

Department of Legislative Services
 Maryland General Assembly
 2005 Session

FISCAL AND POLICY NOTE

Senate Bill 169 (Senators Miller and Hogan)
 Budget and Taxation

Adult Education and Literacy Waiting List Reduction Fund

This bill establishes an Adult Education and Literacy Waiting List Reduction Fund and a subtraction modification under State personal and corporate income taxes for contributions to the fund. The bill states that it is the intent of the General Assembly that the Maryland State Department of Education (MSDE) actively seek contributions for the fund in order to reduce waiting lists for adult education and literacy services. The funding must be distributed by MSDE as Literacy Works Grants and may not be used to supplant funding otherwise provided in the State budget.

The bill takes effect July 1, 2005 and is applicable to all tax years after December 31, 2004.

Fiscal Summary

State Effect: General fund and Transportation Trust Fund (TTF) revenues would decrease in accordance with donations made to the Adult Education and Literacy Waiting List Reduction Fund. General fund expenditures would increase by an estimated \$65,400 in FY 2006 to hire a fund-raising specialist at MSDE. Future year expenditures reflect annualization, salary increases, and inflation. Adult Education and Literacy Waiting List Reduction Fund expenditures would increase commensurate with donations to the fund.

(in dollars)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Revenue	(-)	(-)	(-)	(-)	(-)
SF Revenue	(-)	(-)	(-)	(-)	(-)
GF Expenditure	65,400	82,600	86,900	91,500	96,400
SF Expenditure	-	-	-	-	-
Net Effect	(\$65,400)	(\$82,600)	(\$86,900)	(\$91,500)	(\$96,400)

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

Local Effect: Local school revenues from Literacy Works Grants would increase commensurate with donations to the Adult Education and Literacy Waiting List Reduction Fund. To leverage State grants, local school expenditures would increase by 33% of the donations made to the fund. Local income tax and highway user revenues would decline in accordance with donations to the fund.

Small Business Effect: Potential minimal. Small businesses in Maryland would benefit from increased literacy skills of current and prospective employees.

Analysis

Current Law: MSDE must distribute competitive grants for adult education services in accordance with the State Plan for Adult Education and Family Literacy. The grants must be based on need and performance and may be used for GED instruction, the Maryland Adult External High School Program, English for Speakers of other languages, family literacy, and basic skills and literacy instruction. Funding for the grants must be provided in the State budget.

The State's personal income tax rate for most taxpayers is 4.75%, and local income tax rates range from 1.25% to 3.20%. The corporate income tax rate is 7%.

Background: A task force was established at the 2001 session to study adult education services in Maryland. The task force determined that there is a significant need for adult education services in Maryland, with 700,000 to 900,000 adults who have not earned a high school diploma or lack the skills to speak English well. Current adult education programs serve between 36,000 and 38,000 individuals annually, or 5% of the individuals in need. The demand for literacy services varies across Maryland. Statewide about 20% of adults function at the lowest literacy level; however, this percentage ranges from 10% in Carroll and Frederick counties to 38% in Baltimore City.

Chapter 185 of 2002 required MSDE to distribute competitive grants for adult education services according to the State plan for adult education and family literacy. MSDE was required to submit a methodology for determining the need and cost of adult education instruction to the Legislative Policy Committee by September 15, 2002. In its presentation to the committee, MSDE recommended that existing funding for adult education be compared to current needs to calculate an annual State appropriation. Using this approach, MSDE estimated that an additional \$36.1 million would be needed to serve all individuals currently receiving or seeking services. Due to the State's fiscal condition,

MSDE recommended that the funding method be phased in over five years and then re-evaluated.

State funding for adult education services totals \$2.4 million in fiscal 2005, and federal funding totals approximately \$7.4 million. The proposed fiscal 2006 State budget includes a stable amount of funding from both sources. State funding for adult education was most recently enhanced in fiscal 2003 with the enactment of the Bridge to Excellence in Public Schools Act of 2002, which increased the tobacco tax and provided \$1.1 million for adult education. State funding has been stable since then. **Exhibit 1** shows the fiscal 2005 and 2006 levels of State and federal funding for adult education, by program.

