

Department of Legislative Services
 Maryland General Assembly
 1999 Session

FISCAL NOTE

House Bill 962 (Delegate Zirkin. *et al.*)

Ways and Means

Education - Class Size Reduction Program - Establishment

This bill establishes a Class Size Reduction Program to limit core curriculum class sizes in kindergarten through third grade to a maximum of 18 students per class. The Maryland State Department of Education (MSDE) will administer the program. Participating local boards of education will receive \$500 for each student enrolled in kindergarten through third grade and \$40,000 for each new teacher hired under this program. When a local board achieves the targeted class size, the per pupil grant increases to \$700. The Governor is required to include funding for this program in the State budget, beginning in fiscal 2000.

This bill takes effect June 1, 1999 and sunsets May 31, 2010.

Fiscal Summary

State Effect: General fund expenditures would increase by \$165.3 million in FY 2000. Future year expenditures reflect student enrollment and teacher salary growth. Revenues would not be affected.

(in millions)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
GF Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditures	165.3	166.6	170.9	175.4	180.0
Net Effect	(\$165.3)	(\$166.6)	(\$170.9)	(\$175.4)	(\$180.0)

Note: () = decrease; GF = general funds

Local Effect: State aid to local boards of education would increase by \$165.3 million in FY 2000. Local school expenditures could increase by \$77.8 million in FY 2000. This estimate assumes a five-year program phase-in.

Small Business Effect: None.

Fiscal Analysis

Bill Summary: To receive State funding under the Class Size Reduction Program, a local

board must develop and submit a comprehensive class size reduction plan to MSDE. This plan must (1) recommend measures to reduce or maintain class sizes in kindergarten through third grade to 18 or fewer students within 10 years; (2) estimate the cost to reduce class sizes and the future student enrollment in kindergarten through third grade; and (3) include a schedule to reduce class sizes within ten years. MSDE must review a county's plan each year to determine the county's progress and certify that the county is on schedule to complete the plan.

State Effect: Beginning in fiscal 2000, the State must provide each local board of education participating in this program with a \$500 per pupil grant for each student enrolled in kindergarten through third grade. Assuming all local boards participate, this amount will total \$131.3 million annually. Once the local boards meet the mandatory class size limit, State payments would total roughly \$184 million.

The State must also provide the local boards with a one-time \$40,000 grant for each new teacher that is hired pursuant to this program. It is estimated that 4,244 teachers would be needed to reduce class sizes to the mandatory limit. Assuming that local boards phase- in class size reduction over a five-year period, State expenditures would increase by \$34 million each year until fiscal 2005. In addition, the State is responsible for paying the teachers' retirement costs which would total \$3 million in fiscal 2002. This estimate is based on a \$119 million teacher salary base, a 12.54% contribution rate, and a five-year program phase-in. Since the State payments for teachers' retirement costs are based on the teachers' salary base in the second prior year, State expenditures will not increase until fiscal 2002.

MSDE will have to hire one staff specialist at the State headquarters at a cost of \$38,200 to administer the program and review local plans. Future year administrative expenditures total \$51,200 in fiscal 2001 and \$57,000 in fiscal 2004.

In summary, State expenditures would increase by \$165.3 million in fiscal 2000. Future year expenditures will increase by \$166.6 million in fiscal 2001 and \$180 million in fiscal 2004. This estimate does not include any additional State costs for school construction. The Governor has included \$250 million in the fiscal 2000 State budget for public school construction projects (\$160 million in pay-go and \$90 million in general obligation bonds). It is assumed that the additional State aid provided under this bill, rather than the State School Construction Program, would cover the school related capital costs required to implement this legislation. **Exhibit 1** shows the projected State costs on a county-by-county basis.

Local Effect: Statewide, there are approximately 262,600 public school students in

kindergarten through the third grade. The average elementary instructional class in the State consists of 25.6 students, ranging from 22.1 students in Talbot County to 26.9 students in Prince George’s County. The average instructional cost per classroom totals \$33,750. Based on each county’s average class size, local school systems would have to add an additional 4,244 elementary classes and teachers to comply with the lower class size requirement. This could cost local boards of education around \$143.2 million on an annualized basis. Assuming that local boards phase in class size reduction over a five-year period, local expenditures would increase by \$28.6 million in fiscal 2000. Out-year costs are adjusted for inflation.

