

Department of Legislative Services
 Maryland General Assembly
 2001 Session

FISCAL NOTE

House Bill 1 (Delegate Taylor, *et al.*)
 Ways and Means

Targeted Education Funding Act of 2001

This bill provides additional State funding to local school systems. State aid under the current expense formula cannot be less than \$500 per pupil for a local school system designated as a qualified distressed county. State transportation aid for disabled students increases from \$500 per student to \$1,000 per student and the current offset for disabled students transported during the 1980-1981 school year is eliminated. An education disparity grant is established to provide targeted funding to less affluent school systems. State special education funding to local school systems increases by \$42.3 million in fiscal 2002 and 2003.

This bill takes effect July 1, 2001 and sunsets on June 30, 2003.

Fiscal Summary

State Effect: General fund expenditures would increase by \$95.0 million in FY 2002 and by \$98.3 million in FY 2003. Revenues would not be affected.

(\$ in millions)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	95.0	98.3	0	0	0
Net Effect	(\$95.0)	(\$98.3)	\$0	\$0	\$0

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: State aid to local school systems would increase by \$95.0 million in FY 2002 and by \$98.3 million in FY 2003. Local school expenditures would not be directly affected.

Small Business Effect: None.

Analysis

Current Law: The Maryland Constitution requires the State to provide a thorough and efficient system of free public schools. To satisfy this requirement, the State will provide approximately \$2.6 billion to local school systems in fiscal 2002. State education aid accounts for approximately 30% of the State's general fund revenues. In addition, State funding to local school systems represents the largest component of the State's general fund budget. State funding to local school systems is provided through approximately 50 programs. This legislation increases State funding to three existing programs and establishes a new targeted program for less affluent school systems.

Background: In the fall of 1999, the Commission on Education Finance, Equity, and Excellence was established to review the State's current education funding formulas and accountability measures. The commission released an interim report in December 2000 outlining several recommendations for the 2001 session. In total, the commission's recommendations require that \$133.4 million in new education funding be included in the fiscal 2002 State budget. These recommendations include \$42.3 million for special education, \$22 million for transportation of disabled students, and \$69.1 million for programmatic enhancements. Two of the commission's recommendations, special education and transportation funding, are included in this legislation.

Special Education Costs

Growth in special education enrollment between 1989 and 1999 has increased at a faster rate than enrollment growth in the total student population. Further, special education costs are paid disproportionately by local school systems. With regard to nonpublic placements, commission testimony indicated that students are sometimes transferred from public schools to more expensive non-public placements because appropriate services that could otherwise be provided in the public schools are not available because of a lack of funding.

Student Transportation Costs

Student transportation costs have increased steadily since the early 1980s, while the proportion of transportation costs funded by the State has declined. Between fiscal 1981 and 1998, total expenditures for student transportation increased by 180%. During this same period, State expenditures for student transportation increased by only 35%. The percentage of total student transportation costs funded by the State peaked at about 90%

in 1984 and has declined gradually in each subsequent year. In fiscal 1998, the State funded about 36% of total student transportation costs.

The transportation of students with disabilities is particularly costly, as shown by the differences in mileage for nondisabled and disabled students. Statewide, the average number of miles traveled per disabled student requiring special transportation services (1,318) is more than ten times the miles traveled per student not requiring the special services (127). Additionally, disabled students requiring special services comprise only 4% of the total number of students who are eligible for transportation services, but account for 33% of the total miles that students are transported. Accordingly, the per pupil cost of transporting a disabled student is much higher than a nondisabled student. Current State funding for transporting disabled students is significantly less than the actual costs incurred by local school systems.

State and Local Fiscal Effect: State aid to local school systems would increase by \$95.0 million in fiscal 2002 and by \$98.3 million in fiscal 2003 as shown in **Exhibit 1**. **Exhibit 2** provides a county-by-county allocation for fiscal 2002.

Exhibit 1

<u>Legislative Enhancement</u>	<u>Fiscal 2002</u>	<u>Fiscal 2003</u>
Minimum Current Expense Grant	\$0.023 million	\$0.5 million
Special Transportation Grants	\$21.9 million	\$22.0 million
Education Disparity Grants	\$30.8 million	\$33.5 million
Special Education Grants	\$42.3 million	\$42.3 million
Total	\$95.02 million	\$98.3 million

Minimum Current Expense Grant

The current expense formula is the major State aid program for primary/secondary education, accounting for about 60% of State education aid in fiscal 2002. The formula determines for each local school system the State and local shares of a minimum per pupil funding level or foundation. For fiscal 2002 the total minimum foundation is \$4,124 per student. The formula will distribute approximately \$1.7 billion in State assistance to local school systems in fiscal 2002.

In fiscal 2002 the State share of the current expense formula is less than \$500 per pupil in two local school systems (Talbot and Worcester). However, only Worcester County is designated as a qualified distressed county under the One Maryland program. Pursuant to

this legislation, the per pupil State aid under the current expense formula for Worcester County is projected to increase from \$425 to \$500 in fiscal 2002 resulting in a \$486,152 increase in State aid. This increase is offset by a \$462,922 reduction in the county's hold harmless grant under the Teacher Salary Challenge program. The hold harmless grant ensures that a local school system's current expense aid equals at least the amount received in the prior year. Accordingly, Worcester County will realize a \$23,230 increase in State aid in fiscal 2002. In fiscal 2003, Worcester County could realize a \$500,000 increase in State aid, since the county's per pupil State aid is expected to be below \$500 and the hold harmless grant under the Teacher Salary Challenge program discontinues after fiscal 2002.