Exhibit 1
State and Federal Funding for Adult Continuing Education
Fiscal 2005 and 2006

State Funding

Adult General Education	\$161,703
External Diploma Program	281,070
Literacy Works Grant	810,829
Adult Education and Literacy Works	<u>1,100,020</u>
<i>Subtotal – State Funding</i>	\$2,353,622

Federal Funding

Adult Ed – State-Administered Basic Grants	\$7,448,618
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Total Funding **\$9,802,240**

Source: *Maryland Operating Budget Book, Fiscal Year 2006*

MSDE advises that there were 4,925 individuals on adult education waiting lists as of December 31, 2004. Budget language in the 2004 *Joint Chairmen’s Report* expressed the General Assembly’s concern about the number of individuals on the waiting list for adult education services and required MSDE to submit a proposal for an ongoing adult education funding method by November 15, 2004. MSDE requested an extension in December 2004 and was given until March 15, 2005 to submit the proposal.

State Revenues: General fund and TTF revenues would decrease depending on the amount contributed to the Adult Education and Literacy Waiting List Reduction Fund. For every \$100,000 contributed by personal income taxpayers, general fund revenues

would decrease by approximately \$4,750. For every \$100,000 contributed by corporate income taxpayers, general fund revenues would decrease by \$5,320 and TTF revenues would decrease by \$1,680. Local governments receive 30% of TTF revenues as local highway user revenues, meaning the net loss in State TTF revenues would be \$1,176 for every \$100,000 contributed.

Donations to the Adult Education and Literacy Waiting List Reduction Fund and the associated revenue losses cannot be reliably estimated.

State Expenditures: General fund expenditures could increase by an estimated \$65,375 in fiscal 2006, which accounts for the bill's July 1, 2005 effective date and a 90-day start-up delay. This estimate reflects the cost of hiring one staff specialist at MSDE to develop and implement a fund-raising campaign. A salary, fringe benefits, one-time start-up costs, and ongoing operating expenses are included in the estimate.

Salary and Fringe Benefits	\$54,376
Operating Expenses	<u>10,999</u>
Total FY 2006 State Expenditures	\$65,375

Future year expenditures reflect: (1) a full salary with 4.6% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

Special fund expenditures to provide Literacy Works Grants to local jurisdictions would increase commensurate with donations made to the Adult Education and Literacy Waiting List Reduction Fund. The funding would be distributed to local jurisdictions as Literacy Works Grants, which employ a 75% State and 25% local split. For every \$100,000 contributed to the fund, approximately 265 additional adult students could be served. This assumes that State funding would equal approximately \$376 per student. Combined with the required local match of \$126 per student, per pupil spending would equal \$502, the same as the fiscal 2002 spending per adult education student served.

Local Fiscal Effect: Local income tax and highway user revenues would decrease depending on the total amount contributed to the Adult Education and Literacy Waiting List Reduction Fund. For every \$100,000 donated to the fund by personal income taxpayers, local income tax revenues would decrease by approximately \$3,100. For every \$100,000 donated to the fund by corporate income taxpayers, local highway user revenues would decrease by \$504. The amount of donations that would be accepted for the fund cannot be reliably estimated.

State aid to local school systems for adult education would increase by the amount of the donations made to the Adult Education and Literacy Waiting List Reduction Fund. For every \$100,000 in additional State aid provided through the grants, local school expenditures would increase by \$33,000.

Small Business Effect: Both national and State employers indicate that they have a need for increased basic skills in their workers. The *American Management Association's Annual Survey of Workplace Testing* found that 36% of job applicants tested by major U.S. firms in 1998 lacked the reading and math skills to do the job they sought. This is up from 23% in 1997 and 19% in 1996. Employers overwhelmingly reported increased profits and other bottom line benefits when their employees gained basic skills that enabled them to work more effectively. Benefits reported included improved work quality, better team performance, improved capacity to cope with change and ability to use new technology, and a reduction in errors and waste.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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