

Department of Legislative Services
 Maryland General Assembly
 2019 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 1000
 Appropriations

(Delegate Valentino-Smith, *et al.*)

School Maintenance Incentive Funding Act of 2019

This bill requires the Governor to include in the annual State budget an appropriation to each county equivalent to, for the second prior fiscal year, the lesser of (1) an amount equal to a local board of education’s maintenance of plant expenditures; or (2) 3% of total State and local funds expended for the operating budget of the local board. The amount appropriated by the Governor must be in addition to any other State funds provided to the local board in that fiscal year. A local board that receives funding under the bill may use the funds only to support the maintenance of school buildings and equipment. **The bill takes effect July 1, 2019.**

Fiscal Summary

State Effect: General and/or special fund expenditures increase by approximately \$260.4 million in FY 2020 (at the Governor’s discretion) and \$267.4 million in FY 2021 as a mandated appropriation. State expenditures increase to as much as \$338.7 million, or more, by FY 2024, depending largely on future local funding decisions, as explained below. **This bill establishes a mandated appropriation beginning in FY 2021.**

| (\$ in millions) | FY 2020 | FY 2021 | FY 2022 | FY 2023 | FY 2024 |
|------------------|------------|------------|------------|------------|------------|
| Revenues | \$0 | \$0 | \$0 | \$0 | \$0 |
| GF/SF Exp. | 260.36 | 267.35 | 325.68 | 331.21 | 338.66 |
| Net Effect | (\$260.36) | (\$267.35) | (\$325.68) | (\$331.21) | (\$338.66) |

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

Local Effect: Statewide, local school systems receive \$260.4 million in FY 2020, \$267.4 million in FY 2021 and as much as \$338.7 million or more by FY 2024. Local expenditures increase correspondingly.

Small Business Effect: Small businesses that contract with local school systems for maintenance services may benefit substantially.

Analysis

Current Law:

Public School Buildings

With the approval of the State Superintendent, each local board of education may buy or otherwise acquire land, school sites, or buildings and rent, repair, improve, and build school buildings or approve contracts for doing so, if the plans conform to requirements of the State Board of Education. The Interagency Commission on School Construction reports annually on the maintenance of public school buildings by local boards based on inspection results.

Local Board of Education Budgets and Annual Financial Reports and Data

Each local board of education must prepare an annual budget according to major categories, including the following current expense categories: administration, including executive administration and business and centralized support services; mid-level administration, including the office of the school principal and staff administering and supervising school instructional programs; instructional salaries for teachers, aides, psychological personnel, guidance counselors, and library personnel; textbooks and classroom instructional supplies; other instructional costs; special education; student personnel services; health services; student transportation; operation of plant and equipment; maintenance of plant; fixed charges (such as rent and employee benefits); food services; and capital outlay.

Each local board of education is required to submit an Annual School Financial Report to the State Board of Education in accordance with major categories (summarized above) established by State law and additional specific revenue and expenditure areas as specified by the Maryland State Department of Education (MSDE) *Financial Reporting Manual for Maryland Public Schools*. MSDE draws upon this financial data provided by local school systems to produce an annual *Selected Financial Data* report, which includes a section on expenditures. The *Selected Financial Data* report presents information at the school system level. Each local board must also submit an annual budget to the county governing body, in accordance with the major categories and the financial reporting manual.

Constitutional Amendment on Supplemental Funding for Public Schools

Chapter 357 of 2018 authorized a constitutional amendment, which was subsequently approved by Maryland voters in November 2018, requiring the Governor to provide supplemental State funding for public education through the use of commercial gaming revenues that are dedicated to public education in the State budget beginning in fiscal 2020. Supplemental funding must total \$125.0 million in fiscal 2020, \$250.0 million in fiscal 2021, and \$375.0 million in fiscal 2022. In all subsequent years, 100% of the gaming revenues dedicated to public education must be used for supplemental funding. Beginning in fiscal 2020, the Governor must identify in the annual State budget how the supplemental revenue is being used to supplement and not supplant spending on public schools. One permissible use of these supplemental funds is to maintain, renovate, or construct public schools.

Background: The State does not provide funding to local school systems that must be expended on building maintenance. However, the State Foundation program includes funding to support building maintenance as a portion of the base per pupil amount, which is shared 50%/50% on average between the State and county governments.

According to the *Selected Financial Data* report for the 2016-2017 school year, local school systems expended a total of \$257.2 million on maintenance of plant in fiscal 2017, ranging from less than \$1.0 million in Caroline, Kent, and Somerset counties to over \$30.0 million in Baltimore, Montgomery, and Prince George's counties. As shown in **Exhibit 1**, after subtracting federal revenues for current expense expenditures to isolate State and local expenditures as specified by the bill, on average local school systems expended 2.2% of current expenses on maintenance of plant, ranging from 1.1% in Worcester County to 4.3% in Washington County – only Washington County exceeded the 3% cap specified under the bill for State support.

State Expenditures: Based upon the *Selected Financial Data* report data for the 2016-2017 school year (fiscal 2017), and inflated to fiscal 2018 (since the bill uses data from the second prior fiscal year) using the trend in local school board appropriations for each county, State expenditures increase by \$260.4 million in fiscal 2020, though the Governor is not required to appropriate funds until the fiscal 2021 budget. Using this same methodology, State funding increases to \$267.4 million in fiscal 2021. It is assumed that either general funds or special funds, pursuant to the constitutional amendment discussed above, may be used for the purposes of the bill.

