Department of Legislative Services
Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE

House Bill 560 (Delegates Hixson and Conway)
Ways and Means

Education - State Aid for Public Elementary and Secondary Education - Trigger Provision - Repeal

This emergency bill repeals the requirement that the General Assembly affirm by joint resolution that State education aid for the upcoming fiscal year is within the State's fiscal resources when education aid for the current fiscal year exceeds 31.5% of the State's general fund revenues. The bill also repeals the requirement that the Department of Legislative Services (DLS) calculate and report the percentage of projected general fund revenues that State education aid comprises.

Fiscal Summary

State Effect: Although the bill would repeal some of the General Assembly's authority to reduce general fund expenditures for education, the bill would not increase spending for public elementary and secondary education beyond the current estimates.

Local Effect: The bill would repeal one method for reducing State aid to local school systems but would not increase State aid.

Small Business Effect: None.

Analysis

Current Law: By January 14 of each year, DLS must calculate State aid for education as a percentage of projected general fund revenues for the current fiscal year. If the State aid exceeds 31.5% of general funds, the per pupil foundation amount for the upcoming fiscal year may not increase by more than 8% over the current fiscal year per pupil amount unless the General Assembly passes a joint resolution affirming that the additional State aid is within the State's resources.

Background: A limitation on growth in the per pupil foundation amount was initially codified in 1984 with the enactment of legislation that phased in increases in State aid over a period of several fiscal years. Although the State has enacted legislation to enhance education aid several times over the last 20 years, only minor changes to the trigger mechanism have been made. The most recent restructuring of State education aid was enacted through the Bridge to Excellence in Public Schools Act of 2002. The significant annual increases in State aid that the legislation requires and limited growth in general fund revenues have resulted in calculations in excess of the 31.5% threshold in fiscal 2004 and again in the current fiscal year, the first two times since the trigger mechanism was established that this has happened. **Exhibit 1** shows the comparisons of State aid and general funds that were prepared by DLS for fiscal 2003 to 2005 and the projected calculations for fiscal 2006 to 2010. The exhibit shows that State aid is expected to exceed 31.5% of general fund revenues for the foreseeable future.

Exhibit 1
State Education Aid as a Percent of General Fund Revenues
Fiscal 2003 to 2010
($ in Millions)

	State Aid for Education	General Funds	Aid as a Percent of GFs
DLS FY 2003 Calculation	$3,121	$10,178	30.7%
DLS FY 2004 Calculation	3,431	10,329	33.2%
DLS FY 2005 Calculation	3,759	11,406	33.0%
Estimated FY 2006	4,171	11,538	36.1%
Estimated FY 2007	4,666	12,304	37.9%
Estimated FY 2008	5,185	12,497	41.5%
Estimated FY 2009	5,369	13,031	41.2%
Estimated FY 2010	5,564	13,598	40.9%

Note: General fund estimates for fiscal 2006 to 2010 are from *Maryland Operating Budget* (fiscal 2006) and exclude opening fund balance. Estimates of State aid for fiscal 2007 to 2010 are from the Department of Legislative Services and assume that the geographic cost of education index (GCEI) will be funded as prescribed in statute and that debt service for public school construction will increase by 10% per year.

Last year exceeding the 31.5% threshold was not an issue because the per pupil foundation amount was scheduled to increase by only 5.5% from fiscal 2004 to 2005, less than the 8% limitation that is imposed if no joint resolution is passed. From fiscal 2005 to 2006, however, the per pupil foundation amount is scheduled to increase by 9.3%. The fiscal 2006 per pupil foundation amount, therefore, could be reduced by the General Assembly if the required joint resolution is not passed. The per pupil foundation levels, including the future amounts with and without the 8% limit, are shown in **Exhibit 2**. The exhibit shows that growth in the per pupil foundation amount is expected to exceed 8% in just two of the next five years, fiscal 2006 and 2008. After the Bridge to Excellence Act is fully implemented in fiscal 2008, increases in the per pupil foundation amount will be based entirely on inflationary increases, which explains the relatively modest growth in the projected fiscal 2009 and 2010 foundation levels.

Exhibit 2
Per Pupil Foundation Amounts
Fiscal 2006 to 2010

	Full Amounts		If Limited to 8% Growth	
Fiscal Year	Per Pupil Foundation Amount	Increase from Prior Year	Per Pupil Foundation Amount	Increase from Prior Year
2004	$4,766			
2005	5,039	5.5%		
2006	$5,497	9.3%	$5,431	8.0%
2007	5,840	6.2%	5,840	7.5%
2008	6,314	8.1%	6,307	8.0%
2009	6,451	2.2%	6,451	2.3%
2010	6,589	2.1%	6,589	2.1%

In the 2004 session the General Assembly repealed the "Thornton trigger," which would have limited growth in each county's aid to 5% unless a joint resolution affirming the State's ability to pay for the required increases was passed. In removing the Thornton trigger, the legislature relied in part on the view of the Attorney General that the trigger mechanism was constitutionally suspect because it relied upon a joint resolution not subject to veto by the Governor, rather than a bill, to make policy. The Office of the

Attorney General has provided a memorandum of law which raises similar constitutional concerns with the 31.5% trigger.

State Expenditures: The proposed fiscal 2006 State budget includes funding for education based on the full per pupil foundation amount of $5,497, so eliminating the requirement that the General Assembly pass a joint resolution would not impact the budget as proposed. Likewise, expenditure estimates for future fiscal years by the Department of Budget and Management assume that the per pupil foundation amount will be fully funded. The bill, therefore, would not have a direct impact on State finances.

However, if the 8% cap on the per pupil foundation amount is implemented in fiscal 2006, the foundation level would be reduced from $5,497 to $5,431 per pupil and general fund expenditures would decrease by an estimated $37.3 million. The reduction would affect the foundation program, as well as several other State education aid programs that use the per foundation amount to calculate aid. The fiscal 2006 impact of a reduction in the per pupil foundation amount is shown in **Exhibit 3**.

Exhibit 3
Effects of Limiting Per Pupil Foundation Amount to 8% Increase
Fiscal 2006
($ in Thousands)

County	Total	County	Total
Allegany	($603,017)	Harford	($1,802,241)
Anne Arundel	(2,148,906)	Howard	(1,487,652)
Baltimore City	(6,724,012)	Kent	(80,157)
Baltimore	(4,075,183)	Montgomery	(3,089,711)
Calvert	(724,861)	Prince George's	(7,598,587)
Caroline	(322,293)	Queen Anne's	(240,048)
Carroll	(1,207,090)	St. Mary's	(763,178)
Cecil	(811,189)	Somerset	(189,963)
Charles	(1,198,994)	Talbot	(93,035)
Dorchester	(251,581)	Washington	(1,043,766)
Frederick	(1,679,700)	Wicomico	(801,562)
Garrett	(218,633)	Worcester	(144,294)

Total: ($37,299,653)

If the 8% limitation on growth in the per pupil foundation amount continues into fiscal 2007 and 2008, fiscal 2007 State aid would rebound to the full expected level but fiscal 2008 aid would again be subject to reduction. However, the potential fiscal 2008 general fund savings would be relatively small because, as shown in Exhibit 2 above, the per pupil foundation amount would only be reduced by $7. Unless inflation exceeds 8%, maintaining the limitation would not affect funding levels after fiscal 2008.

Additional Information

Prior Introductions: None.

Cross File: SB 939 (Senator Currie) – Rules.

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

Fiscal Note History: First Reader - March 2, 2005
ncs/rhh

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