

Department of Legislative Services
 Maryland General Assembly
 2007 Special Session

FISCAL AND POLICY NOTE

House Bill 49 (Delegate King)
 Ways and Means

Education - Geographic Cost of Education Index - Funding

This bill wealth-equalizes the calculation of the Geographic Cost of Education Index (GCEI) formula by applying the GCEI adjustments to the State share of the foundation program, rather than both the State and local shares of the foundation program. The GCEI formula is also changed from a discretionary State aid program to a mandated State aid program, and a three-year phase in of the program is scheduled for fiscal 2009 to 2011.

The bill takes effect January 1, 2008.

Fiscal Summary

State Effect: General fund expenditures would increase by an estimated \$20.6 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 to be completed by September 2009. Future year expenditure estimates reflect the continuation of the phase-in schedule, projected enrollment changes, inflation, and contractual costs every three years for GCEI updates. Relative to current estimates of GCEI funding there would be a savings of \$19.5 million in FY 2009 and \$69.1 million in FY 2012. Revenues would not be affected.

(\$ in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	20.6	42.1	71.5	73.1
Net Effect	\$0	(\$20.6)	(\$42.1)	(\$71.5)	(\$73.1)

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 \$20.5 million in FY 2009 and by approximately \$73.0 million in FY 2012. The additional State aid would be shared by 13 local school systems.

Small Business Effect: None.

Analysis

Bill Summary: In addition to the formula changes, the bill requires the Maryland State Department of Education (MSDE) 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 adjustments. 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.

Current Law: A GCEI formula amount is calculated for each school system based on total funding required for the foundation program, the State's largest education aid formula. The foundation program calculates both a State and a local share of basic per pupil education costs using a formula that is tied to local wealth. The less wealthy counties receive greater State shares of the per pupil amount, while more wealthy counties receive lower State shares of the amount.

The GCEI formula is established in statute but is not mandated. The discretionary formula phases in from fiscal 2006 to 2010. No updates to the GCEI adjustments are required.

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 for public schools 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 by applying cost adjustments to the State share of the foundation program. However, the commission did not believe that an acceptable GCEI existed at the time it was completing its work. The commission recommended that 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. The index combines several indices created by the consultants to measure regional differences in the costs of professional personnel, nonprofessional personnel, and energy.

To measure differences in professional personnel costs – the largest component of local school board budgets and therefore the largest component of the GCEI – a hedonic approach was used. This methodology assumes that you could pay employees less to work in more desirable locations and would have to pay employees more to work in less desirable locations. Desirability was measured in three areas: local cost-of-living, local working conditions, and local quality of life. Several variables were tested in each of these areas, and through a series of statistical analyses, the variables that were ultimately chosen by the consultants were housing prices (a cost-of-living measure), the percentage of students eligible for free and reduced price meals (working conditions), and violent crime rate and percentage of commuters who travel over 60 minutes to get to work (quality of life).

Separate indices were developed for nonprofessional personnel salaries and energy costs, and supply and equipment costs were assumed to be the same for all school systems. The different indices were then weighted according to their relative budget shares in order to produce the Maryland-specific GCEI shown in **Exhibit 1**.

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*

State Expenditures: If the GCEI is funded in the fiscal 2009 State budget, general fund expenditures for the formula would increase by an estimated \$20.5 million. The funding would be distributed to local school systems in accordance with the formula calculation, which provides additional education aid to 13 of the 24 local school systems. Beginning in fiscal 2010, funding for the GCEI formula would be mandated and would increase from an estimated \$42.1 million in fiscal 2010 to an estimated \$73.0 million in fiscal 2012.

In addition to the cost of funding the GCEI formula, general fund expenditures would increase 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 2012, and every three years thereafter, to contract for the required updates to the existing GCEI model.

Consistent with the Administration’s stated intent to include funding for the GCEI formula in the proposed fiscal 2009 State budget, Department of Legislative Services (DLS) budget estimates assume a three-year phase in of the GCEI formula beginning in fiscal 2009. Relative to current DLS projections, this bill represents savings of \$19.5 million in fiscal 2009 and \$69.2 million in fiscal 2012. The cost estimates for this bill as they relate to current DLS assumptions are shown in **Exhibit 2**.

