

**Department of Legislative Services**  
 Maryland General Assembly  
 2006 Session

**FISCAL AND POLICY NOTE**  
**Revised**

Senate Bill 4

(Senator Currie, *et al.*)

Budget and Taxation

Ways and Means

**Education - Geographic Cost of Education Index - Funding**

This bill changes the Geographic Cost of Education Index (GCEI) formula from a discretionary State aid program to a mandated State aid program and moves the start of the five-year phase-in schedule for the formula to fiscal 2009. In addition, the bill requires the Maryland State Department of Education to update the GCEI adjustments every three years using the most recent available data and the same methodology that was used to develop the current GCEI. MSDE must submit the proposed updated GCEI adjustments to the Governor and the General Assembly by September 1 every third year beginning September 1, 2009 and must recommend legislation to implement the updated adjustments at the legislative session that follows the update.

The bill takes effect July 1, 2006.

**Fiscal Summary**

**State Effect:** Mandated general fund expenditures would increase by an estimated \$64.6 million in FY 2009 to provide funding for the first year of the GCEI formula phase-in and to contract for an update to the GCEI. Future year expenditure estimates reflect the continuation of the phase-in schedule, projected enrollment changes, and inflation. Revenues would not be affected.

(\$ in millions)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	0	64.6	81.4	99.1
Net Effect	\$0	\$0	(\$64.6)	(\$81.4)	(\$99.1)

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

**Local Effect:** Local school revenues from State aid would increase by an estimated \$64.5 million in FY 2009 and by approximately \$139.8 million in FY 2013 when the

phase in of the GCEI formula would be complete. The additional State aid would be shared by 13 local school systems.

**Small Business Effect:** Minimal.

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## Analysis

**Current Law:** The GCEI formula is established in statute but is not mandated. The discretionary formula phases in from fiscal 2006 to 2010.

**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 Geographic 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 in 2004 and would phase up from 50% in fiscal 2006 to 100% in fiscal 2010. 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). Funding for the GCEI formula was not provided in fiscal 2006 and is not included in the approved fiscal 2007 State budget.

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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 Geographic Differences in the Cost of Educational Provision in Maryland*

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**State Expenditures:** General fund expenditures would increase by an estimated \$64.5 million in fiscal 2009. The funding would be distributed to local school systems in accordance with the GCEI formula, which provides additional education aid to 13 of the 24 local school systems. Funding levels would increase annually through fiscal 2013 as the formula phases in. After fiscal 2013, GCEI funding levels would only be affected by enrollment changes and inflation. GCEI funding projections for the 13 local school systems that would receive additional State aid are shown in **Exhibit 2**. Although it is not reflected in the exhibit, the GCEI adjustments used in the formula would be updated in time for use in the fiscal 2011 calculation of GCEI funding. If legislation is enacted to change the GCEI adjustments, it could affect the funding level and funding distribution for the GCEI formula beginning in fiscal 2011.

**Exhibit 2**  
**GCEI Formula Funding**  
**Fiscal 2009 to 2013**  
**(\$ in Thousands)**

<b><u>School System</u></b>	<b><u>FY 2009</u></b>	<b><u>FY 2010</u></b>	<b><u>FY 2011</u></b>	<b><u>FY 2012</u></b>	<b><u>FY 2013</u></b>
Phase-in Percent	50%	62%	74%	86%	100%
Anne Arundel	\$4,294	\$5,441	\$6,645	\$7,890	\$9,428
Baltimore City	11,235	13,899	16,559	19,255	22,656
Baltimore	2,714	3,424	4,164	4,922	5,851
Calvert	1,222	1,558	1,908	2,278	2,715
Carroll	1,341	1,700	2,077	2,473	2,955
Charles	1,740	2,235	2,758	3,305	3,979
Frederick	3,187	4,084	5,044	6,049	7,303
Howard	2,425	3,091	3,785	4,515	5,390
Kent	72	88	104	122	144
Montgomery	15,538	19,783	24,347	29,124	34,976
Prince George's	20,384	25,638	31,082	36,722	43,552
Queen Anne's	275	353	435	524	635
St. Mary's	<u>107</u>	<u>137</u>	<u>169</u>	<u>203</u>	<u>245</u>
<b>Total</b>	<b>\$64,533</b>	<b>\$81,431</b>	<b>\$99,079</b>	<b>\$117,383</b>	<b>\$139,829</b>

In addition to the cost of funding the GCEI formula, general fund expenditures would be required to update the GCEI adjustments every three years. The cost of the contract to develop the existing Maryland-specific GCEI was approximately \$198,000, and another \$25,000 was spent on a technical review of the study. However, the bill only requires updates to the GCEI using the same methodology that was used to develop the current index. It is estimated that general fund expenditures of approximately \$100,000 would be incurred in fiscal 2009 and every three years thereafter to contract for the required updates to the existing GCEI model.

**Local Revenues:** Local school revenues from State aid would increase by an estimated \$64.5 million in fiscal 2009 and by an estimated \$139.8 million in fiscal 2013. The projected funding increases for the 13 school systems that would be affected by the bill are shown in Exhibit 2.

**Additional Comments:** Because of the change in the phase-in schedule, the GCEI formula proposed in this bill would cost less to fund than the formula currently in statute if it were funded in the budget. The difference between the current formula and the

proposed formula represents an estimated \$93.3 million in fiscal 2008, \$46.5 million in fiscal 2009, \$49.9 million in fiscal 2010, \$34.8 million in fiscal 2011, and \$19.1 million in fiscal 2012.

Both the proposed and current formula are phased in at 100% by fiscal 2013, so there would be no difference in the formula calculations after fiscal 2012.

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### **Additional Information**

**Prior Introductions:** A similar bill was introduced last year as HB 899. The bill received a hearing in the House Ways and Means Committee, but the committee took no action on the bill.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - January 30, 2006  
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