

Department of Legislative Services
 Maryland General Assembly
 2003 Session

FISCAL AND POLICY NOTE

Senate Bill 562 (Senator Middleton)
 Budget and Taxation

Adult Education and Literacy Services - State Appropriation

This bill establishes a State funding formula for adult education and literacy services effective beginning in fiscal 2006. The Governor must include an appropriation in the annual State budget to cover the State share of adult education and literacy services as determined by the funding formula. The Maryland State Department of Education (MSDE) must report to the Governor and the General Assembly on or before September 30, 2009 on the effectiveness of the method for calculating the State appropriation for adult education and literacy services. In addition, the bill enables State adult education and literacy funds to be used for GED testing.

The bill takes effect July 1, 2003.

Fiscal Summary

State Effect: General fund expenditures could increase by \$3.2 million beginning in FY 2006 and by \$30.0 million in FY 2010, when the funding requirements are completely phased in. Revenues would not be affected.

(\$ in millions)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	0	3.2	9.1	15.6
Net Effect	\$0	\$0	(\$3.2)	(\$9.1)	(\$15.6)

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

Local Effect: Local agencies providing adult education services would receive a significant increase in State funding. Local expenditures would not be directly affected.

Small Business Effect: Meaningful. Small businesses in Maryland would benefit from increased literacy skills of current and prospective employees.

Analysis

Current Law: The State provides funding for adult education services through four programs: adult general education, external diploma program, literacy works grant, and adult education and literacy works. The State does not use a statutory formula to determine the level of funding for adult education and literacy programs.

Background: A task force was established at the 2001 session to study adult education services in Maryland. The task force determined that there is a significant need for adult education services in Maryland, with 700,000 to 900,000 adults without a high school diploma or lacking the skills to speak English well. Current adult education programs serve between 36,000 to 38,000 individuals annually, or 5% of the individuals in need. The demand for literacy services varies across Maryland. Statewide about 20% of adults function at the lowest literacy level; however, this percentage ranges from 10% in Carroll and Frederick counties to 38% in Baltimore City.

Chapter 185 of 2002 required MSDE to distribute competitive grants for adult education services according to the State plan for adult education and family literacy. MSDE was required to develop and submit the methodology for determining the need and cost of adult education instruction to the Legislative Policy Committee by September 15, 2002. MSDE presented a method to calculate the adult education State appropriation to the Legislative Policy Committee on November 15, 2002. MSDE recommended that an asset to needs determination be used to calculate the annual funding appropriation for adult education. Due to the State's current fiscal condition, MSDE recommended that the funding method be phased in over five years and then re-evaluated.

State Funding for Adult Education Services

State funding for adult education services totals \$2.4 million in fiscal 2003 and 2004 and federal funding totals approximately \$6.6 million in fiscal 2003 and \$8.2 million in fiscal 2004. The State's support for adult education totals approximately \$45 per student, which is lower than any state along the East Coast. State funding totals \$132 per student in Virginia and \$610 per student in Delaware. **Exhibit 1** shows the level of State and federal funding for adult education by program and **Exhibit 2** shows the level of State funding in relation to other states on the East Coast.

Exhibit 1
State and Federal Funding for Adult Continuing Education
Fiscal 2003 and 2004

<u>State Funding</u>	<u>FY 2003</u>	<u>FY 2004</u>
Adult General Education	\$161,703	161,703
External Diploma Program	281,070	281,070
Literacy Works Grant	810,829	810,829
Bridge to Excellence Funds	1,100,020	0
Adult Education and Literacy Works	0	1,100,020
<i>Subtotal – State Funding</i>	<i>\$2,353,622</i>	<i>\$2,353,622</i>
Federal Funding		
Adult Education – State-Administered Basic Grant Program	\$6,595,172	\$8,173,185
Total Funding	\$8,948,794	\$10,526,807

Exhibit 2
State Funding for Adult Education Services – Fiscal 2001

<u>State</u>	<u>Total Funding</u>	<u>Per Student Funding</u>	<u>State</u>	<u>Total Funding</u>	<u>Per Student Funding</u>
Florida	\$240,579,467	\$602	Maine	\$4,100,000	\$418
New York	104,300,000	538	West Virginia	2,743,941	122
Massachusetts	37,000,000	1,506	Washington D.C.	2,500,000	884
North Carolina	30,504,068	197	New Jersey	2,448,000	55
Pennsylvania	17,979,000	384	Vermont	2,419,927	546
South Carolina	16,333,227	123	Delaware	2,000,000	610
Georgia	10,000,000	93	Maryland	1,253,000	45
Connecticut	7,920,000	286	New Hampshire	500,000	91
Virginia	4,124,106	132	Rhode Island	450,000	57

