

**Department of Legislative Services
Maryland General Assembly
2007 Session**

**FISCAL AND POLICY NOTE
Revised**

House Bill 139
Ways and Means

(The Speaker, *et al.*) (By Request – Administration)

Education - Geographic Cost of Education Index - Funding

This Administration bill changes the Geographic Cost of Education Index (GCEI) formula from a discretionary State aid program to a mandated State aid program and begins a three-year phase-in of the formula in fiscal 2009. In addition, the bill requires the Maryland State Department of Education (MSDE) to update the GCEI adjustments every three years using the most recent available data and the same methodology that was used to develop the current GCEI. MSDE must submit the proposed updated GCEI adjustments to the Governor and the General Assembly by September 1 every third year beginning September 1, 2009 and must recommend legislation to implement the updated adjustments at the legislative session that follows the update.

The bill takes effect July 1, 2006.

Fiscal Summary

State Effect: Mandated general fund expenditures would increase by an estimated \$39.7 million in FY 2009 to provide funding for the first year of the GCEI formula phase-in and to contract for an update to the GCEI. Future year expenditure estimates reflect the continuation of the phase-in schedule, projected enrollment changes, inflation, and contractual costs every three years for GCEI updates. Relative to the existing discretionary formula there is a savings of \$73.8 million in FY 2009 and \$53.9 million in FY 2010. Revenues would not be affected.

(\$ in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	39.7	80.8	137.2	140.2
Net Effect	\$0	(\$39.7)	(\$80.8)	(\$137.2)	(\$140.2)

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

Local Effect: Local school revenues from State aid would increase by an estimated \$39.6 million in FY 2009 and by approximately \$140.1 million in FY 2012. The additional State aid would be shared by 13 local school systems.

Small Business Effect: The Administration has determined that this bill has minimal or no impact on small businesses (attached). Legislative Services concurs with this assessment.

Analysis

Current Law: The GCEI formula is established in statute but is not mandated. The discretionary formula phases in from fiscal 2006 to 2010.

Background: One of the recommendations of the Commission on Education Finance, Equity, and Excellence (Thornton Commission) was to adjust State aid to reflect regional differences in the cost of education that are outside the control of local jurisdictions. The Thornton Commission defined adequate funding as revenues sufficient to acquire the resources needed to reasonably expect that students can meet the State's academic performance standards. Because the cost of these resources may vary by jurisdiction, the Thornton Commission recommended that State aid be adjusted to account for the variations. However, the commission did not believe that an acceptable GCEI existed at the time it was completing its work. The commission recommended that MSDE contract with a private consultant to develop a Maryland-specific index to be used to adjust State aid beginning in fiscal 2005. This recommendation was codified in the Bridge to Excellence in Public Schools Act of 2002.

The consultants hired by MSDE submitted a final report entitled *Adjusting for Geographic Differences in the Cost of Educational Provision in Maryland* on December 31, 2003. The report includes a GCEI with index values that range from 0.948 in Garrett County to 1.048 in Prince George's County. The index combines several indices created by the consultants to measure regional differences in the costs of professional personnel, nonprofessional personnel, and energy.

To measure differences in professional personnel costs – the largest component of local school board budgets and therefore the largest component of the GCEI – a hedonic approach was used. This methodology assumes that you would have to pay employees less to work in more desirable locations and more to work in less desirable locations. Desirability was measured in three areas: local cost of living, local working conditions, and local quality of life. Several variables were tested in each of these areas, and through a series of statistical analyses, the variables that were ultimately chosen by the

consultants were housing prices (a cost of living measure), the percentage of students eligible for free and reduced price meals (working conditions), and violent crime rate and percentage of commuters who travel over 60 minutes to get to work (quality of life).

Separate indices were developed for nonprofessional personnel salaries and energy costs, and supply and equipment costs were assumed to be the same for all school systems. The different indices were then weighted according to their relative budget shares in order to produce the Maryland-specific GCEI shown in **Exhibit 1**.