To accommodate the lower class sizes, local boards may have to construct additional classrooms. If 4,244 additional classrooms are constructed at an average cost of \$180,000, per classroom, school capital expenses could total \$763.9 million. The annual debt service cost for this program could total \$49.2 million for 30 years, assuming a 5% interest rate. The following table shows the projected local costs for this program.

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Operating	\$28.6 million	\$58.4 million	\$89.4 million	\$121.6 million	\$155.0 million
Capital	\$49.2 million	\$49.2 million	\$49.2 million	\$49.2 million	\$49.2 million
Total	\$77.8 million	\$107.6 million	\$138.6 million	\$170.8 million	\$204.2 million

To assist the local boards to reduce class sizes, State aid would increase by \$168.3 million in fiscal 2000 and \$186.6 million by fiscal 2004. When the program is fully phased-in, the State would fund around 90% of the program’s cost.

Additional Comments: Under current law, approved school construction costs are shared by the State and local governments based on local wealth. The State share ranges from 50% in affluent jurisdictions to 80% in the poorest jurisdictions. In addition, the State share only covers eligible costs. The local governments are responsible for noneligible costs such as architectural and engineering fees, utility connections, permits, and movable furniture and equipment. For purposes of this analysis, it is assumed that State school construction funds would be targeted to existing needs and not redirected for additional classrooms needed under this program. In addition, it is assumed that the additional State aid provided under this program would cover the school related capital costs.

Information Source(s): Maryland State Department of Education, Maryland State Teacher’s Association, Department of Legislative Services

Fiscal Note History:

First Reader - February 19, 1999

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Exhibit 1

**House Bill 962 - Class Size Reduction Program
Estimated Fiscal Impact for Fiscal 2000**

<u>County</u>	<u>Grades K-3 Enrollment</u>	<u>\$500 Per Pupil Grant Amount</u>	<u>Additional Teachers</u>	<u>\$40,000 Grant Per New Teacher*</u>	<u>Total State Grants</u>	<u>Current Avg. Class Size</u>	<u>Est. Local Salary Cost</u>
Allegany	3,074	\$1,537,000	52	\$413,044	\$1,950,044	25.8	\$1,575,458
Anne Arundel	23,090	11,545,000	388	3,102,532	14,647,532	25.8	12,504,948
Baltimore City	36,551	18,275,500	641	5,126,714	23,402,214	26.3	19,749,051
Baltimore	32,571	16,285,500	501	4,011,422	20,296,922	24.9	17,528,629
Calvert	4,552	2,276,000	68	542,786	2,818,786	24.6	2,275,828
Caroline	1,794	897,000	29	230,061	1,127,061	25.3	995,131
Carroll	8,376	4,188,000	133	1,063,619	5,251,619	25.2	4,450,979
Cecil	4,880	2,440,000	83	667,350	3,107,350	26	2,821,647
Charles	6,038	3,019,000	108	867,616	3,886,616	26.6	3,751,125
Dorchester	1,556	778,000	22	177,175	955,175	24.2	746,550
Frederick	10,852	5,426,000	189	1,509,523	6,935,523	26.2	6,242,770
Garrett	1,613	806,500	28	222,483	1,028,983	26.1	834,615
Harford	12,221	6,110,500	154	1,235,504	7,346,004	23.3	5,271,308
Howard	12,721	6,360,500	198	1,583,058	7,943,558	25	6,716,850
Kent	865	432,500	9	72,733	505,233	22.2	300,146
Montgomery	38,943	19,471,500	593	4,745,742	24,217,242	24.8	22,141,590
Prince George's	41,007	20,503,500	754	6,029,943	26,533,443	26.9	25,543,397
Queen Anne's	2,089	1,044,500	25	201,836	1,246,336	23	864,633
St. Mary's	4,501	2,250,500	71	565,863	2,816,363	25.1	2,522,357
Somerset	940	470,000	12	97,778	567,778	23.5	394,862
Talbot	1,446	723,000	15	119,228	842,228	22.1	502,380
Washington	6,304	3,152,000	81	646,564	3,798,564	23.4	2,530,138
Wicomico	4,512	2,256,000	60	482,295	2,738,295	23.7	1,968,232
Worcester	2,111	1,055,500	30	240,371	1,295,871	24.2	1,007,168
Total	262,607	\$131,303,500	4,244	\$33,955,239	\$165,258,739	25.6	\$143,239,790

Notes: *It is assumed that local school systems will take five years to fully implement the class size reduction program.

Prepared by the Department of Legislative Services