

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE
Revised

Senate Bill 406 (Senator Amoss)
Budget & Taxation and Economic & Environmental Affairs Ref. to Ways & Means

Education - Annual School Budget and Maintenance of Effort Requirements

This amended bill changes specified expenditure categories which are required to be included in the annual budget prepared by each school board, except Baltimore City. In addition, the bill requires school boards to submit certain reports to county governments. The bill also changes the county maintenance of effort funding requirement. With several exceptions, the bill is effective June 1, 1996.

Fiscal Summary

State Effect: General fund expenditures could decrease by an indeterminate significant amount beginning in FY 2000, as discussed below. Revenues would not be affected.

Local Effect: County and Baltimore City expenditures could decrease by an amount not exceeding \$10.3 million beginning in FY 1997, while county school board revenues would decrease by a similar amount. School board revenues could also decrease by an indeterminate significant amount beginning in FY 1998 due to potential federal aid reductions and in FY 2000 due to potential State aid reductions. School board expenditures could minimally increase beginning in FY 1997.

Fiscal Analysis

Bill Summary: The bill requires each school board to provide in their annual budget the number of full-time equivalent positions included within each major expenditure category and an explanation of any fund balances or other monies held by any outside source that are available to the school board. The bill also creates a "mid-level administration" and a "textbooks and classroom instructional supplies" major budget categories. These provisions do not apply to school board budgets until fiscal 1998.

Within 30 days after the adoption of the school board's budget by the county government,

the school board must submit a report indicating how the changes to the budget will be implemented by the school board. This reporting requirement does not apply until fiscal 1998. At the request of the county government, the school board or county superintendent must also report to the county government on the school system's operations, including any adjustments made to the annual budget, by March 1 and November 1 of each fiscal year.

In addition, the bill requires a school board to submit a report of certain actions made during a month to the county government and the State Superintendent. This report must contain an explanation of the policy decisions or actions which may result in a future request for a transfer between categories. The reporting requirement applies to fiscal 1997.

If the State Superintendent determines that a school board failed to comply with certain requirements, a school board may not make a line item expenditure in excess of the item expenditure in the subsequent year's approved operating budget without the prior approval of the county government.

The bill also modifies the county maintenance of effort funding requirement. For purposes of calculating the highest local appropriation, one-half of the amount by which the county's local appropriation to the school operating budget for the prior fiscal year exceeded the minimum required amount would be excluded. Also, any nonrecurring costs that are supplemental to the regular school operating budget would be excluded if the items qualify under the regulations adopted by the State Board of Education. Further, the bill authorizes the State board to grant a waiver of the minimum funding requirement if it determines that the county's fiscal condition impedes its ability to fund the minimum amount.

Finally, the bill allows a county to petition the State board to receive the funds that were withheld in fiscal 1996 for non-compliance with the maintenance of effort requirement. (Wicomico County was the only county not to comply with the requirement in fiscal 1996.)

State Expenditures: Since a component of the formula used to distribute State aid to primary and secondary education is based on the average per pupil expenditures in the third and fourth preceding years, general fund expenditures could decrease if the lower local maintenance of effort results in less local spending on education. The lower local spending, however, would not impact State aid until fiscal 2000.

The Maryland State Department of Education (State board and State Superintendent) could revise the *Financial Reporting Manual*, grant waivers of the maintenance of effort requirement, approve nonrecurring cost items, and investigate complaints by county governments that school boards have not complied with certain requirements within existing budgeted resources.

Local Effect: If county governments fund only the proposed minimum funding requirement, county expenditures could be \$10.3 million lower in fiscal 1997 than under current law. This estimate is based on a 1.9% increase in FTE enrollment between 1995 and 1996. School boards would experience a revenue loss in an equal amount. **Exhibit 1** shows the potential savings to the counties and Baltimore City on a county-by-county basis for fiscal 1997.

The potential savings would vary by jurisdiction depending upon FTE enrollment growth and the amounts by which the counties' appropriations exceed the required minimum appropriations. For instance, Montgomery County's required appropriation to the school board would be \$0.6 million less in fiscal 1997 than under current law. Baltimore City's requirement would be \$6.0 million less in fiscal 1997. These differences reflect the two components of the maintenance of effort provision under the bill. First, counties are given relief for exceeding the minimum required appropriation in the prior fiscal year. Second, counties may spend less if FTE enrollment declines. Under existing law, counties may not fall below the highest appropriation in the prior year.

Fiscal Services expects several counties to exceed the minimum funding level depending upon their financial conditions, FTE enrollment growth, and other factors. Accordingly, the reduction in county expenditures for education could be significantly less than \$10.3 million.

County expenditures could also decrease if the State board grants a full or partial waiver of the minimum funding requirement. School boards would have a revenue loss in an equal amount. The number of waivers and their amounts cannot be reliably estimated at this time.

As mentioned above in the "State Expenditures" section, State aid to the school boards could also decrease if the minimum foundation funding level declines. At this time, the revenue decrease cannot be reliably estimated. (Further, if per pupil expenditures decline, school boards may experience a loss in federal revenues because certain federal aid programs are based on per pupil expenditures.) Similarly, federal revenues could decrease if school boards do not comply with the federal maintenance of effort requirements. If a school board's federal maintenance of effort falls below 90% of the previous year's level, federal funding could be reduced for non-compliance. Fiscal Services believes this scenario is highly unlikely given the current spending levels of the school boards.

School board expenditures could increase by a indeterminate minimal amount due to the additional reporting requirements. Fiscal Services, however, believes these requirements could be handled with the school boards' existing resources.

If the State board determines that Wicomico County had justification for not meeting the maintenance of effort requirement, school board revenues would increase by \$780,615 in fiscal 1996 due to the payment of State funds.

Information Source(s): Maryland State Department of Education; Maryland Association of Boards of Education; Frederick, Montgomery, and Somerset counties; Department of Fiscal Services

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Analysis by: Thomas Himler

Direct Inquiries to:

Reviewed by: John Rohrer

John Rixey, Coordinating Analyst

(410) 841-3710

(301) 858-3710