

Department of Legislative Services
Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE

House Bill 993
Ways and Means

(Delegate Owings, *et al.*)

Education - Bridge to Excellence in Public Schools Act - Funding Increases

This bill limits increases in State education aid under the Bridge to Excellence in Public Schools Act to the rate of growth in State resources. If increases in State resources outpace the growth in calculated Bridge to Excellence State aid, the full amount of State aid is provided. If increases in Bridge to Excellence State aid outpace growth in State resources, aggregate State aid is reduced to equal the growth in State resources, and State aid allocations to local school systems are reduced proportionally. If Bridge to Excellence State aid is reduced in this manner, future year increases are calculated off the lower base. The requirement that the General Assembly pass a joint resolution to continue with the phase-in of the Bridge to Excellence formulas is also repealed.

Fiscal Summary

State Effect: General fund expenditures would decrease by an estimated \$189.5 million in FY 2005. Future year expenditure reductions reflect projected increases in State resources of approximately 4% per year. 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	(189.5)	(405.3)	(617.5)	(898.6)	(872.9)
Net Effect	\$189.5	\$405.3	\$617.5	\$898.6	\$872.9

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

Local Effect: State aid for local school systems would decrease by an estimated \$189.5 million in FY 2005 due to the limitation in State aid increases. State aid reductions would peak in FY 2008 at \$898.6 million.

Small Business Effect: None.

Analysis

Current Law: The Maryland Constitution requires the State to provide a “thorough and efficient” system of free public schools and provide for their maintenance through taxation or otherwise.

State education funding formulas enacted under the Bridge to Excellence Act are being phased in from fiscal 2004 to 2008. The formulas have statutory phase in schedules that provide for increases of approximately 10% per year through fiscal 2008. In order for full funding for the formulas to be provided in fiscal 2005, the General Assembly must pass a joint resolution by the fiftieth day of the 2004 legislative session affirming that the additional aid is within the State’s resources. However, an emergency bill that repealed the provision requiring the joint resolution, HB 345, was enacted on March 5, 2004.

Before each legislative session, the Bureau of Revenue Estimates is required to submit to the Board of Revenue Estimates a report that contains an itemized statement of the estimated State revenues from all sources for the fiscal year that will follow the session. In practice, the Board of Revenue Estimates submits the report, and the report does not contain estimates of revenues from all sources. The report contains estimates of general fund revenues and revenues from some of the larger special funds.

Background: The Bridge to Excellence in Public Schools Act was signed into law on May 6, 2002, promising increases in State funding for education of approximately \$2 billion over the next six years. The Act was based on the recommendations of the Commission on Education Finance, Equity, and Excellence, better known as the Thornton Commission, which met for two years and submitted a final report in January 2002. The commission’s recommendations and the Bridge to Excellence Act were based on the following principles.

- *Adequacy:* Local school revenues should be sufficient to enable schools to acquire the resources they need to reasonably expect that students can meet academic performance standards.
- *Equity:* In a system of shared State and local responsibility for education funding, the State should distribute aid in a way that gives every local school system an opportunity to acquire adequate resources.
- *Fluidity:* State aid formulas should naturally adjust each fiscal year to reflect changes in local enrollments, needs, and wealth.
- *Simplicity:* The State’s school finance system should reflect adequacy concepts as simply as possible, with as few State aid programs as possible.

- *Accountability:* Schools and local school systems should be held accountable for student performance outcomes.
- *Flexibility:* Local school systems should have the flexibility to decide how funding can be best used to serve the local student population.

The federal No Child Left Behind Act (NCLB), enacted in the same month the Thornton Commission's final report was released, mirrored the goals of the Bridge to Excellence Act and elevated the importance of adequate education funding. NCLB requires all states to assess students at regular intervals and hold schools accountable for the performance of all students. NCLB requires schools to attain 100% proficiency among students by the 2013-2014 school year.

The State's inability to identify new revenues to fund the State aid enhancements prescribed by the Bridge to Excellence Act has brought funding for the new finance structure into question. **Exhibit 1** compares fiscal 2002 and estimated fiscal 2008 State aid for education to actual and projected general fund revenues during the same fiscal years.

Exhibit 1
State Education Aid and General Fund Revenues
Fiscal 2002 and 2008
(\$ in millions)

	<u>Actual</u> <u>FY 2002</u>	<u>Projected</u> <u>FY 2008*</u>	<u>\$ Increase</u>	<u>% Increase</u>
State Education Aid	\$2,886	\$4,806	\$1,920	66.5%
General Fund Revenues	9,504	11,697	2,193	23.1%

* Fiscal 2008 State aid projection does not include adjustments to account for regional differences in the cost of education. Funding for the adjustments could add \$50 million to \$100 million to the fiscal 2008 State aid projection.

