

**Department of Legislative Services**  
 Maryland General Assembly  
 2011 Session

**FISCAL AND POLICY NOTE**

Senate Bill 683 (Senators Peters and Currie)  
 Budget and Taxation

**Equity in Education Funding Act of 2011**

This bill requires State education aid formulas that include a local wealth component to be calculated twice, once using a net taxable income amount based on tax returns filed by September 1 and once using a net taxable income amount based on tax returns filed by November 1. Each local school system then receives the greater of the two calculations to the extent funding is provided in the State budget.

The bill takes effect July 1, 2011, and applies to State education aid calculations in fiscal 2013 and subsequent years.

**Fiscal Summary**

**State Effect:** General fund expenditures for State education aid increase by an estimated \$30.0 million in FY 2013 to the extent that funding is provided in the annual State budget to support the second aid calculation using a November 1 net taxable income drawdown date. Future year expenditures reflect inflation and the estimated impact of increased State aid on teachers' retirement costs beginning in FY 2015. Revenues are not affected.

(\$ in millions)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	30.0	36.4	44.0	46.6
Net Effect	\$.0	(\$30.0)	(\$36.4)	(\$44.0)	(\$46.6)

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

**Local Effect:** Local school system revenues from direct State aid increase by an estimated \$30.0 million in FY 2013. Based on current estimates for FY 2013, 19 local school systems would receive additional State aid; no local school systems would receive less State aid. The additional State aid is subject to State appropriation.

**Small Business Effect:** None.

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## **Analysis**

**Current Law:** The majority of State education aid is distributed through formulas that allocate funding to the 24 local school systems inverse to local wealth per pupil. For the formulas, local wealth includes net taxable income and the assessable property tax base. The net taxable income measure is based on returns filed on or before September 1 of each year.

**Background:** Most people file their income tax returns each year by April 15, but federal and State laws allow for an automatic six-month extension of the filing deadline to October 15 for those who apply for the extension by April 15. An individual filing late must submit an estimated amount of taxes owed, but a county's net taxable income, as calculated by the Office of the Comptroller, only includes taxable income amounts for completed tax returns. Using data from income tax returns submitted by September 1 undercounts total net taxable income, since many returns are not submitted until the October 15 extension deadline.

In addition, the distribution of returns filed after September 1 is not proportionate across the State. All counties have some residents who file their income tax returns late, but in general, wealthier individuals, who are clustered in certain counties, file late returns more frequently. Thus, the distribution of county net taxable income changes from the September 1 date established in law to November 1, when nearly all returns have been filed. Using a later date provides a more complete representation of each county's wealth and tax capacity.

The difference between tax year 2009 county net taxable income using a September 1, 2010 date and a November 1, 2010 date is shown in **Exhibit 1**. The chart shows that \$11.3 billion in taxable income (9.4% of the total) was reported on returns filed after September 1. However, the shares of taxable income reported after September 1 are very different across the State. More than 15% of county net taxable income was attributable to late filers in Montgomery (16.7%) and Talbot counties (20.4%), while 5% or less was attributable to late filers in 14 counties. In addition, Montgomery County accounted for almost one-half (45.8%) of the taxable income filed after September 1.

**Exhibit 1**  
**Tax Year 2009 Net Taxable Income by County**  
**(\$ in Millions)**

<b>County</b>	<b>Returns Filed by</b>		<b>Sept. 1 to Nov.1 Increase</b>	<b>Share Filed After Sept. 1</b>
	<b>September 1</b>	<b>November 1</b>		
Allegany	\$830	\$856	\$26	3.0%
Anne Arundel	11,916	12,902	987	7.6%
Baltimore City	6,619	7,185	566	7.9%
Baltimore	15,311	17,021	1,710	10.0%
Calvert	1,891	2,015	125	6.2%
Caroline	388	399	11	2.8%
Carroll	3,452	3,582	130	3.6%
Cecil	1,536	1,603	67	4.2%
Charles	2,705	2,810	105	3.7%
Dorchester	366	382	16	4.3%
Frederick	4,824	5,076	252	5.0%
Garrett	359	374	15	4.0%
Harford	4,781	5,009	229	4.6%
Howard	7,942	8,767	825	9.4%
Kent	280	313	33	10.7%
Montgomery	25,957	31,148	5,191	16.7%
Prince George's	12,476	12,979	503	3.9%
Queen Anne's	931	1,007	76	7.6%
St. Mary's	2,013	2,087	75	3.6%
Somerset	195	201	6	3.0%
Talbot	713	896	183	20.4%
Washington	2,062	2,139	77	3.6%
Wicomico	1,216	1,274	58	4.6%
Worcester	755	826	71	8.6%
<b>Total</b>	<b>\$109,517</b>	<b>\$120,855</b>	<b>\$11,338</b>	<b>9.4%</b>

Source: Comptroller's Office

**State Expenditures:** General fund expenditures for direct education aid increase by an estimated \$30.0 million in fiscal 2013 to pay local school systems the higher of the current law education aid calculation using a September 1 net taxable income drawdown date or the recalculated amount using the November 1 date. The bill seems to establish the additional \$30.0 million as a discretionary amount that the Governor can choose to include in the State budget in any amount up to the calculated figure. Any amount below

the full funding level will be distributed proportionally to the counties that gain funding with the November 1 net taxable income date.