Source: MSDE Survey of States, U.S. Department of Education

Economic Impact of Adult Education Services

Individuals who leave school without a high school diploma pay a substantial penalty throughout their lives. About 16% of the State's adult population do not have a high school diploma. A family headed by a high school dropout earned about 50% less than a family headed by an individual with a high school diploma. Over 50% of current public assistance recipients were dropouts and only 11% of dropouts were able to find a full-time job paying more than a poverty wage.

State Fiscal Effect: Pursuant to this legislation, State funding for adult education services is based on a funding formula that incorporates both the need and cost for adult education services. The proposed funding formula is based on the number of individuals registered in the federal and State adult education program during the second prior fiscal year multiplied by the cost of instruction. The cost of instruction includes the expenditures necessary for providing an individual with literacy instruction. The cost of instruction is determined by multiplying the cost of providing one hour of adult education and literacy instruction to an individual student during the second prior fiscal year by 100 hours. It is assumed that 100 hours is the minimum number of instructional hours required to make significant progress in literacy skills during a semester.

The State share of the formula (State share target) is determined by subtracting the sum of federal and local funding for adult education and literacy programs from the total formula funding amount. State funding is phased in over five years from 20% of the State share target in fiscal 2006 to 100% in fiscal 2010.

If the proposed formula was fully funded in fiscal 2004, State funding for adult education and literacy would increase from \$2.4 million to \$27.0 million, an increase of \$24.6 million. **Exhibit 3** shows the projected cost if the proposed formula was fully funded in fiscal 2004. This estimate is based on the following: (1) cost for 100 hours of adult education instruction totaled \$1,070 in fiscal 2002, as reported by MSDE in the report submitted to the Legislative Policy Committee; (2) approximately 38,000 individuals receive adult education and literacy services; and (3) \$13.7 million in nonState funding was provided for adult education and literacy services. The nonState funding amount includes the fiscal 2001 amount for local funding and the fiscal 2002 amount for federal funding.

Exhibit 3
Projected Increase in State Funding if Formula
Fully Funded in Fiscal 2004

Cost of Instruction	\$1,070
Enrollment	38,000
Total Program Amount	\$40,660,000
Federal Funds	\$8,012,864
Local Funds	<u>\$5,661,470</u>
Non-State Funds	\$13,674,334
State Share Target	\$26,985,666
Existing State Funding	<u>\$2,353,622</u>
Increased State Funding	\$24,632,044

Since the funding requirements are phased in over a five-year period beginning in fiscal 2006, State expenditures would only increase by \$3.2 million in fiscal 2006. **Exhibit 4** shows the projected funding increase over the five-year period. This estimate is based on the following assumptions: (1) enrollment in adult education and literacy programs will increase by 2% annually; (2) the cost of instruction will increase by the consumer price index; (3) nonState funding for adult education and literacy will increase by 5% annually; and (4) existing State funding for adult education and literacy will remain constant.

Exhibit 4
Projected Increased State Funding for Adult Education and Literacy

FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
20%	40%	60%	80%	100%
\$3.2 million	\$9.1 million	\$15.6 million	\$22.6 million	\$30.0 million

Small Business Effect: Both national and State employers indicate that they have a need for increased basic skills in their workers. The *American Management Association's Annual Survey of Workplace Testing* found that 36% of job applicants tested by major U.S. firms in 1998 lacked the reading and math skills to do the job they sought. This is up from 23% in 1997 and 19% in 1996. Employers overwhelmingly reported increased profits and other bottom line benefits when their employees gained basic skills that enabled them to work more effectively. Benefits reported included improved work

quality, better team performance, improved capacity to cope with change and ability to use new technology, and a reduction in errors and waste.

Additional Information

Prior Introductions: None.

Cross File: HB 648 (Delegate Hixson, *et al.* – Ways and Means) is designated as a cross file, but the two bills are substantially different. HB 648 incorporates a completely different funding mechanism to determine the State appropriation for adult education and literacy services.

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

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ncs/jr

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