

**Department of Legislative Services**  
 Maryland General Assembly  
 2018 Session

**FISCAL AND POLICY NOTE**  
**First Reader**

Senate Bill 779 (Senator Muse)  
 Budget and Taxation

**Prince George's County - Education Trust Fund - Use of Fund**

This bill requires, beginning in fiscal 2020, the Governor to annually appropriate from the Education Trust Fund (ETF) to the Prince George’s County Board of Education an amount equal to the total amount of money in the ETF multiplied by Prince George’s County’s percentage of State “direct education aid” for public schools. This appropriation may not supplant required funding for programs or formulas established under the Education Article. Allowable uses of ETF funding are altered by excluding capital projects at community colleges and public senior higher education institutions and, though funding for public school education remains as an allowable use, specific reference to continuation of the funding and formulas established by the Bridge to Excellence in Public Schools Act of 2002 is repealed. **The bill takes effect July 1, 2018.**

**Fiscal Summary**

**State Effect:** General fund expenditures for State aid increase by \$101.5 million in FY 2020 and by \$104.4 million by FY 2023. General fund expenditures for teacher retirement increase by an indeterminate but substantial amount beginning in FY 2022. **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	0	101.5	99.8	102.4	104.4
Net Effect	\$0.0	(\$101.5)	(\$99.8)	(\$102.4)	(\$104.4)

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

**Local Effect:** Beginning in FY 2020, Prince George’s County annually receives about \$100 million in additional State aid for public schools; expenditures increase by equivalent amounts. Prince George’s County retirement expenditures increase beginning in FY 2022.

**Small Business Effect:** None.

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## **Analysis**

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

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

The provision that expenditures from the ETF must be made in accordance with the State budget is repealed.

### **Current Law/Background:**

#### *State Aid to Public Schools*

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%.

## Education Trust Fund

ETF is a nonlapsing, special fund to be used for continued funding of the Bridge to Excellence in Public Schools Act of 2002 formulas and programs, including the Geographic Cost of Education Index (GCEI). The fund may also be used to support capital projects for public schools, community colleges, and public four-year institutions, as well as to expand public early childhood education programs in the State. A portion of the proceeds from video lottery terminals (VLTs) and table games is dedicated to ETF.

ETF was established during the 2007 special session as part of the VLT legislation to receive approximately half of the gross VLT proceeds, after payouts to bettors. Chapter 1 of the 2012 second special session made numerous changes to the State's gaming program, including authorizing a sixth license in Prince George's County, table games at VLT facilities, and 24-hour per day gaming, which were approved by voters in November 2012. A portion of table game revenues is also distributed to ETF. The estimated ETF revenues for fiscal 2019 through 2023 are shown in **Exhibit 1**. The exhibit shows that the projected ETF revenues are less than the over \$3.3 billion in annual Bridge to Excellence foundation program expenditures.

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**Exhibit 1**  
**Estimated Education Trust Fund Revenues**  
**Fiscal 2019-2023**  
**(\$ in Millions)**

<b><u>ETF</u></b>	<b><u>FY 2019</u></b>	<b><u>FY 2020</u></b>	<b><u>FY 2021</u></b>	<b><u>FY 2022</u></b>	<b><u>FY 2023</u></b>
VLT	\$408.1	\$414.2	\$404.9	\$411.0	\$417.2
Table Games	94.8	96.3	97.7	99.2	100.7
<b>Total ETF</b>	<b>\$502.9</b>	<b>\$510.5</b>	<b>\$502.6</b>	<b>\$510.2</b>	<b>\$517.8</b>

ETF: Education Trust Fund  
VLT: video lottery terminal

Source: Board of Revenue Estimates; Department of Legislative Services

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**State Expenditures:** General fund expenditures increase by \$101.5 million in fiscal 2020 and by \$104.4 million by fiscal 2023. Prince George's County's portion of direct education aid, as defined by the bill, is projected to be 19.9% in fiscal 2020 and 2021, increasing to 20.1% in fiscal 2022 and 20.2% in fiscal 2023. **Exhibit 2** shows the results from applying these percentages to the projected ETF totals shown in Exhibit 1.

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**Exhibit 2**  
**Additional Public School Funding to Prince George’s County**  
**Fiscal 2020-2023**  
**(\$ in Millions)**

	<u><b>FY 2020</b></u>	<u><b>FY 2021</b></u>	<u><b>FY 2022</b></u>	<u><b>FY 2023</b></u>
Prince George’s % Direct Aid	19.9%	19.9%	20.1%	20.2%
<b>Additional Funding</b>	<b>\$101.5</b>	<b>\$99.8</b>	<b>\$102.4</b>	<b>\$104.4</b>

Source: Department of Legislative Services

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Designating the use of a portion of ETF monies for Prince George’s County requires general fund expenditures to increase by an equal amount. Currently, all proceeds credited to ETF are budgeted for the Bridge to Excellence foundation formula and programs, including GCEI. The Governor’s proposed fiscal 2019 budget includes \$502.9 million in ETF revenues, all of which are directed toward the \$3.3 billion in Bridge to Excellence foundation formulas, including GCEI. The remaining \$2.8 billion in foundation formula funding is general funds. Thus, using ETF for purposes under the bill does not alter the amount of special fund expenditures; instead, general fund expenditures increase by about \$100 million annually, as detailed in Exhibit 2, to preserve funding of the foundation formula.

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 Prince George’s County Public Schools (PGCPS) is used to hire additional teachers and/or to increase salaries beginning in fiscal 2020, teachers’ retirement costs will increase beginning in fiscal 2022.

**Local Fiscal Effect:** Beginning in fiscal 2020, State aid revenues for public schools in Prince George’s County increase by about \$100 million annually, as detailed in Exhibit 2. Local expenditures increase by equivalent amounts beginning in fiscal 2020. PGCPS advises that it would likely apply the additional funding to some combination of the following: increased employee compensation; reduction of class sizes (starting with elementary schools); expanding access to early childhood education to additional sites (including both capital and operating costs); enhanced safety and security at schools and satellite locations; and professional development.

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

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positions, will tend to expand the PGCPs salary base. Accordingly, Prince George's County expenditures for teacher retirement increase beginning in fiscal 2022.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Prince George's County; Maryland State Department of Education; Maryland Higher Education Commission; Baltimore City Community College; University of Maryland Medical System; University System of Maryland; Morgan State University; Department of Budget and Management; Department of Legislative Services

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Analysis by: Scott P. Gates

Direct Inquiries to:  
(410) 946-5510  
(301) 970-5510