

Department of Legislative Services
 Maryland General Assembly
 2004 Session

FISCAL AND POLICY NOTE

House Bill 992 (Delegate Healey, *et al.*)
 Ways and Means

Education - Funding due to Regional Differences in the Cost of Education

This emergency bill requires the fiscal 2005 State budget to include \$47.4 million to reflect regional differences in the cost of education that are due to factors outside the control of local jurisdictions. Beginning in fiscal 2006, the State share of the foundation program must be adjusted to reflect regional differences in the cost of education in accordance with the geographic cost of education index (GCEI) developed for Maryland.

Fiscal Summary

State Effect: General fund expenditures would increase by \$47.4 million in FY 2005. Future year expenditures would depend on the methodology used to incorporate the Maryland-specific GCEI into State aid distributions. 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	47.4	-	-	-	-
Net Effect	(\$47.4)	\$0	\$0	\$0	\$0

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

Local Effect: State aid to local school systems would increase by \$47.4 million in FY 2005. The funding would be provided to local school systems where educational resources are more expensive due to factors outside the control of local jurisdictions. Beginning in FY 2006, State aid to local school systems would be adjusted to reflect regional differences in the cost of education in accordance with the GCEI developed for Maryland.

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 index 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. The authors of the report suggest several ways that the index could be incorporated into Maryland's State aid framework.

At a January 30, 2004 hearing, the consultants presented their findings to the House Committee on Appropriations, the House Committee on Ways and Means, and the Senate Budget and Taxation Committee. **Exhibit 1** shows two versions of the index, one that was presented at the hearing and in the final report and a second that centers the index on a statewide average rather than a simple of average of the 24 index values. At the same hearing that the consultants reported their results, the chairs of the committees asked the State Superintendent of Schools to recommend a methodology for implementing the GCEI within the State aid framework.

Exhibit 1
Geographic Cost of Education Indices
Using Simple and Weighted Averages

<u>County</u>	<u>Simple Average Index*</u>	<u>Weighted Average Index**</u>
Allegany	0.959	0.941
Anne Arundel	1.018	0.998
Baltimore City	1.042	1.023
Baltimore	1.008	0.988
Calvert	1.021	1.000
Caroline	1.000	0.979
Carroll	1.014	0.993
Cecil	0.989	0.970
Charles	1.020	1.000
Dorchester	0.978	0.961
Frederick	1.024	1.004
Garrett	0.948	0.930
Harford	0.992	0.971
Howard	1.015	0.994
Kent	1.010	0.993
Montgomery	1.034	1.011
Prince George's	1.048	1.026
Queen Anne's	1.011	0.988
St. Mary's	1.002	0.983
Somerset	0.973	0.958
Talbot	0.991	0.971
Washington	0.974	0.955
Wicomico	0.971	0.950
Worcester	0.959	0.941

* From *Adjusting for Regional Differences in the Cost of Educational Provision in Maryland*.

** From consultant letter to MSDE dated February 9, 2004.

The \$47.4 million required in the bill was derived from a Department of Legislative Services (DLS) estimate that employed a projected index to estimate fiscal 2005 State aid. At the January 30, 2004 hearing, DLS acknowledged that the projected index it had been using bears little resemblance to the Maryland-specific index developed by the consultants.

State and Local Fiscal Effect: State aid for certain local school systems would increase by \$47.4 million in fiscal 2005 as a result of the bill, but it is unclear how the additional funding would be allocated to local school systems. Two approaches to using the GCEI have been proposed this year, and the method that is being used to adjust fiscal 2004 aid could also be considered for continuation. None of the three methods amount to exactly \$47.4 million, but two are close to that funding level. The methodology for each of the three approaches is detailed below, and the fiscal impact of each method, using fiscal 2005 foundation aid figures, is also shown. Although future fiscal years are not estimated, aid adjustments shown in the tables would increase (and in some cases decrease) in proportion to overall increases in the foundation program.

- ***Maryland State Department of Education Proposal***

As requested by the chairs of the House Committee on Appropriations, the House Committee on Ways and Means, and the Senate Budget and Taxation Committee, MSDE recommended a method for using the GCEI. The approach uses the simple average GCEI and makes upwards adjustments to the State share of the foundation program for jurisdictions with index values above 1.0 and downwards adjustments to the State share of the foundation program for jurisdictions with index values below 1.0. MSDE also recommended that the approach be phased in over a period of five years. Upwards adjustments would be phased in at a rate of 60% in fiscal 2005, 80% in fiscal 2006, and 100% in fiscal 2007. Downwards adjustments would be phased in 20% per year over the next five fiscal years.

This method would increase general fund expenditures by \$29.4 million in fiscal 2005. If the method is fully implemented in fiscal 2005, it would cost \$44.6 million, an amount that is similar to the funding proposed in this legislation. The impact of the proposal on each local school system, under the proposed phase-in and when it is fully phased in, is shown in **Exhibit 2**.