Exhibit 2
Comparison of House Bill 49 and DLS Estimated GCEI
Fiscal 2009 to 2012

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
HB 49 GCEI Formula	\$20.5	\$42.1	\$71.5	\$73.0
HB 49 Contract for GCEI Updates	<u>0.1</u>	<u>0.0</u>	<u>0.0</u>	<u>0.1</u>
HB 49 Total Cost	\$20.6	\$42.1	\$71.5	\$73.1
Current DLS GCEI Estimates	40.1	82.1	139.4	142.2
HB 49 Impact	(\$19.5)	(\$40.0)	(\$67.9)	(\$69.1)

Local Revenues: Local school revenues from State aid would increase by an estimated \$20.5 million in fiscal 2009 and by an estimated \$73.0 million in fiscal 2012 due to the

funding of the GCEI formula. GCEI funding projections for the 13 local school systems that would receive additional State aid are shown in **Exhibit 3**, and per pupil funding projections are shown in **Exhibit 4**. 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 would affect the funding level and funding distribution for the GCEI formula beginning in fiscal 2011.

Exhibit 3
GCEI Formula Funding
Fiscal 2009 to 2012
(\$ in Thousands)

<u>County</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
Anne Arundel	\$974	\$1,965	\$3,339	\$3,349
Baltimore City	5,150	10,361	17,239	17,338
Baltimore	842	1,740	2,985	3,089
Calvert	426	870	1,471	1,503
Carroll	478	973	1,643	1,670
Charles	683	1,427	2,457	2,526
Frederick	1,156	2,397	4,130	4,244
Howard	652	1,336	2,266	2,268
Kent	14	24	38	36
Montgomery	2,125	4,457	7,804	8,152
Prince George's	7,924	16,286	27,708	28,455
Queen Anne's	72	149	250	255
St. Mary's	<u>41</u>	<u>85</u>	<u>146</u>	<u>152</u>
Total	\$20,535	\$42,070	\$71,476	\$73,035

Note: Fiscal 2011 and 2012 estimates do not reflect potential changes to the GCEI adjustments.

Exhibit 4
Per Pupil GCEI Formula Funding
Fiscal 2009 to 2012

<u>County</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
Anne Arundel	\$14	\$28	\$47	\$47
Baltimore City	67	139	237	242
Baltimore	8	17	30	31
Calvert	25	51	86	87
Carroll	17	35	58	59
Charles	26	54	91	93
Frederick	29	58	100	101
Howard	13	27	46	47
Kent	7	12	20	18
Montgomery	16	33	57	59
Prince George's	64	133	227	234
Queen Anne's	9	19	32	32
St. Mary's	3	5	9	9

Note: Fiscal 2011 and 2012 estimates do not reflect potential changes to the GCEI adjustments.

Although the bill would mandate funding for the GCEI beginning in fiscal 2010, the bill represents a decrease from current estimates of GCEI aid. **Exhibit 5** shows the estimated level of reduction each school system would sustain using the GCEI formula proposed in this bill rather than the expected GCEI funding level.

Exhibit 5
Difference Between GCEI Funding Under House Bill 49 and
GCEI Funding Assumed in DLS Budget Projections
Fiscal 2009 to 2012
(\$ in Thousands)

<u>County</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
Anne Arundel	(\$1,739)	(\$3,595)	(\$6,170)	(\$6,359)
Baltimore City	(1,793)	(3,558)	(5,860)	(5,796)
Baltimore	(860)	(1,741)	(2,927)	(2,955)
Calvert	(331)	(688)	(1,185)	(1,226)
Carroll	(357)	(741)	(1,275)	(1,318)
Charles	(419)	(869)	(1,497)	(1,548)
Frederick	(873)	(1,823)	(3,159)	(3,289)
Howard	(884)	(1,839)	(3,177)	(3,295)
Kent	(31)	(64)	(109)	(112)
Montgomery	(7,568)	(15,530)	(26,454)	(27,061)
Prince George's	(4,598)	(9,299)	(15,612)	(15,740)
Queen Anne's	(103)	(215)	(374)	(391)
<u>St. Mary's</u>	<u>(27)</u>	<u>(56)</u>	<u>(96)</u>	<u>(99)</u>
Total	(\$19,582)	(\$40,016)	(\$67,894)	(\$69,190)

Note: Fiscal 2011 and 2012 estimates do not reflect potential changes to the GCEI adjustments.

Additional Information

Prior Introductions: Several bills that would have mandated funding for the GCEI have been introduced over the last three regular sessions, but none have been successful. Some of the prior introductions have altered the phase-in of the GCEI, but none have proposed applying GCEI adjustments to only the State share of the foundation program.

Cross File: None.

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

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ncs/rhh

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