

Department of Legislative Services
Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 183

(Senator King, *et al.*)

Budget and Taxation

Ways and Means

Education - Geographic Cost of Education - Requirement

This bill changes the Geographic Cost of Education Index (GCEI) formula from discretionary to mandatory beginning in fiscal 2016, if full funding of GCEI is *not* provided for in the fiscal 2016 operating budget.

The bill takes effect July 1, 2015. The bill is null and void if full funding of GCEI is provided in fiscal 2016.

Fiscal Summary

State Effect: The Governor's proposed FY 2016 State budget includes 50% funding for the GCEI formula. The FY 2016 budget adopted by the General Assembly provides for 100% funding of GCEI; however, restoration of half the GCEI funding is at the discretion of the Governor. General fund expenditures increase by \$68.1 million to fully fund the GCEI formula in FY 2016, increasing to \$76.3 million by FY 2020. Although the formula has been fully funded each year since FY 2010 until FY 2016, it is assumed that the Governor would continue to fund 50% of GCEI in the out-years. **This bill establishes a mandated appropriation beginning in FY 2017.**

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	68.1	69.9	71.9	74.3	76.3
Net Effect	(\$68.1)	(\$69.9)	(\$71.9)	(\$74.3)	(\$76.3)

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

Local Effect: State aid may increase to the extent that the mandate prevents reductions in State funding for the GCEI formula.

Small Business Effect: None.

Analysis

Current Law: The GCEI formula is established in statute but is not mandated. The foundation program equals the annual per pupil foundation amount multiplied by a county's full-time equivalent enrollment. The GCEI formula multiplies the foundation program for each county by the county's predetermined adjustment factor (which for 11 counties is zero and for 13 counties is above this amount).

Article III, § 52 of the Maryland Constitution allows the General Assembly to enact a law to require the Governor to include funding in a future State budget. The law must be *enacted* before July 1 of the year before the fiscal year in which the mandate first applies, *i.e.*, before July 1, 2015, for the fiscal year beginning July 1, 2016 (fiscal 2017). (The effective date does not have to be before July 1.)

Background: GCEI is a discretionary component of the State aid formulas that provides additional funding to local school systems where educational resource costs are above the State average. Since funding for the program began in fiscal 2009, the State has provided funding through GCEI to 13 local school systems each year, and it has been fully funded each year since fiscal 2010. The Governor's proposed fiscal 2016 budget includes \$68.1 million for GCEI as shown in **Exhibit 1**. Proposed GCEI funding for each county is 50% of the total generated by the GCEI formula. Full funding of the formula totals \$136.2 million in fiscal 2016.

Exhibit 1
GCEI Formula Funding
Fiscal 2016

County	Governor's Proposal	
	50% Funded	100% Funded
Allegany	\$0	\$0
Anne Arundel	4,836,646	9,673,292
Baltimore City	11,610,141	23,220,282
Baltimore	2,945,833	5,891,665
Calvert	1,138,627	2,277,254
Caroline	0	0
Carroll	1,241,508	2,483,016
Cecil	0	0
Charles	1,767,220	3,534,440
Dorchester	0	0
Frederick	3,309,089	6,618,177
Garrett	0	0
Harford	0	0
Howard	2,736,808	5,473,615
Kent	68,497	136,994
Montgomery	17,744,167	35,488,334
Prince George's	20,297,767	40,595,533
Queen Anne's	286,002	572,003
St. Mary's	117,933	235,866
Somerset	0	0
Talbot	0	0
Washington	0	0
Wicomico	0	0
Worcester	0	0
Total	\$68,100,236	\$136,200,471

The Bridge to Excellence in Public Schools Act (Chapter 288 of 2002) restructured the State's public school finance system and increased State aid to public schools by an estimated \$1.3 billion over six fiscal years (fiscal 2003-2008). Chapter 288 included language that required the development of a Maryland-specific GCEI that would be available to adjust State aid beginning in fiscal 2005. Chapter 288 did not, however, provide a specific formula or funding level for the cost adjustments, and as a result, language in the bill did not constitute a legal mandate for GCEI funding. Chapter 430

of 2004 established a formula for GCEI, but unlike the rest of the major State aid programs, the formula was not mandated. The statutory GCEI formula phased in from fiscal 2006 to 2010, but the phase-in schedule was not followed. Instead, the formula received no funding through fiscal 2008 and was phased in at 30% in fiscal 2009 and 100% in each subsequent year.

The Maryland State Department of Education, in consultation with the Department of Budget and Management (DBM) and the Department of Legislative Services (DLS), must contract with a public or private entity to conduct a study of the adequacy of education funding in the State. The study began June 30, 2014, and is scheduled to be completed by December 1, 2016. In June 2014 the Maryland State Department of Education in collaboration with DLS and DBM awarded a contract to Augenblick, Palaich and Associates to complete the required reports. Chapter 1 of the 2012 first special session requires the GCEI formula to be updated using the most current methodology by September 1, 2016. The required update and a review of the GCEI methodology is part of the adequacy study. The formula was previously updated in 2009, but the statutory formula has not been altered to reflect the updated figures.

State Expenditures: General fund expenditures increase by \$68.1 million in fiscal 2016 to fully fund the formula, which is equivalent to the 50% of GCEI funding not included in the Governor's proposed fiscal 2016 budget. The fiscal 2016 budget adopted by the General Assembly provides for 100% funding for GCEI; however, the restoration of half of the funding is at the Governor's discretion. Under the bill, mandated funding of GCEI begins in fiscal 2017.

The Governor's budget forecast projects a 1.9% annual increase in State education aid through fiscal 2020, which suggests that the GCEI formula will remain at 50% funding during that time period. Therefore, it is assumed that GCEI will continue to be funded at the 50% level and general fund expenditures under the bill increase by the equivalent of 50% of the formula result, amounting to approximately \$69.9 million in fiscal 2017 and increasing to \$76.3 million by fiscal 2020.

Additional Information

Prior Introductions: HB 114 of 2014 received a hearing in the House Ways and Means Committee, but no further action was taken. SB 958 of 2013 included a similar provision. The bill was referred to the Senate Rules Committee, and no further action was taken. Its cross file, HB 1474, received a hearing in the House Ways and Means Committee, but no further action was taken.

Cross File: HB 215 (Delegate Luedtke, *et al.*) - Ways and Means.

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

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