Exhibit 2
Maryland State Department of Education Proposal for GCEI
Impact on Foundation Program Aid
Fiscal 2005

<u>County</u>	<u>With Proposed Phase-in</u>		<u>When Fully Phased in</u>	
	<u>Total</u>	<u>Per Pupil</u>	<u>Total</u>	<u>Per Pupil</u>
Allegany	(\$258,717)	(\$27)	(\$1,325,925)	(\$140)
Anne Arundel	1,525,204	21	2,495,788	34
Baltimore City	8,194,350	92	13,766,507	155
Baltimore	1,207,932	12	1,932,691	18
Calvert	615,080	35	993,591	57
Caroline	0	0	0	0
Carroll	646,975	22	1,132,205	39
Cecil	(98,817)	(6)	(543,495)	(34)
Charles	884,970	35	1,474,950	59
Dorchester	(55,216)	(12)	(303,684)	(66)
Frederick	1,477,370	38	2,532,635	66
Garrett	(129,249)	(28)	(672,095)	(145)
Harford	(223,347)	(6)	(893,385)	(23)
Howard	878,535	18	1,464,225	31
Kent	27,570	11	45,950	19
Montgomery	3,227,491	24	5,486,734	40
Prince George's	11,951,979	89	19,782,586	148
Queen Anne's	108,472	15	170,457	23
St. Mary's	45,474	3	90,947	6
Somerset	(47,479)	(17)	(256,388)	(91)
Talbot	0	0	0	0
Washington	(286,833)	(14)	(1,491,532)	(75)
Wicomico	(267,504)	(19)	(1,292,935)	(90)
Worcester	0	0	0	0
Total	\$29,424,240	\$35	\$44,589,827	\$53

- *Senate Bill 197 Proposal*

SB 197, Public Education Bridge to Excellence – Funding – Video Lottery Terminals, includes a supplementary appropriation that would be used to fund a fiscal 2005 adjustment to the foundation program for regional differences in the cost of education. The approach uses the simple average GCEI and makes upwards adjustments to the full foundation program amount for jurisdictions with index values above 1.0. Jurisdictions with index values below 1.0 would receive no adjustments. The bill proposes to phase in the adjustments from fiscal 2005 to 2009. In fiscal 2005, 50% of the additional funding calculated in the approach would be provided, and the percentage would increase each year until it reaches 100% in fiscal 2009.

With the proposed phase-in, this method would increase general fund expenditures by \$49.2 million in fiscal 2005, an amount that is similar to the funding proposed in this legislation. If the method is fully implemented in fiscal 2005, it would cost \$98.5 million. The impact of the proposal on each local school system, under the proposed phase-in and when it is fully phased in, is shown in **Exhibit 3**.

Exhibit 3
SB 197 Proposal for GCEI
Impact on Foundation Program Aid
Fiscal 2005

<u>County</u>	<u>With Proposed Phase-in</u>		<u>When Fully Phased in</u>	
	<u>Total</u>	<u>Per Pupil</u>	<u>Total</u>	<u>Per Pupil</u>
Allegany	\$0	\$0	\$0	\$0
Anne Arundel	3,254,348	45	6,508,695	89
Baltimore City	9,336,950	105	18,673,899	211
Baltimore	2,073,952	20	4,147,904	40
Calvert	884,214	51	1,768,428	102
Caroline	0	0	0	0
Carroll	986,612	34	1,973,223	69
Cecil	0	0	0	0
Charles	1,228,376	49	2,456,752	98
Dorchester	0	0	0	0
Frederick	2,259,327	58	4,518,653	117
Garrett	0	0	0	0
Harford	0	0	0	0
Howard	1,745,464	37	3,490,928	73
Kent	60,298	25	120,595	50
Montgomery	11,420,168	83	22,840,336	167
Prince George's	15,718,832	117	31,437,663	234
Queen Anne's	194,847	27	389,694	53
St. Mary's	76,629	5	153,258	10
Somerset	0	0	0	0
Talbot	0	0	0	0
Washington	0	0	0	0
Wicomico	0	0	0	0
Worcester	0	0	0	0
Total	\$49,240,014	\$58	\$98,480,028	\$116

- ***Fiscal 2004 Methodology***

Foundation program aid is being adjusted in fiscal 2004 based on an index developed for the National Center for Education Statistics. The index was weighted and is being used to make upwards adjustments to the State share of the foundation program for jurisdictions with index values greater than 1.0. In fiscal 2004, the inclusion of the adjustments increases State aid for four local school systems by a total of \$19.9 million.

To replicate this methodology with the Maryland-specific index, the weighted index developed by the consultants would be employed. The method would increase general fund expenditures by \$20.5 million in fiscal 2005. No phase-in is assumed under this option. The impact of the proposal on each of the four local school systems that would receive adjustments is shown in **Exhibit 4**.

Exhibit 4
GCEI Adjustments Using Fiscal 2004 Methodology
Impact on Foundation Program Aid
Fiscal 2005

<u>County</u>	<u>Total</u>	<u>Per Pupil</u>
Baltimore City	\$7,538,802	\$85
Frederick	422,106	11
Montgomery	1,775,120	13
Prince George's	<u>10,715,568</u>	80
Total	\$20,451,596	\$24

Additional Information

Prior Introductions: None.

Cross File: None.

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