Exhibit 1
Geographic Cost of Education Index

<u>School System</u>	<u>GCEI Value</u>	<u>School System</u>	<u>GCEI Value</u>
Allegany	0.959	Harford	0.992
Anne Arundel	1.018	Howard	1.015
Baltimore City	1.042	Kent	1.010
Baltimore	1.008	Montgomery	1.034
Calvert	1.021	Prince George's	1.048
Caroline	1.000	Queen Anne's	1.011
Carroll	1.014	St. Mary's	1.002
Cecil	0.989	Somerset	0.973
Charles	1.020	Talbot	0.991
Dorchester	0.978	Washington	0.974
Frederick	1.024	Wicomico	0.971
Garrett	0.948	Worcester	0.959

Source: *Adjusting for Geographic Differences in the Cost of Educational Provision in Maryland*

Using the index that was developed, the General Assembly established a discretionary formula in 2004 (Chapter 430) that would phase up from 50% in fiscal 2006 to 100% in fiscal 2010. The formula increases aid for counties with above average costs (*i.e.*, GCEI values greater than 1.0) but does not reduce aid for counties that have below average costs (*i.e.*, GCEI values less than 1.0). Funding for the formula was not provided in fiscal 2006 or 2007 and is not included in the proposed fiscal 2008 State budget.

State Expenditures: Mandated general fund expenditures for the GCEI formula would increase by an estimated \$39.6 million in fiscal 2009. The funding would be distributed to local school systems in accordance with the formula, which provides additional

education aid to 13 of the 24 local school systems. Funding levels would increase in fiscal 2010 and 2011 as the formula phases in. After fiscal 2011, GCEI funding levels would only be affected by enrollment changes and inflation.

GCEI funding projections for the 13 local school systems that would receive additional State aid are shown in **Exhibit 2**, and per pupil funding projections are shown in **Exhibit 3**. The GCEI adjustments used in the formula would be updated in time for use in the fiscal 2011 calculation of GCEI funding. If legislation is enacted to change the GCEI adjustments, it would affect the funding level and funding distribution for the GCEI formula beginning in fiscal 2011.

Exhibit 2
GCEI Formula Funding
Fiscal 2009-2012
(\$ in Thousands)

Phase-in Percent	30%	60%	100%	100%
<u>County</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
Anne Arundel	\$2,668	\$5,449	\$9,300	\$9,511
Baltimore City	6,838	13,688	22,743	22,757
Baltimore	1,678	3,420	5,798	5,925
Calvert	745	1,534	2,623	2,700
Carroll	823	1,688	2,878	2,956
Charles	1,085	2,247	3,855	3,984
Frederick	1,990	4,118	7,107	7,358
Howard	1,512	3,118	5,337	5,461
Kent	45	88	146	147
Montgomery	9,533	19,626	33,645	34,650
Prince George's	12,407	25,376	42,946	43,729
Queen Anne's	172	356	611	632
St. Mary's	<u>66</u>	<u>138</u>	<u>237</u>	<u>246</u>
Total	\$39,560	\$80,844	\$137,227	\$140,056

Note: Fiscal 2011 and 2012 estimates do not reflect potential changes to the GCEI adjustments.

In addition to the cost of funding the GCEI formula, general fund expenditures would increase to update the GCEI adjustments every three years. The cost of the contract to develop the existing Maryland-specific GCEI was approximately \$198,000, and another

\$25,000 was spent on a technical review of the study. However, the bill only requires updates to the GCEI using the same methodology that was used to develop the current index. It is estimated that general fund expenditures of approximately \$100,000 would be incurred in fiscal 2009 and 2012, and every three years thereafter, to contract for the required updates to the existing GCEI model.