State Expenditures: General fund expenditures would decrease by an estimated \$189.5 million in fiscal 2005. The amount of the reduction would increase to an estimated \$898.6 million by fiscal 2008, when the savings to the State would most likely peak. These estimates are based on the following information and assumptions.

- The proposed fiscal 2005 State budget includes a 9.8% increase in State funding for public education, including an 11.4% increase in the Bridge to Excellence formulas.
- Estimated State resources from all sources are not readily available. In their place, estimated increases in general fund revenues are employed as a proxy. General fund revenues are projected to increase by 4.5% from fiscal 2004 to 2005, meaning growth in Bridge to Excellence State aid would likewise be limited to 4.5%.
- From fiscal 2006 to 2009, general fund revenues are projected to increase by approximately 4% per year. Projections assume no new revenue sources would be identified and implemented during this time frame.
- Increases in Bridge to Excellence State aid are expected to outpace growth in revenues from fiscal 2006 to 2008. In fiscal 2009, revenues are expected to increase more than State aid, but because State aid would be calculated from a lower base amount, State aid would still be an estimated \$873 million below current law projections.

Projected savings for the State under this legislation are shown in **Exhibit 2**. The exhibit divides State aid estimates into direct aid, which goes directly to local school systems, and retirement payments, which are paid on behalf of local school systems. Retirement is paid by the State according to the salary base of professional school personnel in the second prior fiscal year. Assuming a substantial portion of direct aid pays for professional salaries, decreasing direct aid to local school systems in from fiscal 2005 2009 would affect retirement payments in fiscal 2007 to 2011.

Exhibit 2
Total Estimated State Education Aid
Fiscal 2005 to 2009
(\$ in millions)

	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
<i>Current Law</i>					
Direct Aid	\$3,242	\$3,591	\$3,927	\$4,328	\$4,427
Retirement	<u>403</u>	<u>424</u>	<u>450</u>	<u>478</u>	<u>506</u>
Total	\$3,645	\$4,015	\$4,377	\$4,806	\$4,933
Incr from prior yr	9.8%	10.2%	9.0%	9.8%	2.6%
<i>HB 993</i>					
Direct Aid	\$3,052	\$3,185	\$3,321	\$3,454	\$3,590
Retirement	<u>403</u>	<u>424</u>	<u>438</u>	<u>454</u>	<u>470</u>
Total	\$3,455	\$3,610	\$3,759	\$3,908	\$4,060
Incr from prior yr	4.1%	4.5%	4.2%	3.9%	3.9%
Total Savings	\$190	\$405	\$617	\$899	\$873

Note: State aid estimates do not include adjustments to account for regional differences in the cost of education.

The bill also repeals the requirement that the General Assembly pass a joint resolution in order to proceed with full implementation of the Bridge to Excellence formulas. HB 345, an emergency bill that has the same effect, was enacted on March 5, 2004.

Local Revenues: Local school revenues from State aid would decrease by an estimated \$190 million in fiscal 2005 and by an estimated \$899 million in fiscal 2008, when current estimates show that the revenue loss would peak. **Exhibits 3 through 8** detail the aid that would be provided through this legislation to each local school system from fiscal 2005 to 2009.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - March 8, 2004
ncs/hlb

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Exhibit 3
Total Estimated State Education Aid Under HB 993
Fiscal 2005 to 2009
(\$ in millions)

<u>County</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Allegany	\$53.0	\$55.0	\$57.6	\$59.0	\$60.4
Anne Arundel	215.4	218.2	222.6	229.4	235.8
Baltimore City	647.2	668.9	691.1	717.4	740.2
Baltimore	376.6	392.1	410.3	427.6	442.6
Calvert	63.8	67.5	70.5	73.1	75.9
Caroline	28.8	29.8	31.1	32.0	33.1
Carroll	106.3	110.0	112.6	115.1	119.5
Cecil	70.6	73.6	76.3	79.2	82.8
Charles	101.4	105.6	109.7	112.6	117.6
Dorchester	22.2	22.9	23.2	23.4	23.9
Frederick	138.7	144.1	148.6	153.5	161.5
Garrett	21.1	21.3	21.2	20.9	21.0
Harford	151.7	154.3	155.4	156.8	158.3
Howard	142.8	148.9	154.1	159.9	166.9
Kent	9.2	9.3	9.7	9.4	9.4
Montgomery	343.1	362.5	385.8	410.4	432.1
Prince George's	650.8	696.8	741.4	782.7	823.9
Queen Anne's	23.0	23.5	23.8	23.5	24.1
St. Mary's	64.4	67.9	69.2	70.3	73.0
Somerset	16.5	17.6	18.9	19.8	20.6
Talbot	10.6	10.8	10.8	10.1	10.4
Washington	83.7	86.0	88.0	90.3	93.2
Wicomico	69.4	72.6	76.8	80.4	84.5
Worcester	16.8	17.1	17.1	16.6	17.0
Total	\$3,455.3	\$3,609.5	\$3,759.4	\$3,907.7	\$4,060.4

