

Department of Legislative Services
Maryland General Assembly
2022 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1365
Appropriations

(Delegate Rose, *et al.*)

Primary and Secondary Education – Full-Time Equivalent Enrollment Count –
Alterations

This bill alters the definition of full-time equivalent (FTE) enrollment that is used to calculate State education aid and local government education funding requirements to include the average number of students enrolled on September 30, December 31, March 31, and the last day of the prior school year instead of only the September 30 count from the prior year used under current law. **The bill takes effect July 1, 2022, and is applicable to the calculation of education funding for fiscal 2024 and subsequent fiscal years.**

Fiscal Summary

State Effect: State expenditures for education aid are affected beginning in FY 2024 by an indeterminate amount. The actual impact will vary by year. Revenues are not affected.

Local Effect: Local revenues from direct State education aid are affected beginning in FY 2024. Required county appropriations to local school systems also change beginning in FY 2024. The results are indeterminate and vary by year and by county.

Small Business Effect: None.

Analysis

Current Law:

Full-time Equivalent Enrollment and Major Education Aid

FTE means the sum of:

- the number of students enrolled in kindergarten through grade 12 or their equivalent in regular day school programs on September 30 of the prior school year;
- the number of FTE students enrolled in evening high school programs during the prior school year; and
- the number of Pathways in Technology Early College High students.

Funding for major education aid programs is determined by wealth-equalized formulas, in that the State provides more aid per pupil to school systems in the less wealthy jurisdictions and less aid per pupil to school systems in the more wealthy jurisdictions. The foundation formula grant was altered by Chapter 36 of 2021, such that the count of students to be funded is the greater of (1) the prior year FTE enrollment or (2) the three-year moving average of FTE enrollment.

Maintenance of Effort and Local Share

Each year, the county government (including Baltimore City) is required to appropriate funds to the local board of education equivalent to at least the same per pupil level as in the prior year (*i.e.*, maintenance of effort (MOE)), or its required local share – whichever is greater. Beginning with the fiscal 2022 appropriation, the per pupil MOE level each year is based upon the greater of (1) the prior year FTE enrollment and (2) the three-year moving average of FTE enrollment.

For fiscal 2023, the MOE calculation will use the fiscal 2021 local appropriation (instead of fiscal 2022) except for counties whose required fiscal 2022 MOE was adjusted by the escalator provision. Further, September 2019 FTE enrollment must be used to determine per pupil wealth for purposes of the escalator provision used to determine required fiscal 2022 and 2023 MOE. The enrollment count used in MOE excludes the 2020-2021 school year, which affects the calculation in fiscal 2022 through 2024. Also, county governments may, to the extent authorized under federal law, use federal funds received for COVID-19 relief to meet MOE requirements. Beginning in fiscal 2024, repealed is the requirement that a county that is below the statewide five-year moving average education effort level must increase its per pupil MOE amount by the lesser of

(1) the increase in local wealth per pupil; (2) the statewide average increase in local wealth per pupil; or (3) 2.5% (*i.e.*, MOE escalator).

Beginning in fiscal 2023, local governments must fund the greater of MOE or the local share of all wealth-equalized formulas (instead of only the foundation formula). This includes the local share of the compensatory education, English language learner, special education, comparable wage index (CWI), beginning in fiscal 2024, full-day prekindergarten, college and career ready, transitional supplemental instruction (through fiscal 2026), and career ladder grant programs. Also, counties that benefit from the compensatory education State funding floor are required to fund the local share of the concentration of poverty grant programs. However, for some counties, the combined local share across these several programs is subject to adjustments described below.

Education Effort Adjustment to Local Share Requirement

Local governments are required to fund the local share of the foundation program and the required local shares for several existing and new funding formula programs. Effective in fiscal 2022, the law also includes a mechanism for establishing a maximum local share that a county must fund each year. This involves “local education effort,” which is determined for each county by dividing the county’s local share of major education aid by the county’s wealth. An “education effort index,” which is the local education effort divided by the “State average education effort” is then determined. A “maximum local share” is calculated for each county, which is the county’s local wealth multiplied by the State average education effort.

Each county with an education effort above 1.0 for two consecutive years receives relief based upon its “education effort adjustment,” which is the amount by which that calculated local share exceeds the maximum local share. This relief (which results in increases to State aid) is provided to counties within one of three tiers, based on whether the education effort is (1) greater than 1.0 but less than 1.15; (2) at least 1.15 but less than 1.27; or (3) at least 1.27. State relief for the first tier is phased up from 10% of the education effort adjustment in fiscal 2022 to 50% by fiscal 2030. State relief for the second tier is phased up from 20% of the education effort adjustment in fiscal 2022 to 100% by fiscal 2030. State relief for the third tier is 100% beginning in fiscal 2022. However, the education effort adjustment for a county is only allowed to the degree that per pupil MOE is met each year.

Additional Reductions to Local Share

A county may be eligible for a reduction in the required local share of major aid formulas in three additional ways: (1) if a county receives State funds from the guaranteed tax base (GTB) program, the local share may be reduced by the amount of GTB funds, except that for Baltimore City only the amount above \$10 million may be reduced from the local share;

(2) if a county receives State funds to support the minimum funding floors of 15% for the foundation and 40% for the targeted programs; and (3) if a county has a CWI index of at least 0.13, the local share of CWI may be reduced by 50%. However, in all of these cases, the local share may not be reduced below the required per pupil MOE amount.

Annual Submission of Education Aid Data

On or before December 1, 2021, and each December 1 thereafter, the Maryland State Department of Education (MSDE) must submit to the Department of Budget and Management (DBM) and the Department of Legislative Services (DLS) the enrollment counts and other data necessary to calculate the funding formulas to implement the Blueprint for Maryland's Future for the upcoming fiscal year.

State Expenditures: As discussed below, the effect on general and special fund expenditures for education aid may be substantial beginning in fiscal 2024.

According to MSDE, comparing September 30, 2018 enrollment to the average enrollment for June 2018, September 2018, and March 2019 results in a statewide change of 767 students, or 0.1%, in FTE enrollment, ranging from a 1.0% increase for Kent County to a 1.1% decrease for Somerset County. Applying these changes by county yields an estimated \$5.8 million, or 0.1% increase in State aid for public schools in fiscal 2024 and similarly minor changes through fiscal 2027. However, this data is not a precise match to what the bill specifies, and it is not certain that the corresponding set of funding results is indicative of likely results in future years. Potentially, the bill results in increased FTE counts and, therefore, in State aid in some years, and decreased FTE counts and State aid in others, as compared to results projected under the current law methodology for determining FTE enrollment.

The calculation of FTE enrollment under the bill will prohibit MSDE from meeting the statutory deadline for providing enrollment data to DBM and DLS. This will present practical challenges for assuring that education aid is properly accounted for in the annual budget bill.

Local Fiscal Effect: Local school system revenues from direct State aid change by an indeterminate amount, beginning in fiscal 2024 as discussed above due to changes in FTE school enrollment counts used to determine State aid. Similarly, local government's local share of major education aid and per pupil MOE requirements are changed in an indeterminate manner, beginning in fiscal 2024, thus altering projected county government appropriations to public schools. Use of data described above suggests a slight (less than 0.1% overall) decrease in local appropriations statewide, because about half of the increased State aid is in the form of local effort relief. However, as discussed above, this data does not perfectly align with the bill's provisions, and it is not certain that the

corresponding set of funding results is indicative of likely results in future years. Local school system payments for teachers' retirement change somewhat beginning in fiscal 2026. Based on the MSDE data discussed above, these changes may be relatively minor.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

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

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