

Department of Legislative Services
 Maryland General Assembly
 2010 Session

FISCAL AND POLICY NOTE

House Bill 1036
 Ways and Means

(Delegate Hixson, *et al.*)

Education - Enrollment - Average Daily Attendance

This bill phases in the use of average daily attendance (ADA) as the primary enrollment measure for use in education aid formulas. The phase in occurs over the three-year period from fiscal 2011 through 2013 and effectively discounts each school system’s annual September 30 enrollment count by the average percentage of students absent each day during the second prior fiscal year.

The bill takes effect June 1, 2010, and applies to the calculation of payments of State aid beginning in fiscal 2011.

Fiscal Summary

State Effect: General fund expenditures decrease by \$55.7 million in FY 2011, including a \$56.0 million reduction in education aid and an increase of \$250,000 in information technology costs for the Maryland State Department of Education (MSDE). Future year savings reflect the phase in of the new enrollment methodology through FY 2013, the estimated impact of reduced State aid on teachers’ retirement costs beginning in FY 2013, inflation, and projected declines in absentee rates. Revenues are not affected.

(\$ in millions)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	(55.7)	(105.6)	(169.6)	(174.8)	(182.5)
Net Effect	\$55.7	\$105.6	\$169.6	\$174.8	\$182.5

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

Local Effect: Local school system revenues from direct State aid decrease by \$56.0 million in FY 2011 and by \$164.3 million in FY 2013, when the bill is fully phased in. Required county and Baltimore City appropriations to local school systems decrease by an estimated \$90.5 million in FY 2011, and by greater amounts in FY 2012 and 2013.

Small Business Effect: None.

Analysis

Bill Summary: The bill uses average daily student attendance from the second prior school year to calculate an “average daily attendance rate” for each school system that represents the average percentage of enrolled students who show up for school each day. By fiscal 2013, when the three-year phase in would be complete, the September 30 full-time equivalent (FTE) enrollment count used in the education aid formulas will reflect the expected ADA rather than a full enrollment count.

Current Law: FTE student enrollment counts used in the education aid formulas include all kindergarten through grade 12 students enrolled in each school system on September 30 of the preceding fiscal year, less out-of-state students attending Maryland schools and discounted for part-time students.

Background: According to data reported by MSDE on mdreportcard.org, Maryland’s ADA rate for the 2008-2009 school year was 94.3%, meaning 94 to 95 of every 100 enrolled students show up at school on an average school day. Students are absent for a variety of reasons, ranging from illness to truancy. ADA rates for individual school systems ranged from 90.5% in Baltimore City to 95.8% in Howard County, indicating that student absenteeism is more pervasive in some areas of the State. The 2008-2009 ADA rate for each local school system is shown in **Exhibit 1**.

Although most states use total enrollment as the primary workload measure for their education aid formulas, some states use ADA as a basis for funding schools. ADA proponents suggest that using this measure in education aid formulas provides an incentive for local school systems to reduce truancy and improve student attendance. Opponents argue that using ADA works against the goal of equitable funding, since high-poverty and high-minority districts tend to have higher absentee rates.

State Expenditures: General fund expenditures for education aid decrease by \$56.0 million in fiscal 2011 due to a reduction in FTE student enrollment count used in the education aid formulas. The largest decrease is in the foundation program, the State’s main education aid formula, but other programs, such as the geographic cost of education index and the student transportation formula, are also affected because they include an FTE enrollment component. In addition, there will be modest impacts on programs that have a wealth component (specifically, the compensatory education, special education, limited English proficiency, and guaranteed tax base formulas) since wealth is measured on a per FTE student basis.

Exhibit 1
Average Daily Attendance Rates
2008-2009 School Year

Allegany	94.2%	Harford	94.7%
Anne Arundel	94.8%	Howard	95.8%
Baltimore City	90.5%	Kent	93.5%
Baltimore	94.3%	Montgomery	95.7%
Calvert	95.2%	Prince George's	94.0%
Caroline	94.0%	Queen Anne's	94.1%
Carroll	95.4%	Saint Mary's	94.7%
Cecil	93.1%	Somerset	93.9%
Charles	94.9%	Talbot	94.7%
Dorchester	92.3%	Washington	95.4%
Frederick	94.6%	Wicomico	94.3%
Garrett	94.7%	Worcester	94.5%

Statewide ADA Rate: 94.3%

Source: Maryland State Department of Education mdreportcard.org

In fiscal 2012, the phase in of ADA will continue, decreasing general fund expenditures by an estimated \$105.6 million. When the phase in is complete in fiscal 2013, general fund direct aid for education will be an estimated \$164.3 million below current expectations. These estimates assume that local school systems will have some success in decreasing absentee rates as a result of the legislation.

Reductions in State aid beginning in fiscal 2011 will 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 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 will 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 2011, therefore, will affect teachers' retirement payments beginning in fiscal 2013. The reductions are estimated at \$5.3 million in fiscal 2013 and \$17.8 million in fiscal 2015. The projected fiscal 2011 to 2015 impact of the bill by aid program is detailed in **Exhibit 2**.