Exhibit 4
Estimated Per Pupil State Education Aid Under HB 993
Fiscal 2005 to 2009

<u>County</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Allegany	\$5,593	\$5,863	\$6,273	\$6,558	\$6,851
Anne Arundel	2,957	3,022	3,094	3,211	3,324
Baltimore City	7,301	7,698	8,150	8,632	9,047
Baltimore	3,588	3,740	3,942	4,149	4,354
Calvert	3,668	3,808	3,932	4,063	4,223
Caroline	5,588	5,805	6,117	6,327	6,622
Carroll	3,694	3,797	3,885	3,955	4,091
Cecil	4,374	4,556	4,694	4,841	5,065
Charles	4,029	4,133	4,256	4,333	4,495
Dorchester	4,850	5,080	5,203	5,342	5,597
Frederick	3,588	3,682	3,756	3,821	3,996
Garrett	4,555	4,679	4,735	4,754	4,904
Harford	3,886	3,989	4,049	4,142	4,230
Howard	2,993	3,083	3,163	3,256	3,396
Kent	3,805	3,888	4,181	4,193	4,320
Montgomery	2,504	2,638	2,801	2,973	3,128
Prince George's	4,853	5,193	5,557	5,887	6,249
Queen Anne's	3,154	3,213	3,297	3,251	3,283
St. Mary's	4,035	4,256	4,325	4,365	4,532
Somerset	5,896	6,218	6,696	7,057	7,397
Talbot	2,495	2,536	2,605	2,511	2,635
Washington	4,212	4,346	4,452	4,575	4,747
Wicomico	4,854	5,084	5,409	5,668	5,961
Worcester	2,555	2,635	2,651	2,628	2,725
Total	\$4,076	\$4,262	\$4,456	\$4,648	\$4,858

Exhibit 5
Estimated Annual Increases in State Education Aid Under HB 993
Fiscal 2005 to 2009
(\$ in millions)

<u>County</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Allegany	\$1.0	\$2.0	\$2.6	\$1.4	\$1.4
Anne Arundel	(4.0)	2.9	4.3	6.8	6.4
Baltimore City	21.3	21.8	22.1	26.3	22.8
Baltimore	21.6	15.5	18.3	17.3	15.0
Calvert	2.0	3.6	3.0	2.7	2.8
Caroline	0.2	1.0	1.3	0.9	1.2
Carroll	3.6	3.6	2.6	2.5	4.4
Cecil	4.4	3.0	2.7	2.9	3.7
Charles	4.7	4.2	4.1	2.9	5.0
Dorchester	0.3	0.7	0.3	0.3	0.5
Frederick	4.6	5.4	4.5	4.9	8.0
Garrett	0.0	0.3	(0.1)	(0.3)	0.1
Harford	3.3	2.7	1.1	1.4	1.5
Howard	2.4	6.1	5.2	5.8	6.9
Kent	0.0	0.1	0.3	(0.3)	(0.0)
Montgomery	12.1	19.4	23.3	24.6	21.7
Prince George's	42.2	46.0	44.6	41.3	41.1
Queen Anne's	(0.4)	0.5	0.3	(0.3)	0.5
St. Mary's	2.3	3.6	1.3	1.1	2.6
Somerset	0.5	1.0	1.3	0.9	0.8
Talbot	0.3	0.1	(0.0)	(0.6)	0.3
Washington	3.5	2.3	2.0	2.3	2.9
Wicomico	4.9	3.2	4.3	3.5	4.1
Worcester	0.9	0.3	0.0	(0.5)	0.4
Total	\$134.9	\$154.2	\$149.9	\$148.3	\$152.7

Exhibit 6
Estimated Annual Increases in Per Pupil State Education Aid Under HB 993
Fiscal 2005 to 2009

<u>County</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Allegany	\$184	\$270	\$410	\$285	\$293
Anne Arundel	(33)	64	72	117	113
Baltimore City	401	397	452	482	415
Baltimore	218	152	202	207	204
Calvert	47	139	124	131	160
Caroline	67	216	312	210	295
Carroll	104	103	88	70	136
Cecil	235	183	138	146	224
Charles	139	104	123	77	162
Dorchester	93	230	123	138	256
Frederick	87	94	74	65	175
Garrett	38	124	56	19	150
Harford	110	103	60	93	88
Howard	14	90	80	92	140
Kent	39	82	293	12	128
Montgomery	79	134	163	172	155
Prince George's	302	339	364	330	362
Queen Anne's	(72)	59	84	(46)	32
St. Mary's	53	220	70	39	167
Somerset	168	322	478	361	340
Talbot	79	41	69	(94)	123
Washington	192	134	106	123	172
Wicomico	367	229	325	260	293
Worcester	122	80	16	(23)	97
Total	\$161	\$186	\$194	\$192	\$210