Students with Disabilities Transportation Grant

The State provides local school systems with funds to help pay the cost of transporting disabled students. State aid equals \$500 times the number of disabled students in need of special transportation services in excess of the number transported in the 1980-1981 school year. Fiscal 2002 State aid is based on the number of disabled students receiving special services as of September 1999.

Pursuant to this legislation, the per pupil grant increases to \$1,000 and the current offset for disabled students transported during the 1980-1981 school year is eliminated. Based on 27,492 disabled students requiring special transportation services, the students with disabilities transportation grant to local school systems would total \$27.5 million in fiscal 2002. This represents a \$21.9 million increase over current law. In fiscal 2003, State aid is estimated at \$27.7 million, which reflects a \$22 million increase over current law.

Education Disparity Grant

This legislation establishes a new targeted education aid grant based on the State's disparity grant formula. The education disparity grant provides funding to local school systems where the per student income tax yield is below 72.5% of the statewide average. Each school system's grant would equal the amount of money required for the school system's per pupil local income tax yield to reach 72.5% of the statewide average. A local school system's funding is capped at \$10 million each year. Nine local school systems will receive funding under this grant with funding in fiscal 2002 totaling \$30.8 million.

State funding under this proposal would reduce spending disparities for several less affluent local school systems. For seven of the nine local school systems receiving funding under this grant, per pupil education spending in fiscal 1998 was below the statewide average. For example, per pupil education spending in Caroline County totaled

\$6,038, the lowest in the State and \$907 below the statewide average. Due to the education disparity grant, per pupil education spending in Caroline County increases to \$6,660, which is \$324 below the statewide average.

Special Education Grants

Under current law, funding for public special education programs consists of two components: (1) a \$70 million base amount; and (2) an additional \$11.25 million second tier amount. A local school system's share of the \$70 million base grant is equal to the amount of special education funding that the school system received in 1981 under a formula that distributes funds according to: (1) total enrollment; and (2) a 1976 cost index for special education expenditures in each county. The \$11.25 million second tier funding is distributed through a formula that is based on special education enrollment and local wealth. Total funding for public special education (\$81.25 million) has remained unchanged since 1990.

This bill increases State funding for public special education programs by \$42.3 million in fiscal 2002. This increased funding level would be continued into fiscal 2003. The additional funding would be added to the \$11.25 million second tier amount. The existing \$70 million base amount would be maintained in both fiscal 2002 and fiscal 2003.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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Exhibit 2
House Bill 1 Education Funding Enhancements
Fiscal 2002 Estimates

County	Special Education Enhancement	Transportation Enhancement	Targeted Grant	One Maryland Counties Minimum \$500/Student*	Total State Enhancements	Per Pupil State Aid
Allegany	\$980,406	\$185,000	\$2,770,528	\$0	\$3,935,934	\$400
Anne Arundel	2,909,054	1,526,500	0	0	4,435,554	62
Baltimore City	11,009,273	4,587,500	10,000,000	0	25,596,773	276
Baltimore	3,719,576	2,865,500	0	0	6,585,076	66
Calvert	788,201	116,000	0	0	904,201	59
Caroline	448,308	74,500	3,240,830	0	3,763,638	730
Carroll	1,481,161	364,000	0	0	1,845,161	70
Cecil	1,090,076	229,500	1,432,281	0	2,751,857	185
Charles	1,160,590	215,500	0	0	1,376,090	62
Dorchester	277,549	44,500	1,864,639	0	2,186,688	483
Frederick	1,680,791	442,000	0	0	2,122,791	61
Garrett	312,734	46,500	3,241,053	0	3,600,287	750
Harford	2,285,907	373,000	0	0	2,658,907	71
Howard	1,229,059	670,500	0	0	1,899,559	44
Kent	98,047	31,500	0	0	129,547	50
Montgomery	3,423,403	5,515,000	0	0	8,938,403	70
Prince George's	5,823,511	3,721,000	4,352,385	0	13,896,896	111
Queen Anne's	329,893	39,500	0	0	369,393	55
St. Mary's	822,781	187,000	0	0	1,009,781	72
Somerset	220,056	72,000	1,785,270	0	2,077,326	742
Talbot	86,202	43,000	0	0	129,202	31
Washington	1,171,414	327,000	0	0	1,498,414	80
Wicomico	786,470	186,000	2,079,912	0	3,052,382	233
Worcester	165,536	72,500	0	23,230	261,266	40
Total	\$42,300,000	\$21,935,000	\$30,766,898	\$23,230	\$95,025,128	\$118

* Worcester County's current expense aid increases by \$486,152, but the county's hold harmless grant under the Teacher's Salary Challenge program decreases \$462,922. The net increase, therefore, is \$23,230.

