

Department of Legislative Services
 Maryland General Assembly
 2009 Session

FISCAL AND POLICY NOTE

House Bill 1302 (Delegate Taylor)
 Ways and Means

Education - Financing - Local Effort Bonus Grant

This bill establishes a local effort bonus grant program to supplement State aid for education to local school systems where local funding for education exceeds 1% of local wealth.

The bill takes effect July 1, 2009.

Fiscal Summary

State Effect: General fund expenditures may increase by an estimated \$5.1 million in FY 2011 if the bonus grant program is funded. Future year expenditures reflect projected growth in the foundation program and the five-year phase-in schedule for the new formula. Teachers' retirement costs may also increase beginning in FY 2013. Revenues are not affected.

(\$ in millions)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	5.1	10.1	15.6	21.2
Net Effect	\$0	(\$5.1)	(\$10.1)	(\$15.6)	(\$21.2)

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

Local Effect: State aid to local school systems may increase by an estimated \$5.1 million in FY 2011. The additional funding will be provided to local school systems where the local effort exceeds 1%.

Small Business Effect: None.

Analysis

Bill Summary: To the extent funds are provided in the State budget, each county is eligible to receive a bonus grant for education aid if local funding for education exceeds 1% of local wealth. The amount of the bonus grant is the product of each school system's local effort above 1% and the sum of the foundation program including the State and local shares, and the Geographic Cost of Education Index (GCEI). The bonus grant program is phased-in from fiscal 2011 to 2015.

Current Law: The foundation program is the major State aid program for primary and secondary education and is calculated by multiplying the annual per pupil foundation amount by each local school system's full-time equivalent (FTE) enrollment from September 30 of the previous school year. Foundation program costs are shared by the State and the local jurisdictions, with less wealthy jurisdictions receiving more State aid per pupil and more wealthy jurisdictions receiving less State aid per pupil. The per pupil foundation amount used in the formula is \$6,694 in fiscal 2010 and will increase with inflation in future fiscal years.

To be eligible to receive the State's share of foundation program funding, the local governing body must appropriate local funds to the school operating budget on a per pupil basis in an amount no less than the per pupil contribution from the previous year. This minimum amount must also comprise at least the local share of the foundation.

GCEI provides grants to local school systems to reflect regional differences in the cost of education that are due to factors outside the control of the local jurisdiction. Each local school system's GCEI funding is calculated by multiplying the foundation program funding by a GCEI factor.

Background: In fiscal 2009, the local share of the foundation program amounts to 0.73% of local wealth. Local effort is calculated by dividing the county appropriation to the school system by local wealth. **Exhibit 1** shows the fiscal 2009 estimated local effort for the 24 local districts; 21 of the local districts have a local effort above 1%.

Exhibit 1
Fiscal 2009 Local Effort
(\$ in Millions)

County	FY 2009 Local Appropriation	FY 2009 Wealth Base	FY 2009 Local Effort
Allegany	\$28.5	\$2,092.4	1.36%
Anne Arundel	551.2	40,903.1	1.35%
Baltimore City	207.9	18,668.0	1.11%
Baltimore	646.3	45,502.2	1.42%
Calvert	100.7	6,659.3	1.51%
Caroline	12.4	1,402.6	0.88%
Carroll	162.7	10,683.8	1.52%
Cecil	69.9	5,277.6	1.32%
Charles	145.3	9,002.3	1.61%
Dorchester	17.5	1,546.3	1.13%
Frederick	237.6	15,482.6	1.53%
Garrett	23.2	1,944.9	1.19%
Harford	210.9	14,102.7	1.50%
Howard	454.8	24,704.4	1.84%
Kent	17.2	1,368.8	1.26%
Montgomery	1,513.6	94,736.0	1.60%
Prince George's	614.5	41,800.7	1.47%
Queen Anne's	47.2	3,947.5	1.19%
St. Mary's	80.1	5,723.6	1.40%
Somerset	9.0	783.3	1.15%
Talbot	34.1	4,067.6	0.84%
Washington	87.7	7,074.4	1.24%
Wicomico	50.2	3,941.4	1.27%
Worcester	72.6	7,889.8	0.92%
Total	\$5,394.9	\$369,305.2	

State Expenditures: General fund expenditures may increase by an estimated \$5.1 million in fiscal 2011 if the bonus grant program is funded. This estimate is based on fiscal 2009 local effort and projected foundation program funding for fiscal 2011. This estimate will change if local governments increase or decrease their local effort for fiscal 2010. The bill may work as an incentive for local governments to increase local effort because, to the extent funds are provided in the State budget, the local school systems will receive additional State aid for primary and secondary education. Future year expenditures reflect projected growth in the foundation program and the five-year phase-in schedule for cost adjustments.

Increases in State aid are also likely to increase future teachers' retirement costs, which are paid by the State on behalf of local school systems. State payments for teachers' retirement are calculated using actual school system salary bases from the second prior fiscal year. Higher State aid levels beginning in fiscal 2011, therefore, will affect teachers' retirement payments beginning in fiscal 2013. The increases will depend on how the new State funds are used by local school systems but may total an additional \$500,000 to \$1.0 million in general fund spending in fiscal 2013 and 2014.

Local Revenues: The additional State funding will be distributed to local school systems in accordance with the new formula, which, using current local effort calculations, provides additional education aid to 21 of the 24 local school systems as shown in **Exhibit 2**. Funding levels increase in fiscal 2012 through 2015 as the formula phases in. After fiscal 2015, bonus grant funding levels will be affected by increases in local effort, enrollment changes, and inflation.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - March 6, 2009
mcp/mwc

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Exhibit 2
Estimated Bonus Grant Funding by County
Fiscal 2011 to 2014

Phase-in Percent School System	20% FY 2011	40% FY 2012	60% FY 2013	80% FY 2014
Allegany	\$42,276	\$83,042	\$125,434	\$168,783
Anne Arundel	349,455	696,027	1,068,290	1,456,876
Baltimore City	123,503	241,855	365,613	494,146
Baltimore	575,018	1,150,125	1,766,097	2,417,792
Calvert	119,246	239,502	368,249	500,874
Caroline	0	0	0	0
Carroll	199,952	399,803	610,518	825,100
Cecil	69,475	139,035	215,639	298,368
Charles	224,669	455,640	704,335	963,848
Dorchester	7,739	15,473	24,272	33,556
Frederick	296,604	599,454	928,325	1,276,428
Garrett	10,989	21,652	32,174	43,608
Harford	255,915	512,528	787,837	1,077,338
Howard	575,552	1,152,348	1,761,320	2,391,647
Kent	7,212	14,238	21,679	29,383
Montgomery	1,158,011	2,329,186	3,587,619	4,897,256
Prince George's	811,274	1,606,653	2,441,693	3,299,890
Queen Anne's	20,415	41,445	64,331	88,868
St. Mary's	89,059	181,498	281,903	386,598
Somerset	5,560	11,222	17,237	23,447
Talbot	0	0	0	0
Washington	70,510	143,695	224,682	313,300
Wicomico	52,642	106,238	163,737	226,611
Worcester	0	0	0	0
Total	\$5,065,078	\$10,140,659	\$15,560,983	\$21,213,719