

Department of Legislative Services  
 Maryland General Assembly  
 1999 Session

FISCAL NOTE

House Bill 1043 (Delegate Franchot)

Appropriations

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Education - State Funding - Social Security Contributions

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This bill requires the State to pay a portion of the employer share of Social Security contributions for any eligible position within the local boards of education, the county community college system, and the county public library system. The bill stipulates that the State payment cannot exceed \$35 million in fiscal 2000 and \$50 million in fiscal 2002. This bill takes effect July 1, 1999.

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Fiscal Summary

**State Effect:** General fund expenditures would increase by \$35 million in FY 2001. Future year expenditures reflect an increasing State share of Social Security costs and growth in the salary base. 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	0	35.0	50.0	128.4	132.7
Net Effect	\$0	(\$35.0)	(\$50.0)	(\$128.4)	(\$132.7)

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

**Local Effect:** State aid to local governments would increase by \$35 million in FY 2001. Expenditures would not be directly affected.

**Small Business Effect:** None.

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## Fiscal Analysis

**Background:** Prior to fiscal 1994 the State reimbursed local school boards for a portion of the Social Security costs for eligible employees of the school boards. Eligible employees were primarily teachers, administrators, and professional employees associated with the instructional programs who were members of either the teachers retirement or pension systems and who were not funded through federal programs. The State share was equal to 6.13% of the Social Security Wage Base. With a Social Security tax rate of 7.65% of salaries, this translated into an 80% State share for eligible employees. In fiscal 1993, the last year in which the State made Social Security payments to the local boards, school systems reported total Social Security expenditures of \$218 million. Of this amount, State reimbursements totaled \$136 million or about 62.4%.

**State Effect:** Pursuant to this legislation, the State would pay a portion of the employer share of Social Security costs for eligible school, community college, and library employees. The State share totals 1.5% of the Social Security Wage Base in fiscal 2001, 2.5% in fiscal 2002, and 3.5% in fiscal 2003 and each fiscal year thereafter. However, the bill stipulates that the State payment cannot exceed \$35 million in fiscal 2001 and \$50 million in fiscal 2002. It is estimated that the State share of Social Security costs would total approximately \$51.2 million in fiscal 2001 and \$88.7 million in fiscal 2002. Accordingly, State expenditures in those fiscal years would only increase by the maximum required payment. However, beginning in fiscal 2003, the State would pay the actual cost of the sharing arrangement which would total \$128.4 million in fiscal 2003. **Exhibit 1** shows the projected costs for fiscal 2001 through fiscal 2004 for each respective system.

**Exhibit 1**  
**Increased State Social Security Costs**  
**(\$ in millions)**

	FY 2001	FY 2002	FY 2003	FY 2004
School Systems	\$48.0	\$83.1	\$120.4	\$124.4
Libraries	1.1	2.0	2.9	3.0
Community Colleges	2.1	3.6	5.1	5.3
<b>Total</b>	<b>\$51.2</b>	<b>\$88.7</b>	<b>\$128.4</b>	<b>\$132.7</b>

\*State costs are capped at \$35 million in FY 2001 and \$50 million in FY 2002.

State funding of Social Security costs in fiscal 2001 may result in a smaller increase in local appropriations for education than currently forecast for fiscal 2001. Since State funding under the current expense and compensatory aid formulas in fiscal 2004 is based on average spending in the third and fourth preceding years, a smaller increase in fiscal 2001 local spending may reduce current expense and compensatory aid in fiscal 2004, thus offsetting some of the State Social Security costs in that year.

**Local Effect:** State aid to local governments would increase by \$35 million in fiscal 2001 and \$132.7 million by fiscal 2004. Local expenditures are not directly affected. However, by having the State pay a share of Social Security costs, local expenditures for primary and secondary education may be lower than they would be under current law in the future. This assumes that the local appropriations for the school systems would have been higher than required by the local maintenance of effort provision.

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**Information Source(s):** Department of Legislative Services

**Fiscal Note History:** First Reader - March 18, 1999

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