

Department of Legislative Services
 Maryland General Assembly
 2011 Session

FISCAL AND POLICY NOTE

House Bill 26 (Delegate O'Donnell)
 Ways and Means

Education Funding Formula - Average Daily Attendance

This bill alters the full-time equivalent (FTE) enrollment count methodology used for the education aid formulas by discounting 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, 2011, and applies to the calculation of payments of State aid beginning in fiscal 2012.

Fiscal Summary

State Effect: General fund expenditures decrease by \$177.8 million in FY 2012, including a \$178.0 million decrease 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 ongoing aid reductions, the estimated impact of reduced State aid on teachers’ retirement costs beginning in FY 2014, inflation, and projected declines to student absenteeism rates. Revenues are not affected.

(\$ in millions)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	(177.8)	(175.7)	(192.5)	(193.2)	(194.0)
Net Effect	\$177.8	\$175.7	\$192.5	\$193.2	\$194.0

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 \$178.0 million in FY 2012 and by an estimated \$172.0 million to \$177.0 million annually thereafter. Required county and Baltimore City maintenance of effort appropriations to local school systems decrease by an estimated \$252.3 million in FY 2012.

Small Business Effect: None.

Analysis

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 average daily attendance (ADA) rate for the 2009-2010 school year was 94.1%, meaning 94 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 89.8% in Baltimore City to 95.8% in Howard County, indicating that student absenteeism is more pervasive in some areas of the State. The 2009-2010 rate for each local school system is shown in **Exhibit 1**.

Exhibit 1 Average Daily Attendance Rates 2009-2010 School Year

Allegany	93.8%	Harford	94.5%
Anne Arundel	94.7%	Howard	95.8%
Baltimore City	89.8%	Kent	93.1%
Baltimore	94.0%	Montgomery	95.6%
Calvert	95.1%	Prince George's	93.4%
Caroline	93.6%	Queen Anne's	94.5%
Carroll	95.2%	Saint Mary's	94.4%
Cecil	92.9%	Somerset	93.4%
Charles	94.9%	Talbot	94.5%
Dorchester	93.1%	Washington	95.2%
Frederick	94.6%	Wicomico	94.4%
Garrett	94.9%	Worcester	94.8%

Statewide ADA Rate: 94.1%

Source: Maryland State Department of Education mdreportcard.org

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 \$178.0 million in fiscal 2012 due to a reduction in the 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.

The use of ADA in the FTE enrollment counts will continue in future years with a relatively stable impact on direct State education aid, reducing State spending for public schools by about \$172.0 million to \$177.0 million annually. 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 2012 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 2012, therefore, will affect teachers' retirement payments beginning in fiscal 2014. The reductions are estimated at \$18.4 million in fiscal 2014 and \$19.9 million in fiscal 2016. The projected fiscal 2012 to 2016 impact of the bill by aid program is detailed in **Exhibit 2**.

In fiscal 2012, 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.

Exhibit 2
Estimated Impact on General Fund Expenditures by Education Aid Program
Fiscal 2012 to 2016
(\$ in Millions)

<u>Program</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>
Foundation Program	(\$164.7)	(\$163.2)	(\$162.2)	(\$161.5)	(\$162.4)
Geographic Cost Index	(8.1)	(8.0)	(7.9)	(7.9)	(7.9)
Compensatory Education	(4.0)	(3.8)	(3.9)	(3.9)	(3.9)
Special Education Formula	(0.9)	(0.8)	(0.8)	(0.8)	(0.8)
Limited English Proficiency	(0.7)	(0.8)	(0.8)	(0.9)	(1.0)
Guaranteed Tax Base	1.9	2.1	2.7	1.9	2.6
Student Transportation	<u>(1.5)</u>	<u>(1.3)</u>	<u>(1.1)</u>	<u>(0.9)</u>	<u>(0.7)</u>
Direct Aid Subtotals	(\$178.0)	(\$175.7)	(\$174.1)	(\$173.9)	(\$174.1)
Teachers' Retirement	0.0	0.0	(18.4)	(19.2)	(19.9)
Grand Total	(\$178.0)	(\$175.7)	(\$192.5)	(\$193.2)	(\$194.0)

Source: Department of Legislative Services

Local Fiscal Effect: Local school system revenues from direct State aid decrease by \$178.0 million in fiscal 2012 due to the reduction in FTE school enrollment counts used to determine State aid. The projected impact for fiscal 2012 is shown by school system in **Exhibit 3**. Reductions to State education aid will be ongoing and will be relatively stable in future years.

In addition to decreases in direct State aid, State payments on behalf of local school systems for teachers' retirement will decrease beginning in fiscal 2014. The decreases are projected at \$18.4 million in fiscal 2014 and \$19.9 million by fiscal 2016.

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 2012. 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 \$252.3 million in fiscal 2012, may not actually be realized since counties often provide funding above the minimum required levels. Any decreases in county appropriations to local school systems that are attributable to the bill also represent further reductions to school system revenues.

Exhibit 3
Impact of HB 26 on Local School Revenues from State Aid
Fiscal 2012
(\$ in Thousands)

Allegany	(\$2,028)
Anne Arundel	(8,747)
Baltimore City	(61,304)
Baltimore	(19,618)
Calvert	(2,226)
Caroline	(1,324)
Carroll	(3,762)
Cecil	(5,452)
Charles	(3,711)
Dorchester	(1,315)
Frederick	(7,520)
Garrett	(476)
Harford	(6,772)
Howard	(3,507)
Kent	(333)
Montgomery	(5,657)
Prince George's	(34,370)
Queen Anne's	(1,067)
St. Mary's	(3,099)
Somerset	(754)
Talbot	(236)
Washington	(2,064)
Wicomico	(2,314)
Worcester	(348)
Total	(\$178,006)

Source: Department of Legislative Services

Exhibit 4
Estimated Reduction in County Maintenance of Effort Levels
Fiscal 2012
(\$ in Thousands)

Allegany	(\$2,262)
Anne Arundel	(24,324)
Baltimore City	(18,699)
Baltimore	(34,684)
Calvert	(6,553)
Caroline	(878)
Carroll	(9,952)
Cecil	(5,995)
Charles	(7,118)
Dorchester	(1,345)
Frederick	(11,909)
Garrett	(1,662)
Harford	(12,135)
Howard	(16,645)
Kent	(1,382)
Montgomery	(42,419)
Prince George's	(35,659)
Queen Anne's	(2,564)
St. Mary's	(3,969)
Somerset	(568)
Talbot	(2,003)
Washington	(3,211)
Wicomico	(3,253)
Worcester	(3,154)
Total	(\$252,341)

Source: Department of Legislative Services

Additional Comments: House Bill 72, the Budget Reconciliation and Financing Act (BRFA) of 2011, includes a provision that would reduce the per pupil funding amount for State aid to public schools beginning in fiscal 2012. If enacted, the provision will result in approximately \$90 million to \$120 million in reductions annually in State aid to public schools in fiscal 2012 through 2016. If this bill and the BRFA provision are enacted, the savings to the State will be slightly less than the cumulative savings estimated for this bill and House Bill 72.

Additional Information

Prior Introductions: HB 1154 of 2010 received a hearing before the House Ways and Means Committee, but no further action was taken.

Cross File: None.

Information Source(s): Maryland State Department of Education; Maryland Association of Counties; Baltimore, Garrett, and Montgomery counties; Department of Legislative Services

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mc/mwc

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