

Department of Legislative Services
 Maryland General Assembly
 2008 Session

FISCAL AND POLICY NOTE

House Bill 738 (Delegate Stocksdales, et al.)
 Ways and Means

State Aid for Education - Full-Time Equivalent Enrollment - Calculation

This bill requires that average daily attendance (ADA) from the previous school year be used as the enrollment measure for purposes of calculating State education aid.

The bill takes effect July 1, 2008 and affects State aid calculations beginning in fiscal 2010.

Fiscal Summary

State Effect: General fund expenditures would decrease by an estimated \$40.1 million in FY 2010 due to the use of a lower student enrollment count in the calculation of State education aid. Future year expenditure reductions reflect inflation and projected decreases in teachers' retirement beginning in FY 2012. Revenues would not be affected.

(\$ in millions)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	(40.1)	(43.1)	(49.7)	(55.3)
Net Effect	\$0	\$40.1	\$43.1	\$49.7	\$55.3

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

Local Effect: Local school revenues from State aid would decrease by an estimated \$40.1 million in FY 2010 due to the change in the calculation of student enrollment. Required local funding for public school systems would also decline beginning in FY 2010.

Small Business Effect: None.

Analysis

Current Law: Student enrollment counts from September 30 of the prior school year are used in the calculation of State education aid formulas.

In fiscal 2009 and 2010, local school systems are guaranteed at least 1% annual increases in State education aid. If, after calculating State aid under the major formulas, a school system's increase is less than 1%, a supplemental grant is provided to the school system to bring its aid level up to the required minimum.

Background: ADA is a relatively simple calculation that averages the number of students actually attending school each school day over an entire school year. An ADA enrollment calculation results in a lower student count than the one that is currently used because of normal excused student absences, as well as truancy. In the 2005-2006 school year, the student enrollment count as of September 30, 2005 was 860,433 while ADA for the school year was about 60,000 students lower at 800,553.

For the 2005-2006 school year, the most recent year for which data are available, MSDE reports an ADA percentage of 93.7%, meaning approximately 94 of every 100 students enrolled in public schools each day actually showed up for school. This rate varies by grade level, with prekindergarten students and secondary students having lower ADA rates than students in kindergarten through grade 6. There is also variation among the 24 local school systems. **Exhibit 1** shows the ADA percentages for local school systems, which range from 89.4% in Baltimore City to 95.8% in Washington County.

Exhibit 1
Average Daily Attendance Rates
2005-2006 School Year

Allegany	94.2%	Harford	93.8%
Anne Arundel	93.9%	Howard	95.2%
Baltimore City	89.4%	Kent	92.5%
Baltimore	94.2%	Montgomery	95.1%
Calvert	94.6%	Prince George's	93.2%
Caroline	94.4%	Queen Anne's	93.3%
Carroll	95.0%	St. Mary's	93.2%
Cecil	92.9%	Somerset	92.7%
Charles	93.9%	Talbot	95.0%
Dorchester	92.0%	Washington	95.8%
Frederick	94.2%	Wicomico	92.9%
Garrett	95.1%	Worcester	93.9%

Source: Maryland State Department of Education

State Expenditures: General fund expenditures would decrease by an estimated \$40.1 million in fiscal 2010, the first year that ADA would be used as the enrollment measure. An increase of \$147.7 million in the supplemental grants, which ensure year-over-year increases in State aid for all school systems, would partially offset decreases totaling \$187.8 million in all other State aid programs combined. The changes in each of the major State aid programs for fiscal 2010 are estimated in **Exhibit 2**. Reduced State aid levels would continue after fiscal 2010 due to the use of lower ADA enrollment counts.

Exhibit 2
Projected Changes in State Aid Programs Using Average Daily Attendance
Fiscal 2010
(\$ in Millions)

<u>Program</u>	<u>HB 738</u>	<u>Current Law</u>	<u>Change</u>
Foundation Program	\$2,575.6	\$2,748.8	(\$173.2)
Geographic Cost of Education Index	116.9	125.4	(8.5)
Supplemental Grants	188.5	40.9	147.7
Compensatory Education	915.0	917.8	(2.8)
Special Education Formula	271.2	272.1	(0.9)
Limited English Proficiency	154.3	154.9	(0.6)
Guaranteed Tax Base	103.2	104.5	(1.3)
Student Transportation	230.9	231.3	(0.4)
Other Direct Aid	<u>211.3</u>	<u>211.3</u>	<u>0.0</u>
Total Direct State Aid	\$4,555.7	\$4,595.8	(\$40.1)

Reductions in State aid beginning in fiscal 2010 could also slow the growth of teachers' retirement costs, which are paid by the State on behalf of local school systems. The majority of funding for local school systems supports personnel costs, so reducing the growth of State aid to school systems is likely to reduce the number of new personnel hired by school systems and/or reduce growth in the salaries of existing school staff. Either of these outcomes would slow growth in the professional salary bases of local school systems and reduce future retirement costs.

State payments for the teachers' retirement program are calculated using actual school system salary bases from the second prior fiscal year. Lower State aid levels beginning in fiscal 2010, therefore, would affect teachers' retirement payments beginning in fiscal 2012. The reductions are estimated at \$2.7 million in fiscal 2012 and \$2.9 million in fiscal 2013. The projected impact of the bill through fiscal 2013 is detailed in **Exhibit 3**.

