

Department of Legislative Services  
 Maryland General Assembly  
 2014 Session

FISCAL AND POLICY NOTE

Senate Bill 431 (Senator Getty, *et al.*)  
 Budget and Taxation

Education - Bridge to Excellence - State Hold-Harmless Requirement

This bill requires the State to provide a grant to a local board of education to ensure that “total direct education aid” for fiscal 2016 and 2017 does not decrease below the prior fiscal year aid amount.

The bill takes effect July 1, 2014.

Fiscal Summary

**State Effect:** State aid to public schools increases in instances that a local board of education’s “total direct education aid” would otherwise decrease. As a result, general fund expenditures increase by an estimated \$311,900 in FY 2016 and by an estimated \$79,100 in FY 2017. **This bill establishes a mandated appropriation for FY 2016 and 2017.**

(in dollars)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	311,900	79,100	0	0
Net Effect	\$0	(\$311,900)	(\$79,100)	\$0	\$0

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

**Local Effect:** State education aid to Carroll County increases by an estimated \$311,900 in FY 2016 and by an estimated \$79,100 in FY 2017. County expenditures are not directly affected.

**Small Business Effect:** None.

## Analysis

**Bill Summary:** The bill defines “total direct education aid” as the total financial assistance provided by the State to a local board of education for the following:

- the foundation program, including funds for the geographic cost of education;
- transportation;
- compensatory education;
- students with limited English proficiency;
- special education students;
- the guaranteed tax base program; and
- funding for the grants established under the bill.

**Current Law/Background:** State financing of public schools changed considerably in fiscal 2004 with the implementation of new funding formulas established by Chapter 288 of 2002, the Bridge to Excellence in Public Schools Act. The financing structure established by the Act is based on the concept of “adequacy” – an empirical estimate of the amount of funding needed by schools and local school systems in order to obtain the resources needed to reasonably expect that students can meet the State’s academic performance standards. State education aid formulas incorporate the adequacy concept by ensuring a minimum per pupil funding level, providing additional funding based on enrollments of at-risk students, and granting additional aid to local school systems with higher educational resource costs.

The Maryland State Department of Education, in consultation with the Department of Budget and Management and the Department of Legislative Services, must contract with a public or private entity to conduct a study of the adequacy of education funding in the State. The study must be conducted in phases, with the first phase beginning no later than June 30, 2014, and the final phase being completed by December 1, 2016.

The majority of State education aid is distributed to local school systems through formulas that are based primarily on student enrollment counts and local wealth (as derived from assessed property values and net taxable income in each county). Therefore, a local school system in a county where annual student enrollment is decreasing and relative local wealth is increasing may experience substantial reductions in year-to-year State aid.

## *Legislative Initiatives to Address State Aid Decreases*

Chapter 397 of 2011 provided that for fiscal 2012 only, the State must make grants to limit fiscal 2011 to 2012 decreases in direct education aid (as defined by this bill) to 6.5%. This resulted in a \$779,300 grant to Allegany County and a \$640,600 grant to Garrett County for fiscal 2012.

Chapter 1 of the 2012 first special session required the State to provide a grant to a local board of education to ensure that “total direct education aid” for fiscal 2013 decreases by no more than 5% below the fiscal 2012 aid amount, a threshold exceeded by Garrett County. The calculated grant to Garrett County totaled \$1.2 million.

Chapter 425 of 2013 provides that for fiscal 2014 only, if a local board of education’s total direct education aid in the current fiscal year is less than the prior year by more than 1%, the State must provide a grant to the local board of education equal to 25% of the decrease in total direct education aid from the prior fiscal year to the current fiscal year. While this resulted in a calculated grant of \$2.1 million to be shared by Carroll, Garrett, Harford, and Kent counties, funding for this grant was not mandatory and, while the General Assembly restricted funds in the State budget, the Governor did not transfer the funds. The proposed fiscal 2015 budget includes a negative deficiency to revert the funds to the general fund.

**State Expenditures:** Under current law, direct education aid (as defined by the bill) to Carroll County will decrease by an estimated \$311,900, from fiscal 2015 to 2016. Therefore, general fund expenditures under the bill increase by \$311,900 in fiscal 2016.

Under current law, direct education aid (as defined by the bill) to Carroll County will *increase* by an estimated \$232,800 from fiscal 2016 to 2017. However, under the bill \$311,900 is added to the fiscal 2016 total, thereby resulting in a *decrease* in education aid of \$79,100 from fiscal 2016 to 2017. Therefore, general fund expenditures increase by \$79,100 in fiscal 2016 to assure the same level of funding in fiscal 2017 as in fiscal 2016. Current law aid estimates do not suggest that any other local school system will experience decreases in direct education aid and, therefore, grants under the bill to counties other than Carroll County are not anticipated.

**Local Revenues:** State education aid to Carroll County will increase by an estimated \$311,900 in fiscal 2016 and by an estimated \$79,100 in fiscal 2017 as a result of the new grants. Although State aid for other local school systems is not expected to decrease by more than 5% in the near future, the bill would provide some protection for local school systems experiencing significant declines in enrollment and/or rapid increases in local wealth.

## **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Charles and Montgomery counties, Maryland State Department of Education, Department of Legislative Services

**Fiscal Note History:** First Reader - February 10, 2014  
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