

Department of Fiscal Services  
Maryland General Assembly

FISCAL NOTE

Senate Bill 534 (Senator McFadden)  
Budget and Taxation

---

**Sales and Use Tax - Additional State Funding for Education**

---

This bill establishes a Supplemental Aid Program and a Targeted Aid Program for local boards of education. Funding for the programs is provided by increasing the State sales tax from 5% to 5.5%. The bill specifies that (1) one-half of the revenues be allocated according to each local board’s proportionate share of the current expense and compensatory education programs less the increase in the State teachers’ retirement payment over the fiscal 1997 payment for the county (Supplemental Aid Program); and (2) one-half be allocated to local boards with per pupil local wealth below the State average (Targeted Aid Program). The bill requires the State Board of Education to establish regulations to qualify local boards of education for the supplemental aid and targeted aid funds. In addition, to qualify for additional State funding under the programs, local boards of education must submit an acceptable plan to the State Board.

This bill takes effect July 1, 1997.

---

**Fiscal Summary**

**State Effect:** Special fund revenues could increase by \$213.3 million in FY 1998; future years reflect 5% annual growth. Special fund expenditures could increase by \$213.3 million in FY 1998; future year expenditures reflect funding less teachers’ retirement costs over 1997 levels.

(in millions)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
SF Revenues	\$213.3	\$224.0	\$235.2	\$247.0	\$259.4
SF Expenditures	213.3	209.1	194.5	184.5	173.9
Net Effect	\$0	\$14.9	\$40.7	\$62.5	\$85.5

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

**Local Effect:** State aid to local governments could increase by \$213.3 million in FY 1998.

Expenditures would not be directly affected.

**Small Business Effect:** Minimal impact on small businesses as discussed below.

---

### Fiscal Analysis

**State Effect:** Increasing the State sales tax from 5% to 5.5% could generate an additional \$213.3 million in revenues in fiscal 1998. Future year revenues assume a 5% annual growth rate. The additional State revenue would be used to fund two new education programs (Supplemental Aid and Targeted Aid). One-half of the revenues would be allocated according to each local board's proportionate share of the current expense and compensatory education programs less the increase in the State teachers' retirement payment over the fiscal 1997 payment for the county (Supplemental Aid Program). The other half of revenues would be allocated to local boards with per pupil local wealth below the State average (Targeted Aid Program). **Exhibit 1** shows the projected State cost for the teachers' retirement program and the increase over the fiscal 1997 amount.

**Exhibit 1**  
**Projected Teachers' Retirement Costs**  
**(\$ in millions)**

	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
Projected Teachers' Retirement Cost	\$449.0	\$445.0	\$463.9	\$489.7	\$511.5	\$534.6
Increase Over FY 1997	\$0	(\$4.0)	\$14.9	\$40.7	\$62.5	\$85.6

In fiscal 1998, local boards of education would receive an additional \$213.3 million in State aid (\$106.65 in Supplemental Aid grants and \$106.65 in Targeted Aid grants). As illustrated in **Exhibit 2**, the Supplemental Aid grants would not be adjusted in fiscal 1998 in that teachers' retirement cost are projected to be lower in fiscal 1998 than in fiscal 1997. However, beginning in fiscal 1999, the amount of supplemental grants provided to local boards would be adjusted to account for teachers' retirement increases over the fiscal 1997 amount. Due to this adjustment, State aid to local boards of education would not equal the amount of tax revenue generated by the sales tax increase.

**Exhibit 2**  
**Funding for Supplemental and Targeted Aid Programs**  
**(\$ in millions)**

	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
Supplemental Aid	\$106.65	\$112.0	\$117.6	\$123.5	\$129.7
Less Teachers' Retirement Cost	0	14.9	40.7	62.5	85.5
Supplemental Aid Allocated	106.65	97.1	76.9	61.0	44.2
Targeted Aid Allocated	106.65	112.0	117.6	123.5	129.7
Total Aid Allocated	213.3	209.1	194.5	184.5	173.9
Unallocated Funds	\$0	\$14.9	\$40.7	\$62.5	\$85.5

The Maryland State Department of Education advises that two additional positions at an annualized cost of \$76,000 would be needed to administer the new programs. The Department of Fiscal Services, however, advises that existing staff within the department could develop the regulations and determine each county's funding allocation at no additional cost.

**Local Effect:** State aid to local boards of education could increase by \$213.3 million in fiscal 1998. **Exhibit 3** shows the county-by-county fiscal impact.

**Small Business Effect:** Increasing the State sales tax by 0.5 percentage points would increase the cost of purchasing products thus slightly reducing overall commercial activity and revenues received by businesses. However, any such revenue decrease may be partially or fully offset by an increase in the amount of tax revenue businesses retain for collecting the State sales tax. At a minimum, this would generate an additional \$1.9 million in revenues for businesses, of which a part would be received by small businesses.

**Information Source(s):** Comptroller's Office, Maryland State Department of Education, Department of Fiscal Services

**Fiscal Note History:** First Reader - February 28, 1997

ncs

Analysis by: Hiram L. Burch Jr.  
Reviewed by: John Rixey

Direct Inquiries to:  
John Rixey, Coordinating Analyst  
(410) 841-3710  
(301) 858-3710