eligible employees were primarily teachers, administrators, and professional employees associated with the instructional programs who were members of either the teachers' retirement or pension systems and who were not funded through federal programs. The State share was equal to 6.13% of the Social Security Wage Base. With a Social Security tax rate of 7.65% of salaries, this translated into an 80% State share for eligible employees. In fiscal 1993, the last year in which the State made Social Security payments to the local boards, school systems reported total Social Security expenditures of \$218 million. Of this amount, State reimbursements totaled \$136 million or about 62.4%.

State Fiscal Effect: Pursuant to this legislation, the State would pay the employer share of Social Security costs for eligible school, community college, and library employees. It is estimated that the State share of Social Security costs would total approximately \$268.9 million in fiscal 2002. **Exhibit 1** shows the projected costs for fiscal 2002 through fiscal 2005 for each respective system.

Exhibit 1
Increased State Social Security Costs
(\$ in millions)

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
School Systems	\$0	\$252.3	\$262.0	\$271.6	\$280.6
Libraries	0	6.1	6.3	6.5	6.8
Community Colleges	0	10.5	10.9	11.3	11.7
Total	\$0	\$268.9	\$279.2	\$289.4	\$299.1

State funding of Social Security costs in fiscal 2002 may result in a smaller increase in local appropriations for education than currently forecast for fiscal 2002. Because State funding under the current expense and compensatory aid formulas in fiscal 2005 is based on average spending in the third and fourth preceding years, a smaller increase in fiscal 2002 local spending may reduce current expense and compensatory aid in fiscal 2005, thus offsetting some of the State Social Security costs in that year.

Local Fiscal Effect: State aid to local governments would increase by \$268.9 million in fiscal 2002 and \$299.1 million by fiscal 2005. Local expenditures are not directly affected. However, by having the State pay a share of Social Security costs, local expenditures for primary and secondary education may be lower than they would be under current law in the future. This assumes that the local appropriations for the school systems would have been higher than required by the local maintenance of effort provision.

Additional Information

Prior Introductions: Similar bills were introduced at the 1997, 1998, and 1999 sessions. In 1999, HB 860 received an unfavorable report by the House Ways and Means Committee. In 1998, SB 449 received an unfavorable report by the Senate Budget and Taxation Committee. The cross file, HB 1071, was not reported by the House Ways and Means Committee. In 1997, HB 1380 received an unfavorable report by the House Ways and Means Committee. The cross file, SB 773, was not reported by the Senate Budget and Taxation Committee.

Cross File: None.

Information Source(s): Maryland State Department of Education, Department of Legislative Services

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