

Department of Legislative Services
 Maryland General Assembly
 2011 Session

FISCAL AND POLICY NOTE

House Bill 937 (Delegate Beitzel, *et al.*)
 Ways and Means

Education - State Aid - Grant to Limit Decreases in Funding

This bill requires the State to, when necessary, provide a grant to a local board of education to ensure that “total direct education aid,” as defined by the bill, to a local board may decrease by no more than 7% below the prior year aid amount. The bill also requires that a study on the adequacy of State funding for education that is required by Chapter 288 of 2002 (the Bridge to Excellence Act) include the impact on State funding of declining enrollments in local school systems with small enrollments.

The bill takes effect July 1, 2011, and terminates June 30, 2016.

Fiscal Summary

State Effect: State aid to public schools increases in instances that a local board of education’s aid amount would otherwise drop by more than 7%. As a result, general fund expenditures increase by \$382,000 in FY 2012 and by \$273,800 in FY 2013. However, the Governor’s FY 2012 budget proposes reductions to State aid to public schools, contingent on the Budget Reconciliation and Financing Act of 2011 (BRFA). If this bill and the BRFA provision are enacted, general fund expenditures increase by \$1.7 million in FY 2012 and by \$628,200 in FY 2013. **This bill establishes a mandated appropriation.**

(in dollars)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	382,000	273,800	0	0	0
Net Effect	(\$382,000)	(\$273,800)	\$0	\$0	\$0

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

Local Effect: State education aid to Garrett County increases by \$382,000 in FY 2012 and by \$273,800 in FY 2013. If this bill and the BRFA provisions reducing State aid to

public schools are enacted, State education aid to Allegany County will increase by \$888,900 in FY 2012; and State education aid to Garrett County will increase by \$769,300 in FY 2012 and by \$628,900 in FY 2013.

Small Business Effect: None.

Analysis

Bill Summary: The bill defines “total direct education aid” as the total financial assistance provided by the State to a local board of education for the following:

- the foundation program, including funds for the geographic cost of education;
- transportation;
- compensatory education;
- students with limited English proficiency;
- special education students;
- the guaranteed tax base program; and
- funding for the grants established under the bill.

Current Law/Background: State financing of public schools changed considerably in fiscal 2004 with the implementation of new funding formulas established by Chapter 288 of 2002, the Bridge to Excellence Act. The financing structure established by the Act is based on the concept of “adequacy” – an empirical estimate of the amount of funding needed by schools and school systems in order to obtain the resources needed to reasonably expect that students can meet the State’s academic performance standards. State education aid formulas incorporate the adequacy concept by ensuring a minimum per pupil funding level, providing additional funding based on enrollments of at-risk students, and granting additional aid to school systems with higher educational resource costs.

The great majority of State education aid is distributed to local school systems through formulas that are based primarily on student enrollment counts and local wealth (as derived from assessed property values and net taxable income in each county). Therefore, a school system in a county where annual student enrollment is decreasing and relative local wealth is increasing may experience substantial reductions in year-to-year State aid.

The Bridge to Excellence Act requires the Maryland State Department of Education to contract with a public or private entity to conduct a study of the adequacy of education funding no later than June 30, 2012. At a minimum, the study must identify an adequate base funding level for students without special needs, calculate the additional costs associated with special needs students, and conduct an analysis of the effect of concentrations of poverty on adequacy. The bill adds to the minimum requirements for this report.

State Expenditures: Under current law, direct education aid (as defined by the bill) to Garrett County Public Schools (GCPS) will decrease by 8.6%, or \$2.0 million, from fiscal 2011 to 2012. The difference between the 7% floor on decreases established by the bill and the would-be 8.6% drop for Garrett County results in increased general fund expenditures of \$382,000 in fiscal 2012. Assuming the current law aid formulas are not changed, no other school systems would qualify for fiscal 2012 grants.

With the additional \$382,000 in fiscal 2012, direct State aid for GCPS, as calculated through the State aid formulas, would decrease by an estimated 8.3% from fiscal 2012 to 2013, requiring a grant for a second consecutive year. The difference between a 7% decrease and an 8.3% decrease results in a fiscal 2013 grant amount of \$273,800 for GCPS.

Current law aid estimates do not suggest that GCPS will need a grant beyond fiscal 2013 or that any other school systems will need grants to cover decreases of greater than 7% over the next several fiscal years.

Local Fiscal Effect: State aid to GCPS will increase by \$382,000 in fiscal 2012 and by an estimated \$273,800 in fiscal 2013 as a result of the new grants. Although State aid for other school systems is not expected to decrease by more than 7% in the near future, the bill would provide some protection for school systems experiencing significant declines in enrollment and/or rapid increases in local wealth.

Additional Comments: Senate Bill 87/House Bill 72, BRFA of 2011, include 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 \$94 million to \$110 million in reductions annually in direct State aid to public schools in fiscal 2012 through 2016.

If this bill and the BRFA provision are enacted, the fiscal 2011 to 2012 decrease in aid to GCPS will be 9.9% and the cost of the 7% safety net for GCPS will increase to approximately \$769,300 in fiscal 2012 and to \$628,800 in fiscal 2013. The proposed reduction in the per pupil amount would also result in an 8.1% decrease in direct aid to

Allegany County Public Schools from fiscal 2011 to 2012 and would require a grant of \$888,900 to avoid a decrease of more than 7%. Accordingly, general fund expenditures for the new grant program would total \$1.7 million in fiscal 2012 and approximately \$628,200 in fiscal 2013 under the reduced per pupil amount proposed in BRFA.

Additional Information

Prior Introductions: None.

Cross File: SB 495 (Senator Edwards) - Budget and Taxation.

Information Source(s): Maryland Association of Counties; Anne Arundel, Charles, Frederick, and Montgomery counties; Maryland State Department of Education; Department of Legislative Services

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