Future year general fund expenditure increases grow with inflation and projected changes in local wealth bases. By fiscal 2016, the additional spending for direct education aid could total an estimated \$42.3 million.

Increases in State education aid beginning in fiscal 2013 will also accelerate 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 increasing State aid to local school systems is likely to increase the number of new personnel hired by local school systems or accelerate growth in the salaries of existing school staff. Either of these outcomes will increase the professional salary bases of local school systems and will increase future retirement costs.

State payments for the teachers' retirement program are calculated using actual school system salary bases from the second prior fiscal year. Higher State aid levels beginning in fiscal 2013, therefore, will affect teachers' retirement payments beginning in fiscal 2015. The increases are estimated at \$3.4 million in fiscal 2015 and \$4.3 million in fiscal 2016.

#### *Administrative Costs*

Under the bill, annual calculations of State education aid will need to be done twice, once to reflect the current law September 1 net taxable income drawdown date and a second time to reflect the November 1 drawdown date. This will increase the workload for the Maryland State Department of Education and the Department of Budget and Management, the agencies responsible for computing the education aid formulas for inclusion in the annual State budget. It is believed, however, that the additional administrative work can be accomplished with existing personnel and resources.

**Local Revenues:** Revenues for local boards of education may increase by up to an estimated \$30.0 million in fiscal 2013 if full funding for the alternate calculation is provided. Approximately 19 local school systems will be eligible for additional State education aid. The additional amount is estimated by local school system in **Exhibit 2**. Future year direct aid increases are estimated at \$36.4 million in fiscal 2014, \$40.6 million in fiscal 2015, and \$42.3 million in fiscal 2016.

In addition to increases in direct education State aid, State payments on behalf of local school systems for teachers' retirement will likely increase beginning in fiscal 2015. The increases are projected at \$3.4 million in fiscal 2015 and \$4.3 million in fiscal 2016.

**Exhibit 2**  
**Estimated Additional State Education Aid Provided Under HB 704/SB 683**  
**Fiscal 2013**  
**(\$ in Thousands)**

<b>County</b>	<b>Bridge to Excellence Aid</b>			<b>HB 704/SB 683</b>
	<b>Using Sept. 1 NTI</b>	<b>Using Nov. 1 NTI</b>	<b>HB 704/SB 683 (Higher of 2)</b>	<b>Difference from Sept. 1 NTI</b>
Allegany	\$73,149	\$74,093	\$74,093	\$944
Anne Arundel	303,443	305,323	305,323	1,880
Baltimore City	827,898	828,025	828,025	128
Baltimore	528,054	524,232	528,054	0
Calvert	79,939	80,649	80,649	710
Caroline	43,549	44,124	44,124	575
Carroll	138,887	140,418	140,418	1,531
Cecil	99,928	101,430	101,430	1,501
Charles	159,342	162,364	162,364	3,022
Dorchester	33,408	33,883	33,883	474
Frederick	227,740	229,421	229,421	1,681
Garrett	20,087	20,449	20,449	362
Harford	206,991	208,902	208,902	1,911
Howard	214,902	214,229	214,902	0
Kent	9,202	9,274	9,274	72
Montgomery	555,905	538,986	555,905	0
Prince George's	882,047	891,760	891,760	9,713
Queen Anne's	31,384	31,707	31,707	323
St. Mary's	91,892	93,026	93,026	1,134
Somerset	23,728	24,092	24,092	364
Talbot	11,240	11,240	11,240	0
Washington	158,209	160,630	160,630	2,421
Wicomico	118,570	119,820	119,820	1,250
Worcester	18,013	18,013	18,013	0
<b>Total</b>	<b>\$4,857,509</b>	<b>\$4,866,089</b>	<b>\$4,887,504</b>	<b>\$29,995</b>

NTI: Net taxable income

Source: Department of Legislative Services

## **Additional Information**

**Prior Introductions:** HB 1214 of 2010 was heard in the House Ways and Means Committee, but no further action was taken. HB 1094 of 2009 was withdrawn before a hearing could be scheduled in the House Ways and Means Committee.

**Cross File:** HB 704 (Delegate Ross, *et al.*) - Ways and Means.

**Information Source(s):** Department of Legislative Services

**Fiscal Note History:** First Reader - March 8, 2011  
mc/mwc

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