

Department of Legislative Services  
 Maryland General Assembly  
 2018 Session

FISCAL AND POLICY NOTE  
 First Reader

House Bill 1595 (Delegate Valentino-Smith, *et al.*)  
 Ways and Means and Appropriations

Education - Per Pupil Adequacy Target Grant - Established

This bill establishes a Per Pupil Adequacy Target Grant, beginning in fiscal 2019, to provide additional funds to a local public school system that (1) was below 80% of the adequate funding target as measured by the Department of Legislative Services (DLS) for fiscal year 2015 and (2) has received from the county government an appropriation that is at least 2% greater than is required to meet its maintenance of effort (MOE) obligation in the fiscal year prior to receiving the initial grant and in the fiscal year prior to receiving any subsequent grant. A funding formula for determining grants to Caroline, Prince George’s, and Wicomico counties is specified. **The bill takes effect July 1, 2018.**

Fiscal Summary

**State Effect:** Under assumptions discussed below, general fund expenditures increase by as much as \$321.1 million in FY 2019 and \$329.7 million by FY 2023. Fiscal 2019 funding for the grants is at the discretion of the Governor. General fund expenditures for teacher retirement increase by an indeterminate but substantial amount beginning as early as FY 2021. **This bill establishes a mandated appropriation beginning in FY 2020.**

(\$ in millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	321.1	321.9	323.8	327.6	329.7
Net Effect	(\$321.1)	(\$321.9)	(\$323.8)	(\$327.6)	(\$329.7)

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

**Local Effect:** If the bill’s local appropriation requirements are met each year, Caroline, Prince George’s, and Wicomico counties receive substantial increases in State aid for public schools. Local appropriations to those school systems may increase in order to qualify for grant funding; however, the bill does not mandate any increase in local appropriations. Local teachers’ retirement costs may increase as early as FY 2021.

**Small Business Effect:** None.

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## **Analysis**

**Bill Summary:** For each eligible county, a specified dollar amount is multiplied by the full-time equivalent (FTE) enrollment used to calculate the foundation program funding for the upcoming fiscal year. For Caroline County, the dollar amount to be used in calculating each per pupil funding amount is \$1,665, for Prince George's it is \$2,310, and for Wicomico County it is \$1,298.

**Current Law/Background:** The great majority of direct State aid to public schools (excluding teachers' retirement) is determined by funding formulas found in Title 5, Subtitle 2 of the Education Article. Together with some more recent enactments, these funding formulas were set forth in the Bridge to Excellence in Public Schools Act (Chapter 288 of 2002). The formulas are in part based on the adequacy model, which entails three components. The first is a uniform base cost per pupil that is necessary to provide general education services to students in every school system. The second component of adequacy involves adjustments for the additional costs associated with educating three at-risk student populations: special education students; students eligible for free and reduced-price meals; and students with limited English proficiency. The third component of adequacy is an adjustment that accounts for differences in the local costs of educational resources.

The majority of State education aid formulas also entail wealth equalization across counties, compensating for differences in local wealth by providing less aid per pupil to the more wealthy counties and more aid per pupil to the less wealthy counties. Although on the whole most State aid formulas are designed to have the State pay roughly one-half of program costs, the State's share for the less wealthy counties is higher than 50%, and the State's share for more wealthy counties is lower than 50%. DLS found three counties whose percentage of adequacy funded – based upon federal, State, and local revenues – fell below 80% in fiscal 2015: Caroline County at 77.6%, Prince George's County at 75.3%, and Wicomico County at 79.7%.