Exhibit 3
Impact on General Fund Expenditures of Using Average Daily Attendance
Fiscal 2010 to 2013
(\$ in Millions)

<u>Program</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Foundation Program	(\$173.2)	(\$175.6)	(\$178.7)	(\$182.2)
Geographic Cost of Education Index	(8.5)	(8.6)	(8.7)	(8.9)
Supplemental Grants	147.7	147.7	147.7	147.7
All Other Direct Aid	<u>(6.0)</u>	<u>(6.6)</u>	<u>(7.2)</u>	<u>(8.9)</u>
GF Expenditures for Direct Aid	(\$40.1)	(\$43.1)	(\$47.0)	(\$52.3)
Teachers' Retirement	<u>\$0.0</u>	<u>\$0.0</u>	<u>(2.7)</u>	<u>(2.9)</u>
Total GF Expenditures	(\$40.1)	(\$43.1)	(\$49.7)	(\$55.3)

Local Revenues: Direct State aid for local school systems would decrease by an estimated \$40.1 million in fiscal 2010 and by an estimated \$52.3 million in fiscal 2013. The impact would not be evenly distributed across the school systems because of different ADA rates, the wealth equalization of State education aid, and the impact of the supplemental grants, which continue at the fiscal 2010 level each year after fiscal 2010. The impact of the bill on each local school system is projected in **Exhibit 4**.

Local Expenditures: To be eligible for the State share of the foundation program, each county's governing body must appropriate local funds to its local school system in an amount per student that is no less than the amount provided per student for the prior fiscal year. The student count used to determine the minimum local appropriation is the same as the count that is used to calculate State funding. Therefore, county appropriations to local school systems could decrease beginning in fiscal 2010 to reflect the revised student counts. However, counties often provide funding over the minimum required amount, and even when student enrollment is declining, counties rarely decrease their funding levels from one fiscal year to the next.

Additional Comments: Although the bill requires the use of ADA from the previous school year, ADA from the *second* prior school year would have to be used in order to have an enrollment figure in time for use in preparing the annual State budget.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - February 14, 2008
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Exhibit 4

Projected Impact on Direct State Aid of Calculating School Enrollment Using Average Daily Attendance

School System	Total Direct Aid (\$ in Thousands)				Per Pupil Direct Aid			
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2010	FY 2011	FY 2012	FY 2013
Allegany	\$0	\$8	\$15	(\$936)	\$0	\$1	\$2	(\$113)
Anne Arundel	(1,284)	(1,523)	(1,609)	(1,769)	(18)	(21)	(22)	(25)
Baltimore City	(931)	(934)	(1,514)	(2,555)	(13)	(13)	(21)	(36)
Baltimore	(5,646)	(5,927)	(6,486)	(7,144)	(57)	(60)	(65)	(71)
Calvert	(571)	(608)	(670)	(729)	(34)	(36)	(39)	(42)
Caroline	(809)	(838)	(879)	(937)	(149)	(153)	(156)	(161)
Carroll	(51)	(81)	(132)	(155)	(2)	(3)	(5)	(6)
Cecil	0	(161)	(354)	(571)	0	(10)	(22)	(34)
Charles	(3,832)	(4,010)	(4,186)	(4,375)	(145)	(151)	(156)	(161)
Dorchester	0	(46)	(79)	(149)	0	(10)	(18)	(33)
Frederick	(4,592)	(4,837)	(5,046)	(5,263)	(113)	(118)	(122)	(125)
Garrett	0	(68)	(54)	(35)	0	(16)	(13)	(9)
Harford	0	(148)	(301)	(510)	0	(4)	(8)	(13)
Howard	(2,792)	(2,837)	(2,772)	(2,652)	(57)	(58)	(57)	(54)
Kent	(4)	6	22	16	(2)	3	11	8
Montgomery	515	260	96	(93)	4	2	1	(1)
Prince George's	(16,621)	(17,567)	(18,800)	(19,925)	(137)	(145)	(156)	(166)
Queen Anne's	(172)	(189)	(228)	(273)	(23)	(25)	(29)	(34)
St. Mary's	(1,088)	(1,279)	(1,496)	(1,707)	(66)	(77)	(89)	(100)
Somerset	0	(21)	(51)	(60)	0	(8)	(19)	(22)
Talbot	0	(3)	(7)	(10)	0	(1)	(2)	(2)
Washington	(559)	(540)	(517)	(466)	(26)	(24)	(23)	(20)
Wicomico	(1,662)	(1,762)	(1,883)	(2,004)	(115)	(121)	(129)	(136)
Worcester	(8)	(12)	(20)	(26)	(1)	(2)	(3)	(4)
Total Direct Aid	(\$40,108)	(\$43,117)	(\$46,953)	(\$52,328)	(\$49)	(\$53)	(\$58)	(\$64)
Teachers' Retirement	0	0	(2,737)	(2,931)	0	0	(3)	(4)
Total Aid	(\$40,108)	(\$43,117)	(\$49,690)	(\$55,258)	(\$49)	(\$53)	(\$61)	(\$67)