Exhibit 7
Total Estimated Difference in State Education Aid Under HB 993
Fiscal 2005 to 2009
(\$ in millions)

<u>County</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Allegany	(\$3.1)	(\$6.7)	(\$10.2)	(\$14.7)	(\$14.1)
Anne Arundel	(11.4)	(23.5)	(34.9)	(50.2)	(48.0)
Baltimore City	(36.9)	(78.2)	(118.0)	(171.4)	(164.9)
Baltimore	(20.0)	(42.6)	(65.2)	(95.1)	(91.9)
Calvert	(3.6)	(7.8)	(11.9)	(17.3)	(16.8)
Caroline	(1.7)	(3.6)	(5.5)	(7.9)	(7.7)
Carroll	(6.0)	(12.7)	(18.9)	(27.0)	(26.2)
Cecil	(4.1)	(8.7)	(13.2)	(19.2)	(18.8)
Charles	(5.9)	(12.5)	(19.0)	(27.3)	(26.7)
Dorchester	(1.3)	(2.7)	(4.0)	(5.7)	(5.5)
Frederick	(8.0)	(17.0)	(25.6)	(37.0)	(36.4)
Garrett	(1.2)	(2.5)	(3.7)	(5.0)	(4.7)
Harford	(8.7)	(18.0)	(26.4)	(37.2)	(34.9)
Howard	(7.5)	(16.0)	(24.2)	(35.2)	(34.3)
Kent	(0.5)	(1.0)	(1.5)	(2.1)	(1.9)
Montgomery	(16.2)	(35.1)	(55.3)	(83.3)	(82.4)
Prince George's	(37.2)	(82.1)	(127.7)	(188.8)	(185.6)
Queen Anne's	(1.3)	(2.6)	(3.9)	(5.4)	(5.1)
St. Mary's	(3.7)	(8.1)	(12.0)	(17.0)	(16.5)
Somerset	(1.0)	(2.2)	(3.4)	(5.0)	(4.9)
Talbot	(0.5)	(1.1)	(1.6)	(2.0)	(1.9)
Washington	(4.8)	(10.1)	(15.1)	(21.6)	(20.9)
Wicomico	(4.1)	(8.7)	(13.6)	(19.9)	(19.6)
Worcester	(0.8)	(1.7)	(2.5)	(3.3)	(3.1)
Total	(\$189.5)	(\$405.3)	(\$617.5)	(\$898.6)	(\$872.9)

Exhibit 8
Estimated Difference in Per Pupil State Education Aid Under HB 993
Fiscal 2005 to 2009

<u>County</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Allegany	(\$330)	(\$711)	(\$1,116)	(\$1,634)	(\$1,596)
Anne Arundel	(156)	(326)	(486)	(703)	(676)
Baltimore City	(416)	(900)	(1,392)	(2,062)	(2,016)
Baltimore	(190)	(406)	(626)	(923)	(904)
Calvert	(207)	(440)	(665)	(962)	(935)
Caroline	(328)	(700)	(1,084)	(1,572)	(1,541)
Carroll	(209)	(438)	(653)	(928)	(895)
Cecil	(253)	(541)	(815)	(1,177)	(1,152)
Charles	(234)	(490)	(738)	(1,051)	(1,019)
Dorchester	(282)	(605)	(908)	(1,305)	(1,280)
Frederick	(207)	(434)	(647)	(921)	(901)
Garrett	(262)	(550)	(814)	(1,142)	(1,102)
Harford	(222)	(466)	(688)	(982)	(933)
Howard	(158)	(331)	(497)	(716)	(699)
Kent	(198)	(418)	(663)	(921)	(885)
Montgomery	(119)	(256)	(402)	(603)	(597)
Prince George's	(278)	(612)	(957)	(1,420)	(1,408)
Queen Anne's	(174)	(362)	(542)	(741)	(698)
St. Mary's	(233)	(504)	(748)	(1,053)	(1,023)
Somerset	(352)	(765)	(1,210)	(1,788)	(1,752)
Talbot	(124)	(254)	(379)	(495)	(486)
Washington	(241)	(510)	(762)	(1,096)	(1,063)
Wicomico	(285)	(612)	(955)	(1,406)	(1,386)
Worcester	(127)	(267)	(387)	(523)	(504)
Total	(\$224)	(\$479)	(\$732)	(\$1,069)	(\$1,044)