### *Commission on Innovation and Excellence in Education*

Chapters 701 and 702 of 2016 established the Commission on Innovation and Excellence in Education to, among other charges, (1) review the findings of a consultant's study on adequacy of education funding and its related studies and make recommendations on the funding formula; (2) review and make recommendations on expenditures of local education agencies (3) review and make recommendations on innovative education delivery mechanisms and other strategies to prepare Maryland students for the twenty-first century

workforce and global economy; and (4) review and make recommendations on expanding prekindergarten, including special education prekindergarten. The commission members were appointed during summer 2016, with former University System of Maryland Chancellor Dr. William “Brit” Kirwan being appointed to serve as chair of the commission. To date, the commission has held 17 all-day meetings, as well as 4 public hearings in Stevensville, Frederick, Upper Marlboro, and Baltimore City.

The commission has requested an additional year in order to fully respond to its charge. In a [preliminary report](#) completed in January 2018, the commission submitted its preliminary policy recommendations (59 in total). It also stated its intention to work during the 2018 interim to develop greater specificity for each recommendation in order to “cost out” their fiscal impact, thereby allowing the commission to make recommendations for adequate funding in its final 2018 report. Many of the bill’s provisions align with several of the commission’s 59 preliminary policy recommendations, specifically those related to teacher recruitment and diversity, early childhood education, and providing additional and adequate supports for low-income and special education students. For more information on the commission see the DLS webpage [dedicated to the Commission](#).

### *Maintenance of Effort*

Under the MOE requirement, each county government (including Baltimore City) must provide on a per pupil basis at least as much funding for the local school board as was provided in the prior fiscal year. Statute exempts from the MOE calculation qualifying nonrecurring costs as approved by the Maryland State Department of Education, the cost of any program that has been shifted from the local school board’s operating budget to the county operating budget, and debt service payments for school construction. The Budget Reconciliation and Financing Acts of 2011 and 2012 (Chapter 397 of 2011 and Chapter 1 of the 2012 first special session) provided one-year exemptions from MOE for a county (including Baltimore City) that shifted recurring health care costs for current retirees to the local school board if those costs were reduced the following year. Chapter 647 of 2013 made this exemption permanent and also excluded recurring retiree health costs from MOE if they resulted in additional State aid that was dedicated to public school construction.

Chapter 6 of 2012 requires a county governing body to apply to the State board for a waiver from the State’s MOE requirement if the county is unable to fund the full MOE amount. If a county does not receive a waiver from the State board, it must fund the full MOE amount or the State will intercept the county’s local income tax revenues in the amount by which the county is below MOE and forward the funds to the local school board. Counties that receive waivers and are making above-average education effort may request “rebasement waivers” that allow limited decreases to their annual MOE amounts if they can demonstrate ongoing problems with meeting MOE.

Also under Chapter 6 of 2012, beginning in fiscal 2015, a county that has an education effort below the five-year statewide average education effort must increase its MOE payment to the local school board in years when the wealth base per pupil is increasing. The required increase is the lesser of the increase in a county's per pupil wealth, the average statewide increase in per pupil local wealth, or 2.5%. This provision ensures an increase in the amount a county provides to the local school board concomitant with an increase in county wealth.

**State Fiscal Effect:** Expenditures on State aid to public schools increase by as much as \$321.1 million in fiscal 2019 and, based upon projected changes in FTE enrollment, increase to \$329.7 million by fiscal 2023. These results assume that each of the three counties that may receive grant funding under the bill meet the requirement to contribute appropriations that exceed their required MOE amount by at least 2% in the year prior to receiving the grant, and that the Governor provides a grant to each county in fiscal 2019.

The local appropriation for Prince George's County exceeds the required MOE amount for fiscal 2018 by nearly 4.5%. The fiscal 2018 appropriations for Caroline and Wicomico counties are at a level that just meets the MOE requirement. Thus, Caroline and Wicomico counties would need to provide supplemental increases to their respective fiscal 2018 school board budgets in order to qualify for a fiscal 2019 grant under the bill, as detailed further below.

Teachers' retirement costs are paid primarily by the State, based on local school system salaries from the second prior fiscal year. Assuming that a significant portion of the additional funding to local school systems in Caroline, Prince George's, and Wicomico counties is used to hire additional teachers and/or to increase salaries beginning as early as fiscal 2019, teachers' retirement costs will increase beginning as early as fiscal 2021.

