

Department of Legislative Services
 Maryland General Assembly
 2010 Session

FISCAL AND POLICY NOTE

House Bill 1228
 Ways and Means

(Delegate Stocksdales, *et al.*)

Fair Funding for Public Schools

This bill alters the full-time equivalent (FTE) enrollment count methodology used for the education aid formulas by taking the average number of students enrolled in schools on September 30 and April 30 of the second prior school year rather than using the number of students enrolled on September 30 of the prior school year. The bill also alters the method for including evening high school students in the FTE enrollment count by taking the average FTE enrollment of evening high school programs from the second prior year rather than the FTE enrollment of these students from the previous school year.

The bill takes effect July 1, 2010, and applies to the calculation of payments of State aid beginning in fiscal 2012.

Fiscal Summary

State Effect: General fund expenditures for State education aid decrease by an estimated \$12.0 million in FY 2012 due to an expected reduction in FTE enrollment counts. Future year savings reflect continued lower FTE enrollment counts, the estimated impact of reduced State aid on teachers' retirement costs beginning in FY 2014, and inflation. Revenues are not affected.

(\$ in millions)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	(12.0)	(19.0)	(25.0)	(29.7)
Net Effect	\$0	\$12.0	\$19.0	\$25.0	\$29.7

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

Local Effect: Local school system revenues from direct State education aid decrease by an estimated \$12.0 million in FY 2012 and by \$27.6 million in FY 2015 due to decreases in FTE enrollment counts; however, some school systems could realize increases in State aid. Required county appropriations to local school systems will also be affected, including potential increases for some school systems.

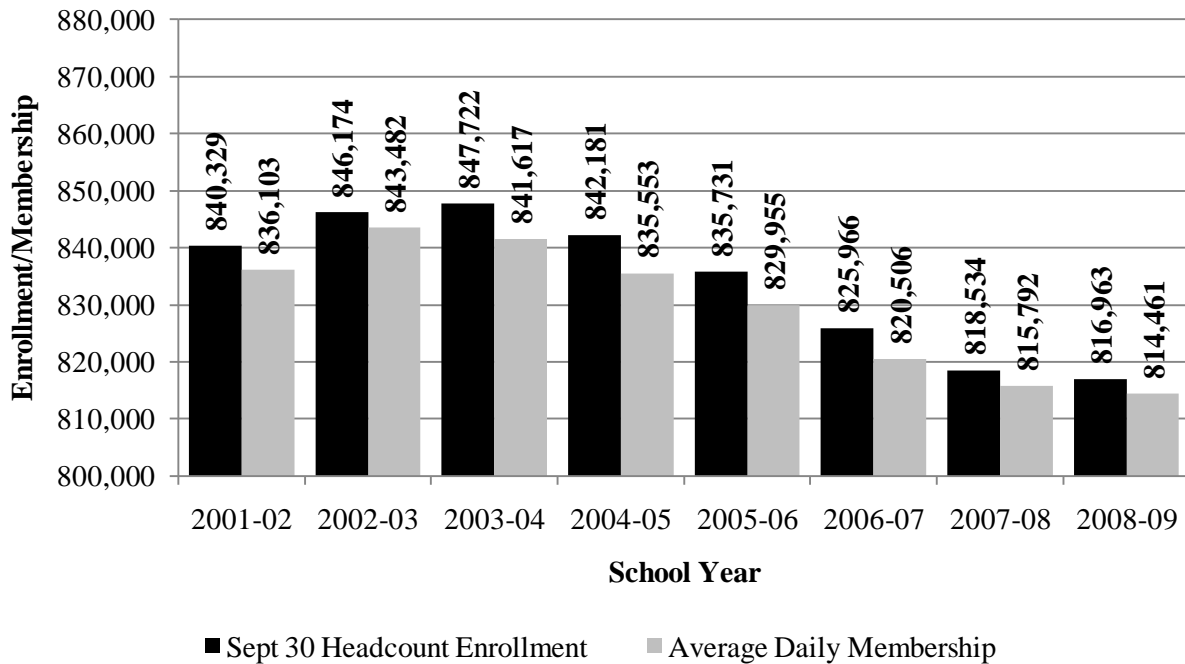
Small Business Effect: None.

Analysis

Current Law: FTE student enrollment counts used in the education aid formulas include all kindergarten through grade 12 students enrolled in each school system on September 30 of the preceding school year, less out-of-state students attending Maryland schools and discounted for part-time students.

Background: The State has never reported enrollment figures from April 30, so it is difficult to project how an April enrollment count will compare with the current September counts. New children transfer into and out of Maryland schools throughout the year, with enrollment growing for some school systems and declining in others over the course of a school year. The Maryland State Department of Education does report an average daily membership, which represents the average number of students expected at school each day. Average daily membership may give some indication of how enrollments change throughout a school year and may be roughly equivalent to the average of the September 30 and April 30 enrollment counts. **Exhibit 1** displays for the last eight school years the September 30 enrollment count and the average daily membership. In every year, average daily membership was very close but slightly below the September 30 enrollment count. Over the eight years, average daily membership represented about 99.5% of the September 30 enrollment.

Exhibit 1
September 30 Enrollment and Average Daily Membership
Kindergarten to Grade 12
2001-2002 to 2008-2009 School Years



Source: Maryland State Department of Education

Enrollment and average daily membership are compared by school system in **Exhibit 2**. The exhibit shows that, although average daily membership was nearly 2,600 students below total enrollment numbers, two school systems, Howard and Montgomery counties, actually had higher average daily membership than their September 30 enrollment counts. This is due to transfers into these systems outpacing transfers out and school withdrawals.

