

Department of Legislative Services  
Maryland General Assembly  
2005 Session

FISCAL AND POLICY NOTE  
Revised

House Bill 703

(Delegate Bozman, *et al.*)

Ways and Means

Budget and Taxation

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Education - Geographic Cost of Education Index - Calculation of Grant

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This bill requires the Maryland State Department of Education (MSDE) to update the geographic cost of education index (GCEI) adjustments every three years using the most recent available data. MSDE must submit the proposed updated GCEI adjustments to the Governor and the General Assembly by September 1 every third year beginning September 1, 2006 and must recommend legislation to implement the updated adjustments at the legislative sessions following the updates.

The bill takes effect July 1, 2005.

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Fiscal Summary

**State Effect:** General fund expenditures would increase by an estimated \$50,000 to \$100,000 in FY 2006 to contract for the development of updates to the GCEI adjustments. Similar expenditure increases would be incurred again in FY 2009 and every three years thereafter. Revenues would not be affected.

**Local Effect:** None.

**Small Business Effect:** None.

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Analysis

**Current Law:** GCEI adjustments for each school system are established in statute and updates to the adjustments are not required. The GCEI formula provides additional State aid to school systems where the cost of educational resources is above the State average. Funding for the formula is discretionary.

**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 the cost of these resources may vary by jurisdiction, the Thornton Commission recommended that State aid be adjusted to account for the variations. However, the commission did not believe that an acceptable 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 consultant 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.

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. The index was used to establish a discretionary GCEI adjustment formula that was set in statute last year. The formula increases aid for counties with above average costs (*i.e.*, GCEI values greater than 1.0) but does not reduce aid for counties that have below average costs (*i.e.*, GCEI values less than 1.0).

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**Exhibit 1**  
**Geographic Cost of Education Index**

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

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

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The largest component of the GCEI developed for Maryland was professional school personnel costs, which account for approximately 80% of spending in public school systems. GCEI values for professional school personnel were derived statistically based on variation in four local factors that were found to impact the level of teacher and school personnel salaries in the jurisdictions: the percentage of students eligible for free and reduced price meals, the violent crime rate, the proportion of the working population that commutes more than 60 miles to work, and the average housing value. The GCEI final report notes that the adjustments were fairly stable over the four-year period examined by the authors. However, the final report recommends that the data used in the GCEI model be updated every three to five years and that re-estimates of the entire model be conducted on a less frequent basis.

Funding for GCEI adjustments, which would have cost \$53.6 million in fiscal 2006, is not included in the proposed State budget.

**State Expenditures:** The cost of the contract to develop the GCEI that is currently being used was approximately \$198,000, and another \$25,000 was spent on a technical review of the study. However, this bill only requires updates on the data that were used in the study, not a recalculation of the model itself. It is estimated that general fund expenditures of \$50,000 to \$100,000 would be incurred in fiscal 2006 and every three years thereafter to contract for regular updates to the existing GCEI model.

Some components of the current GCEI could be updated by existing MSDE personnel with readily available data. For example, updated percentages of students eligible for free and reduced price meals and violent crime rates could be incorporated into the existing model annually without additional costs. The proportion of the working population commuting more than 60 miles to work is a census measure, and can only be updated every 10 years. However, the formula for using average housing value data is too complicated to assume that updates could be made to the formula without outside input and study.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Department of Legislative Services

**Fiscal Note History:** First Reader - March 1, 2005  
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