**Local Fiscal Effect:** Prince George's County receives an additional \$293.4 million in State aid in fiscal 2019, at the Governor's discretion. Caroline, Prince George's, and Wicomico counties receive substantial increases in annual State aid to the extent that these counties choose to meet, and continue to meet, the requirement to exceed MOE funding by 2% in the preceding fiscal year. **Exhibit 1** shows the funding by county based on these assumptions, and given the expected annual change in FTE enrollment counts for each county.

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**Exhibit 1**  
**Increased State Aid to Public Schools**  
(\$ in Millions)

	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
Caroline	\$9.1	\$9.1	\$9.1	\$9.1	\$9.1
Prince George's	293.4	294.1	295.8	299.5	301.5
Wicomico	18.6	18.8	18.9	19.0	19.2
<b>Total</b>	<b>\$321.1</b>	<b>\$321.9</b>	<b>\$323.8</b>	<b>\$327.6</b>	<b>\$329.7</b>

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The bill does not mandate additional local expenditures. However, to qualify for State grant funding in a given fiscal year, the three counties covered by the bill will have to appropriate sufficient funds to the local school system in the prior fiscal year to exceed the MOE requirement for that year by 2%. For the purposes of fiscal 2019 grant funding, Prince George's County has already provided more than sufficient funding (4.5% above MOE for fiscal 2018.) Caroline and Wicomico counties would will need to appropriate an additional \$284,200 and \$860,300 respectively in fiscal 2018 to receive \$9.1 million and \$18.6 million respectively in fiscal 2019 (however, the Governor may decide against providing fiscal 2019 funding). Similarly, Prince George's County will need to increase its local appropriation by approximately \$13.7 million in fiscal 2019 in order to receive approximately \$294.1 million in fiscal 2020 (fiscal 2020 funding is a mandated appropriation if the local appropriation requirements are met).

Each year that a given county increases its appropriation above the minimum MOE, the base per pupil MOE requirement for the next fiscal year is increased accordingly. Thus, the impact of multiple years of exceeding MOE by 2% is compounded. For example, for Prince George's County to receive State grant funding in fiscal 2021, its local appropriation in fiscal 2020 will need to be approximately \$27.8 million above its estimated MOE requirement for that year, or \$14.1 million above what was required in order to receive the fiscal 2020 grant.

It is not known which of the three counties, if any, will decide to increase appropriations each year by a level that is sufficient to receive the additional grant funding from the State. *For illustrative purposes only*, **Exhibit 2** shows the estimated increase in local appropriations needed in fiscal 2018 to 2022 in order to continually receive State grant funding in fiscal 2019 through 2023. However, because any increase in local appropriations above the minimum requirement is optional each year, and for each of the three counties, and because each county's MOE requirement is linked to the five-year statewide average education effort provision in the MOE law, it is difficult to

project the impact of the bill on the local appropriations of each of the counties directly covered by the bill, and (potentially) on other counties as well.

Local school boards are responsible for the actual normal cost of pensions for qualifying personnel. Many of the likely uses for the additional State revenues involve hiring additional staff. This, combined with the potential increase in salaries for existing positions, will tend to expand the local school system salary bases in Caroline, Prince George's, and Wicomico counties. Accordingly, expenditures for teacher retirement in those counties increase, beginning as early as fiscal 2021.

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**Exhibit 2**  
**Cumulative Local Appropriations Needed Above MOE to Receive Grant**  
**(\$ in Millions)**

	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
Caroline	\$0.3	\$0.6	\$0.9	\$1.2	\$1.5
Prince George's	0	13.7	27.8	42.3	57.7
Wicomico	0.9	1.1	2.0	3.6	4.6

MOE: maintenance of effort

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**Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

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

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