Exhibit 2
Comparison of Enrollment and Average Daily Membership
Kindergarten to Grade 12
2008-2009 School Year

<u>School System</u>	<u>Sep 30, 2008</u>	<u>08-09 Avg Daily</u>	<u>Difference</u>	
	<u>Enrollment</u>	<u>Membership</u>	<u>Number</u>	<u>Percent</u>
Allegany	8,761	8,730	(31)	-0.4%
Anne Arundel	71,969	71,719	(250)	-0.3%
Baltimore City	78,267	77,582	(686)	-0.9%
Baltimore	99,678	99,494	(185)	-0.2%
Calvert	16,727	16,666	(61)	-0.4%
Caroline	5,255	5,225	(30)	-0.6%
Carroll	27,648	27,605	(43)	-0.2%
Cecil	15,631	15,537	(94)	-0.6%
Charles	25,887	25,883	(4)	0.0%
Dorchester	4,331	4,316	(15)	-0.4%
Frederick	39,152	39,108	(44)	-0.1%
Garrett	4,303	4,285	(18)	-0.4%
Harford	37,731	37,646	(85)	-0.2%
Howard	48,886	48,925	39	0.1%
Kent	2,081	2,052	(29)	-1.4%
Montgomery	136,115	136,236	121	0.1%
Prince George's	122,207	121,377	(831)	-0.7%
Queen Anne's	7,567	7,484	(84)	-1.1%
St. Mary's	16,075	15,960	(115)	-0.7%
Somerset	2,716	2,675	(41)	-1.5%
Talbot	4,260	4,246	(14)	-0.3%
Washington	21,265	21,254	(11)	-0.1%
Wicomico	14,133	14,082	(51)	-0.4%
Worcester	6,318	6,299	(19)	-0.3%
Total	816,963	814,384	(2,579)	-0.3%

Note: Average daily membership excludes SEED School enrollment of 76.8 students.
Source: Maryland State Department of Education

State Expenditures: Using average daily membership as a proxy for the new enrollment methodology, general fund expenditures decrease by an estimated \$12.0 million in fiscal 2012, when the new enrollment methodology will be used for the first time. The decrease is attributable to the lower enrollment figure derived from average daily

membership and the use of enrollment data from the second prior year rather than the prior year. Because school enrollment is expected to increase in the coming years, using older enrollment counts results in a lower student enrollment number.

After fiscal 2012, the reduction in State aid will grow due mostly to expected annual increases in enrollment and the additional one-year lag that the bill will establish between student enrollment data and funding. In fiscal 2015, general fund expenditures for direct State education aid will be an estimated \$27.6 million below expected levels due to lower FTE enrollment counts used in the education aid formulas.

Reductions in direct State education aid beginning in fiscal 2012 will also slow the growth of teachers' retirement costs, which are paid by the State on behalf of local school systems. The majority of funding for local school systems supports personnel costs, so reducing State aid to school systems is likely to reduce the number of new personnel hired by school systems and/or reduce growth in the salaries of existing school staff. Either of these outcomes will slow growth in the professional salary bases of local school systems and reduce future retirement costs.

State payments for the teachers' retirement program are calculated using actual school system salary bases from the second prior fiscal year. Lower State aid levels beginning in fiscal 2012, therefore, will affect teachers' retirement payments beginning in fiscal 2014. The reductions are estimated at \$1.3 million in fiscal 2014 and \$2.1 million in fiscal 2015.

Local Fiscal Effect: Local school system revenues from direct State aid decrease by an estimated \$12.0 million in fiscal 2012 due to the expected reduction in FTE school enrollment counts used to determine State aid. The projected impact for fiscal 2012 is displayed by school system in **Exhibit 3**. The unusual pattern, with 10 systems getting more State aid and 14 getting less, is mostly the result of two factors described below.

- School systems with declining enrollments benefit from the use of enrollment data from the second prior year, when enrollment was higher, rather than the prior year, which is used under current law. Conversely, school systems with increasing enrollments receive less State aid since older enrollment counts that do not include recent growth in student numbers will be used to determine State aid.
- Generally, school systems with higher dropout rates will have greater enrollment attrition by the April 30 enrollment count, meaning aid will be reduced more for systems with higher dropout rates.

Exhibit 3
Estimated Impact of HB 1228 on Local School Revenues from State Aid
Fiscal 2012
(\$ in Thousands)

Allegany	\$1,212
Anne Arundel	(3,425)
Baltimore City	(5,397)
Baltimore	1,085
Calvert	272
Caroline	(315)
Carroll	1,618
Cecil	(1,044)
Charles	(1,319)
Dorchester	(422)
Frederick	(438)
Garrett	567
Harford	113
Howard	(1,660)
Kent	58
Montgomery	(4,517)
Prince George's	7,618
Queen Anne's	(508)
St. Mary's	(3,199)
Somerset	(275)
Talbot	(21)
Washington	(2,309)
Wicomico	258
Worcester	2
Total	(\$12,046)

Source: Department of Legislative Services

In addition to decreases in direct State aid, State payments on behalf of local school systems for teachers' retirement will decrease beginning in fiscal 2014. The decreases are projected at \$1.3 million in fiscal 2014 and \$2.1 million in fiscal 2015.

Under the county maintenance of effort for public schools requirement, county (and Baltimore City) governments must appropriate to the local school systems at least as much funding per FTE student as was provided in the previous fiscal year. With the change in the FTE enrollment methodology proposed in the bill, some local governments will be relieved of some portion of the required funding levels beginning in fiscal 2012 while other counties may have to provide more local funding for education. The change in required maintenance of effort appropriations will depend on how the new FTE enrollment methodology affects each local school system. Collectively, county maintenance of effort levels are expected to decrease due to lower FTE enrollments, but some counties may have to provide more funding.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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ncs/mwc

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