Exhibit 3
Per Pupil GCEI Formula Funding
Fiscal 2009-2012

<u>County</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
Anne Arundel	\$38	\$77	\$131	\$133
Baltimore City	89	183	311	316
Baltimore	17	34	58	59
Calvert	43	89	151	155
Carroll	29	60	101	104
Charles	41	85	144	147
Frederick	49	101	172	176
Howard	31	64	109	112
Kent	22	44	74	75
Montgomery	70	144	245	251
Prince George's	99	205	348	355
Queen Anne's	23	46	79	80
St. Mary's	<u>4</u>	<u>8</u>	<u>14</u>	<u>15</u>
Total	\$48	\$99	\$167	\$170

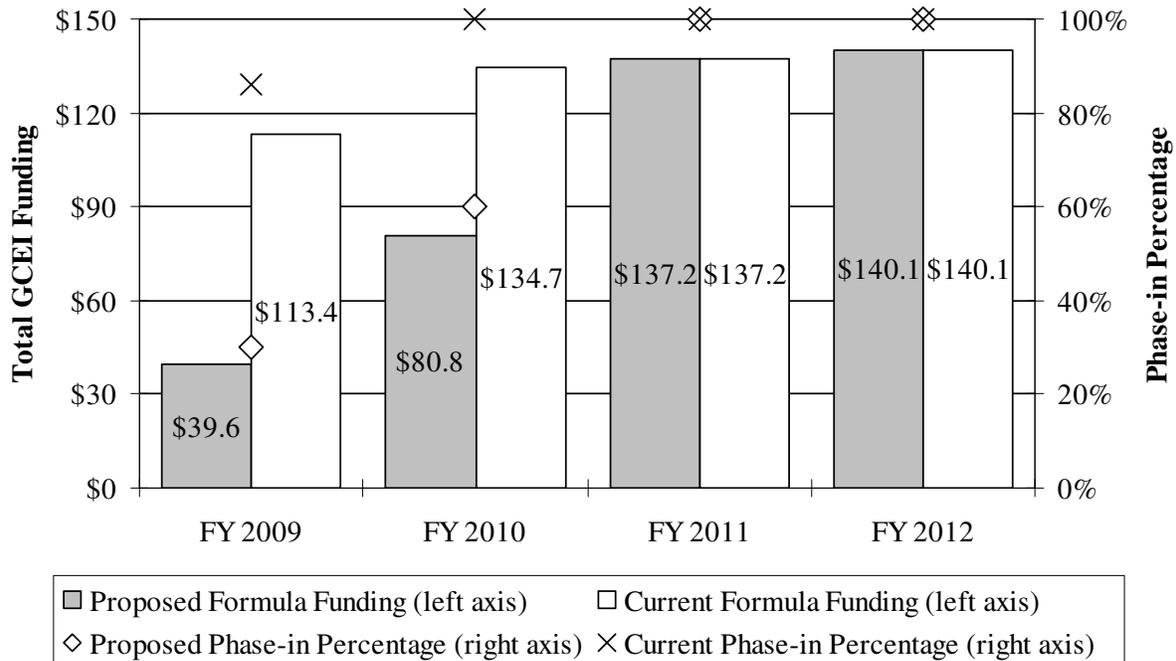
Note: Fiscal 2011 and 2012 estimates do not reflect potential changes to the GCEI adjustments.

Because of the change in the phase-in schedule, the GCEI formula proposed in this bill would cost less to fund in fiscal 2009 and 2010 than the discretionary formula that is currently in statute. As shown in **Exhibit 4**, the difference between the current formula and the proposed formula represents an estimated \$73.8 million savings in fiscal 2009 and a savings of \$53.9 million in fiscal 2010. Both the proposed and current formula are phased in at 100% by fiscal 2011, so there would be no difference in the formula calculations after fiscal 2010.

Local Revenues: Local school revenues from State aid would increase by an estimated \$39.6 million in fiscal 2009 and by an estimated \$140.1 million in fiscal 2012. The

projected funding increases for the 13 school systems that would be affected by the bill are shown in exhibits 2 and 3.

Exhibit 4
GCEI Formula Funding Under Current and Proposed Formulas
Fiscal 2009-2012
(\$ in Millions)



Additional Information

Prior Introductions: Three bills that would have mandated funding for the GCEI were introduced last year: SB 4, SB 196, and HB 242. SB 4 was passed by the Senate, but no action was taken on the bill by the House Ways and Means Committee. Although SB 196 and HB 242 received hearings, no further action was taken on either bill.

Cross File: SB 109 (Senator Currie and the President, *et al.*) (By Request – Administration – Budget and Taxation).

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

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