Exhibit 2
Estimated Impact on General Fund Expenditures by Education Aid Program
Fiscal 2011 to 2015
(\$ in Millions)

<u>Program</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
Foundation Program	(\$51.4)	(\$97.8)	(\$152.4)	(\$152.8)	(\$153.6)
Geographic Cost Index	(2.5)	(4.7)	(7.4)	(7.4)	(7.4)
Compensatory Education	(1.0)	(1.8)	(2.7)	(2.8)	(2.8)
Special Education Formula	(0.2)	(0.4)	(0.7)	(0.7)	(0.7)
Limited English Proficiency	(0.2)	(0.4)	(0.6)	(0.6)	(0.7)
Guaranteed Tax Base	0.5	1.2	2.3	2.8	3.1
Student Transportation	<u>(1.2)</u>	<u>(1.6)</u>	<u>(2.8)</u>	<u>(2.6)</u>	<u>(2.7)</u>
Direct Aid Subtotals	(\$56.0)	(\$105.6)	(\$164.3)	(\$164.1)	(\$164.8)
Teachers' Retirement	0.0	0.0	(5.3)	(10.7)	(17.8)
Grand Total	(\$56.0)	(\$105.6)	(\$169.6)	(\$174.8)	(\$182.5)

Source: Department of Legislative Services

In fiscal 2011, general fund savings realized from reduced State education aid will be partially offset by a one-time expense, estimated at \$250,000, to update information technology systems at MSDE to enable existing databases to accommodate the new enrollment methodology.

Local Fiscal Effect: Local school system revenues from direct State aid decrease by \$56.0 million in fiscal 2011 due to the reduction in FTE school enrollment counts used to determine State aid. The decreases will phase up to an estimated \$164.3 million in fiscal 2013 and will then be relatively stable in future years. The projected impact for fiscal 2011 to 2013 is shown by school system in **Exhibit 3**.

In addition to decreases in direct State aid, State payments on behalf of local school systems for teachers' retirement will decrease beginning in fiscal 2013. The decreases are projected at \$5.3 million in fiscal 2013 and \$17.8 million by fiscal 2015.

Exhibit 3
Impact of HB 1036/SB 866 on Local School Revenues from State Aid
Fiscal 2011 to 2013
(\$ in Thousands)

<u>School System</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Allegany	(\$618)	(\$1,166)	(\$1,802)
Anne Arundel	(3,160)	(5,807)	(9,167)
Baltimore City	(18,109)	(34,661)	(54,248)
Baltimore	(6,005)	(11,127)	(17,404)
Calvert	(793)	(1,450)	(2,309)
Caroline	(402)	(792)	(1,289)
Carroll	(1,211)	(2,323)	(3,640)
Cecil	(1,757)	(3,410)	(5,485)
Charles	(1,386)	(2,707)	(4,189)
Dorchester	(612)	(1,083)	(1,759)
Frederick	(2,530)	(5,016)	(8,105)
Garrett	(210)	(360)	(477)
Harford	(2,269)	(4,232)	(6,672)
Howard	(1,336)	(2,407)	(3,720)
Kent	(104)	(190)	(289)
Montgomery	(1,864)	(3,471)	(4,709)
Prince George's	(10,027)	(18,555)	(28,202)
Queen Anne's	(439)	(868)	(1,443)
St. Mary's	(1,065)	(2,046)	(3,249)
Somerset	(223)	(424)	(662)
Talbot	(79)	(148)	(226)
Washington	(701)	(1,321)	(2,015)
Wicomico	(963)	(1,836)	(2,909)
Worcester	(115)	(223)	(343)
Total	(\$55,978)	(\$105,623)	(\$164,312)

Source: Department of Legislative Services

Under the county maintenance of effort for public schools requirement, county (and Baltimore City) governments must appropriate to the local school systems at least as much funding per FTE student as was provided in the previous fiscal year. With the decrease in FTE enrollment proposed in the bill, local governments will be relieved of some portion of the required funding levels beginning in fiscal 2011. The estimated reductions in required maintenance of effort levels are shown by county in **Exhibit 4**. These potential savings, which collectively amount to an estimated \$90.5 million in HB 1036 / Page 5

fiscal 2011, may not actually be realized since counties often provide funding above the minimum required levels. Potential reductions in county funding for public schools continue in fiscal 2012 and 2013, as the bill is phased in. Any decreases in county appropriations to local school systems that are attributable to the bill also represent further reductions to school system revenues.

Exhibit 4
Estimated County Maintenance of Effort Requirements
Fiscal 2011
(\$ in Thousands)

<u>School System</u>	<u>Current Law</u>	<u>Bill</u>	<u>Difference</u>
Allegany	\$27,991	\$27,454	(\$537)
Anne Arundel	562,360	552,678	(9,682)
Baltimore City	199,525	193,255	(6,270)
Baltimore	661,424	648,974	(12,450)
Calvert	103,045	101,427	(1,617)
Caroline	12,079	11,840	(238)
Carroll	164,531	162,026	(2,505)
Cecil	68,351	66,796	(1,555)
Charles	145,297	142,859	(2,438)
Dorchester	17,390	16,950	(439)
Frederick	228,795	224,690	(4,105)
Garrett	22,576	22,184	(392)
Harford	211,067	207,367	(3,701)
Howard	457,878	451,598	(6,280)
Kent	17,155	16,788	(367)
Montgomery	1,473,151	1,452,173	(20,978)
Prince George's	520,539	510,206	(10,333)
Queen Anne's	47,957	47,017	(941)
St. Mary's	75,970	74,640	(1,330)
Somerset	8,587	8,413	(174)
Talbot	34,330	33,726	(603)
Washington	88,434	87,099	(1,335)
Wicomico	50,597	49,642	(955)
Worcester	71,339	70,033	(1,306)
Total	\$5,270,365	\$5,179,834	(\$90,531)

Source: Department of Legislative Services

Additional Information

Prior Introductions: None.

Cross File: SB 866 (Senator King, *et al.*) - Budget and Taxation.

Information Source(s): Carroll, Harford, Montgomery, and Prince George's counties; Maryland State Department of Education; Maryland Association of Counties; Department of Legislative Services

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