

Department of Legislative Services
 Maryland General Assembly
 2009 Session

FISCAL AND POLICY NOTE

House Bill 342 (Delegate Taylor, *et al.*)
 Ways and Means

Public Education - Education Trust Fund - Use of Funds

This bill requires that expenditures from the Education Trust Fund (ETF) be additional funding for public elementary and secondary education, community colleges, and public senior higher education institutions. Specifically, ETF funding may not supplant existing funding from any source.

The bill takes effect July 1, 2009.

Fiscal Summary

State Effect: General fund expenditures may increase significantly beginning in FY 2012 to fund the mandated Bridge to Excellence increases. Revenues are not affected.

(\$ in millions)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	0	257.5	375.1	239.9
Net Effect	\$0	\$0	(\$257.5)	(\$375.1)	(\$239.9)

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

Local Effect: Beginning in FY 2012, State aid to local school systems may increase more than the funding from Bridge to Excellence formulas. Public school construction funding and State aid for community college capital projects may also increase. Actual increases depend on ETF funding decisions made by the Governor and the General Assembly.

Small Business Effect: None.

Analysis

Current Law: ETF is a nonlapsing, special fund that is to be used for the continued funding of the Bridge to Excellence formulas and programs, including the geographic cost of education index (GCEI). The fund may also be used to support capital projects for public schools, public colleges and universities, and community colleges. There is no requirement that ETF be supplementary funding.

Background: Chapter 4 of the 2007 special session established ETF along with several other special funds to be funded out of the video lottery terminal (VLT) revenue proceeds. ETF receives 48.5% to 51.0% of the gross proceeds. ETF includes one-time operator license fees and VLT revenues.

The Bridge to Excellence in Public Schools Act of 2002 (Chapter 288) altered the State's school finance structure to align with a concept of "adequate funding" and phased in the enhanced State funding for public education over a six-year period. Bridge to Excellence funding includes the foundation program, GCEI, supplemental grants, compensatory aid, the special education formula, limited English proficiency, student transportation, and guaranteed tax base funding.

Education is a major priority in the American Recovery and Reinvestment Act, the \$775.0 billion federal stimulus package aimed at boosting the economy. The \$95.7 billion available to states and local school systems for operating expenditures is expected to decrease general fund expenditures for education in fiscal 2010 and 2011. The Governor has proposed spending \$721 million of federal State Fiscal Stabilization Funds available to Maryland to fully fund State education aid formulas and increase GCEI funding to 100% in fiscal 2010 and 2011.

State Expenditures: General fund expenditures increase by an estimated \$257.5 million in fiscal 2012 due to the bill's requirement that ETF support for the Bridge to Excellence formulas not supplant existing funding from one fiscal year to the next. Under current law, it is assumed that funds from ETF support the Bridge to Excellence education aid programs, with general funds providing any remaining amount needed to fully fund the formulas. In this scenario, general fund support for education decreases when ETF revenues exceed the growth in the formula levels. The bill, however, prohibits the use of ETF special funds to reduce general fund support for education; therefore, general fund spending exceeds current law estimates. Current law spending and spending under the bill are compared in **Exhibit 1** and show the impact on general fund expenditures for fiscal 2012 to 2014.

Exhibit 1
General Fund Impact of HB 342
Fiscal 2010 to 2014
(\$ in Millions)

	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
Projected BTE Aid (GF + ETF)	\$4,597	\$4,779	\$4,874	\$5,004	\$5,189
Projected ETF Revenues	39	13	366	614	664
Current Law Formula Payments		<i>GFs decrease from FY 2011-2013</i>			
General Funds	\$4,558	\$4,766	\$4,508	\$4,391	\$4,526
Education Trust Funds	<u>39</u>	<u>13</u>	<u>366</u>	<u>614</u>	<u>664</u>
Total	\$4,597	\$4,779	\$4,874	\$5,004	\$5,189
HB 342 Formula Payments		<i>GFs stay level from FY 2011-2014</i>			
General Funds	\$4,558	\$4,766	\$4,766	\$4,766	\$4,766
Education Trust Funds	<u>39</u>	<u>13</u>	<u>108</u>	<u>239</u>	<u>424</u>
Total	\$4,597	\$4,779	\$4,874	\$5,004	\$5,189
GF Impact of HB 342	\$0	\$0	\$258	\$375	\$240
Unused ETF			258	375	240

BTE = Bridge to Excellence GF = General funds ETF = Education Trust Funds

Beginning in fiscal 2012, special funds from ETF are available to support other allowable ETF expenses. The remaining ETF revenues may be saved to support future increases in the existing Bridge to Excellence formulas or used to fund public school construction, community college capital projects, capital projects at public four-year institutions, or enhancements to the Bridge to Excellence formulas. To the extent that enhancements to the formulas are funded with the additional ETF revenues, general fund expenditures for fiscal 2013 and subsequent years may increase beyond the amounts shown in Exhibit 1.

Local Revenues: Beginning in fiscal 2012, State aid to local school systems increases more than currently projected if the savings to ETF are used to enhance existing funding formulas. Public school construction funding and State aid for community college capital projects may also increase. The actual increases depend on ETF funding decisions made by the Governor and the General Assembly.

Additional Comments: The Attorney General's Office advises that this bill would be interpreted as legislative intent because of the Executive's budget powers under Article III, Section 52 of the Maryland Constitution.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Budget and Management, Maryland State Department of Education, Comptroller's Office, Maryland State Lottery Agency, Department of Legislative Services

Fiscal Note History: First Reader - February 23, 2009
ncs/mwc

Analysis by: Caroline L. Boice

Direct Inquiries to:
(410) 946-5510
(301) 970-5510