Exhibit 1
School System Maintenance of Plant Expenditures
2016-2017 School Year
(\$ in Millions)

| School System | Maintenance of Plant | % of Total Expenditures¹ |
|----------------------|---------------------------------|--|
| Allegany | \$1.6 | 1.6% |
| Anne Arundel | 19.4 | 1.9% |
| Baltimore City | 21.6 | 1.9% |
| Baltimore | 34.8 | 2.5% |
| Calvert | 3.2 | 1.6% |
| Caroline | 1.0 | 1.5% |
| Carroll | 7.7 | 2.4% |
| Cecil | 4.5 | 2.5% |
| Charles | 8.0 | 2.4% |
| Dorchester | 1.6 | 2.7% |
| Frederick | 12.0 | 2.4% |
| Garrett | 1.1 | 2.3% |
| Harford | 13.1 | 3.0% |
| Howard | 23.6 | 2.9% |
| Kent | 0.7 | 2.4% |
| Montgomery | 35.9 | 1.6% |
| Prince George's | 42.2 | 2.4% |
| Queen Anne's | 1.8 | 2.0% |
| St. Mary's | 4.3 | 2.1% |
| Somerset | 0.9 | 2.3% |
| Talbot | 1.3 | 2.6% |
| Washington | 11.2 | 4.3% |
| 4.3% Wicomico | 4.6 | 2.6% |
| Worcester | 1.1 | 1.1% |
| Total | \$257.2 | 2.2% |

¹Excludes expenditure of federal funding for current expenses.

Source: Maryland State Department of Education, *Selected Financial Data*

State funding to local school systems in fiscal 2022 and beyond will depend on the amount of State and local funds expended by local school boards on maintenance of plant beginning in fiscal 2020. Under the State's maintenance of effort requirement, county

governments must appropriate to the local school board at least the same amount as the prior fiscal year on a per pupil basis. Thus, it is assumed that overall, the bill does not significantly affect local appropriations to local school boards.

While the bill requires the local boards to spend the additional State funds only on school maintenance, it does not require the *existing* State and local funds being expended on school maintenance to continue, *i.e.*, it allows local boards to supplant their current school maintenance spending with the State funding provided under the bill. Thus, the State obligation in a given year will depend largely upon local decisions regarding overall appropriations for maintenance of plant to local school systems for the second prior year (appropriations for a given year being highly correlated with expenditures in that fiscal year).

Under scenarios whereby local school boards eliminate (or repurpose) existing school maintenance funding, State expenditures under the bill remain at approximately \$270.0 million beginning in fiscal 2022 with modest inflationary increases. However, if local boards provide funding that is consistent with past years' levels (either level with fiscal 2019 expenditures or modest annual increases) *in addition to* the State funds under the bill in order to realize a substantial net increase in funding for maintenance of plant, State expenditures increase by as much as an estimated \$383.8 million in fiscal 2022 and \$409.2 million by fiscal 2024. However, it is assumed that some local boards will pursue the former course and others will pursue the latter. Thus, State expenditures increase by an estimated \$325.7 million in fiscal 2022 and \$338.7 million by fiscal 2024. Required State funding in future years under the bill will also be affected by any large increase in State education aid, as that will affect the total (State and local) expenditures by local school boards and the "lesser of" calculation in the bill.

Local Expenditures: Based upon the analysis described above, and as shown in **Exhibit 2**, at the Governor's discretion, local school systems receive an estimated \$260.4 million in fiscal 2020, ranging from less than \$1.0 million in Kent County to over \$35.0 million for Baltimore, Montgomery, and Prince George's counties. Exhibit 2 also shows estimated State funding by county in fiscal 2021, increasing modestly over fiscal 2020, to a statewide total of \$267.4 million.

As discussed above, the amount of local school system revenues from the State, and corresponding increases in expenditures, in subsequent fiscal years will depend largely on local decisions regarding the appropriation of funds provided to local boards of education for maintenance of plant. Local school systems will likely receive \$338.7 million collectively by fiscal 2024, which assumes that for at least some local school systems, expenditures for maintenance of plant will increase substantially.

Exhibit 2
Estimated State Funding to Local School Systems under the Bill
Fiscal 2020 and 2021
(\$ in Millions)

| School System | Fiscal 2020 | Fiscal 2021 |
|----------------------|--------------------|--------------------|
| Allegany | \$1.7 | \$1.7 |
| Anne Arundel | 20.1 | 20.5 |
| Baltimore City | 21.4 | 21.5 |
| Baltimore | 36.0 | 37.2 |
| Calvert | 3.2 | 3.3 |
| Caroline | 1.0 | 1.0 |
| Carroll | 7.7 | 7.9 |
| Cecil | 4.5 | 4.6 |
| Charles | 8.2 | 8.6 |
| Dorchester | 1.7 | 1.7 |
| Frederick | 12.4 | 12.9 |
| Garrett | 1.1 | 1.1 |
| Harford | 13.3 | 13.6 |
| Howard | 24.1 | 25.2 |
| Kent | 0.6 | 0.7 |
| Montgomery | 37.0 | 38.0 |
| Prince George's | 43.6 | 44.9 |
| Queen Anne's | 1.8 | 1.9 |
| St. Mary's | 4.4 | 4.4 |
| Somerset | 1.0 | 1.0 |
| Talbot | 1.3 | 1.4 |
| Washington | 8.1 | 8.3 |
| 4.3% Wicomico | 4.8 | 4.9 |
| Worcester | 1.2 | 1.2 |
| Total | \$260.4 | \$267.4 |

Source: Maryland State Department of Education, *Selected Financial Data*

Additional Information

Prior Introductions: None.

Cross File: SB 586 (Senator Rosapepe) - Budget and Taxation.

Information Source(s): Anne Arundel County Public Schools; Baltimore City Public Schools; Montgomery County Public Schools; Prince George's County Public Schools; Wicomico County Public Schools; Maryland Association of Counties; Public School Construction Program; Department of Budget and Management; Maryland State Department of Education; Department of Legislative Services

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