

Department of Legislative Services
 Maryland General Assembly
 2004 Session

FISCAL AND POLICY NOTE
Revised

House Bill 901

(Delegate Hixson, *et al.*)

Ways and Means

Budget and Taxation

Education - Geographic Cost of Education Index - Funding

This bill adjusts State education aid under the foundation program to account for regional differences in the cost of education that are due to factors outside of the control of local jurisdictions. The adjustment is phased in from fiscal 2005 to 2009. The bill also requires the Maryland State Department of Education (MSDE) to update the geographic cost of education adjustments by September 1, 2006 and every three years thereafter. The updates must use the most recent data available and must employ the same methodology that was used to devise the adjustments in the bill. During the legislative session that follows each update, MSDE must submit legislation to change the cost adjustments for the upcoming fiscal year. If the legislation is not enacted, the geographic cost of education adjustments that are in law must be used to adjust State aid under the foundation program.

The bill takes effect July 1, 2004.

Fiscal Summary

State Effect: General fund expenditures would increase by \$49.2 million in FY 2005 due to the addition of regional cost adjustments to foundation aid. Future year expenditure increases reflect projected growth in the foundation program and the five-year phase-in schedule for cost adjustments. Revenues would not be affected.

(\$ in millions)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	49.2	66.2	83.6	104.5	123.3
Net Effect	(\$49.2)	(\$66.2)	(\$83.6)	(\$104.5)	(\$123.3)

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

Local Effect: State aid to local school systems would increase by \$49.2 million in FY 2005 and by an estimated \$123.3 million in FY 2009. The additional funding would be provided to local school systems where educational resources are more expensive due to factors outside the control of local jurisdictions.

Small Business Effect: Minimal.

Analysis

Current Law: For fiscal 2005 and each fiscal year thereafter, the State share of the foundation program must be adjusted to reflect regional differences in the cost of education that are outside the control of local jurisdictions.

Background: One of the recommendations of the Commission on Education Finance, Equity, and Excellence (Thornton Commission) was to adjust State aid to reflect regional differences in the cost of education that are outside the control of local jurisdictions. The Thornton Commission defined adequate funding as revenues sufficient to acquire the resources needed to reasonably expect that students can meet the State's academic performance standards. Because these resources cost different amounts in different places, the Thornton Commission recommended that State aid be adjusted to account for the variations. However, the commission did not believe that an acceptable geographic cost of education index (GCEI) existed at the time it was completing its work. The commission recommended that the Maryland State Department of Education (MSDE) contract with a private entity to develop a Maryland-specific index to be used to adjust State aid beginning in fiscal 2005. This recommendation was codified in the Bridge to Excellence in Public Schools Act of 2002.

Prior to the release of the report on regional cost differences, MSDE requested a letter from the Office of the Attorney General explaining the mandate on funding for regional differences in the cost of education. The Attorney General reviewed the statute enacted in the Bridge to Excellence Act and suggested that the wording was too unclear to establish a funding mandate. Although MSDE included \$47.3 million for the adjustments in its budget request, State aid to reflect regional differences in the cost of education was not included in the proposed fiscal 2005 State budget.

The consultants hired by MSDE submitted a final report entitled *Adjusting for Regional Differences in the Cost of Educational Provision in Maryland* on December 31, 2003. The report includes a GCEI with index values that range from 0.948 in Garrett County to 1.048 in Prince George's County. **Exhibit 1** shows the index that appears in the report.

Exhibit 1
Geographic Cost of Education Index
Simple and Weighted Averages

<u>County</u>	<u>Index</u>
Allegany	0.959
Anne Arundel	1.018
Baltimore City	1.042
Baltimore	1.008
Calvert	1.021
Caroline	1.000
Carroll	1.014
Cecil	0.989
Charles	1.020
Dorchester	0.978
Frederick	1.024
Garrett	0.948
Harford	0.992
Howard	1.015
Kent	1.010
Montgomery	1.034
Prince George's	1.048
Queen Anne's	1.011
St. Mary's	1.002
Somerset	0.973
Talbot	0.991
Washington	0.974
Wicomico	0.971
Worcester	0.959

State and Local Fiscal Effect: Mandated general fund expenditures for State education aid would increase by \$49.2 million in fiscal 2005 and by an estimated \$123.3 million in fiscal 2009. Thirteen jurisdictions would receive the additional funding from the State from fiscal 2005 to 2007. Prior to fiscal 2008, the cost factors would be adjusted to reflect more recent demographic data, and the number of school systems receiving additional aid could increase or decrease. The report prepared by the consultants who developed the Maryland-specific GCEI showed only minimal year-to-year changes in the index.

State aid increases for fiscal 2005 and estimates of the increases for fiscal 2006 to 2009 are shown in **Exhibit 2**. Although the bill requires the cost adjustments to be modified prior to fiscal 2008, the estimates in the exhibit for fiscal 2008 and 2009 assume the same geographic cost adjustments that are specified in the bill.

Additional Information

Prior Introductions: None.

Cross File: SB 752 (Senator Currie, *et al.*) – Budget and Taxation.

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

Fiscal Note History: First Reader - March 8, 2004
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Exhibit 2
Geographic Cost of Education Adjustments
Fiscal 2005 to 2009
(\$ in thousands)

<u>County</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Allegany	\$0	\$0	\$0	\$0	\$0
Anne Arundel	3,254	4,347	5,447	6,822	8,017
Baltimore City	9,337	12,306	15,255	18,723	21,720
Baltimore	2,074	2,782	3,509	4,379	5,133
Calvert	884	1,213	1,560	1,984	2,358
Caroline	0	0	0	0	0
Carroll	987	1,337	1,699	2,138	2,542
Cecil	0	0	0	0	0
Charles	1,228	1,672	2,143	2,714	3,240
Dorchester	0	0	0	0	0
Frederick	2,259	3,072	3,927	4,994	6,004
Garrett	0	0	0	0	0
Harford	0	0	0	0	0
Howard	1,745	2,377	3,037	3,850	4,595
Kent	60	80	101	122	140
Montgomery	11,420	15,436	19,560	24,659	29,253
Prince George's	15,719	21,243	26,852	33,562	39,589
Queen Anne's	195	264	335	416	493
St. Mary's	77	105	134	168	200
Somerset	0	0	0	0	0
Talbot	0	0	0	0	0
Washington	0	0	0	0	0
Wicomico	0	0	0	0	0
Worcester	0	0	0	0	0
Total	\$49,240	\$66,235	\$83,558	\$104,531	\$123,285