

Department of Legislative Services
 Maryland General Assembly
 2012 Session

FISCAL AND POLICY NOTE

Senate Bill 586 (Senator Edwards)
 Budget and Taxation

Education - State Aid - Grant to Limit Decreases in Funding

This bill requires the State to provide a grant to a local board of education to ensure that “total direct education aid” for fiscal 2013 through 2015 decreases by no more than 5% below the prior year aid amount. The bill also requires that the study on the adequacy of State funding for education required by Chapter 288 of 2002 (the Bridge to Excellence in Public Schools Act) include the impact on State funding of declining enrollments in local school systems with small enrollments.

The bill takes effect July 1, 2012.

Fiscal Summary

State Effect: State aid to public schools increases in instances that a local board of education’s aid amount would otherwise decrease by more than 5%. As a result, general fund expenditures increase by \$1.2 million in FY 2013 and by an estimated \$192,500 in FY 2014. **This bill establishes a mandated appropriation for FY 2014 and 2015.**

(in dollars)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	1,159,000	192,500	0	0	0
Net Effect	(\$1,159,000)	(\$192,500)	\$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 \$1.2 million in FY 2013 and by an estimated \$192,500 in FY 2014. County expenditures are not directly affected.

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 in Public Schools 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 local 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 local 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 local 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 in Public Schools Act required 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. Chapter 397 of 2011 altered the due date of the study to June 30, 2014, and required that the study incorporate Common Core curriculum standards and results from Common Core assessments. 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. This bill adds to the minimum requirements for the report.

Chapter 397 of 2011 also provides that for fiscal 2012 only, the State must make grants to limit fiscal 2011 to 2012 decreases in direct education aid (as defined by this bill) to 6.5%. This resulted in a \$779,300 grant to Allegany County and a \$640,600 grant to Garrett County for fiscal 2012.

State Expenditures: Under current law, direct education aid (as defined by the bill) to the Garrett County Public School System will decrease by 10.3%, or \$2.3 million, from fiscal 2012 to 2013. The difference between the 5% floor on decreases established by the bill and the would-be 10.3% decline for Garrett County results in increased general fund expenditures of \$1.2 million in fiscal 2013.

With the additional \$1.2 million in fiscal 2013, direct State aid for the Garrett County Public School System, as calculated through the State aid formulas, would decrease by an estimated 5.9% from fiscal 2013 to 2014, resulting in a grant for a second consecutive year. The difference between a 5% decrease and a 5.9% decrease results in a fiscal 2014 grant amount of \$192,450 for the county school system.

Current law aid estimates do not suggest that the Garrett County Public School System will qualify for a grant beyond fiscal 2014 or that any other local school system will experience decreases in direct education aid of the magnitude required to trigger grants in fiscal 2013 through 2015.

Local Revenues: State aid to the Garrett County Public School System will increase by \$1.2 million in fiscal 2013 and by an estimated \$192,450 in fiscal 2014 as a result of the new grants. Although State aid for other local school systems is not expected to decrease by more than 5% in the near future, the bill would provide some protection for local school systems experiencing significant declines in enrollment and/or rapid increases in local wealth.

Additional Comments: The Department of Budget and Management advises that because the bill modifies a mandate for the upcoming fiscal year, the Governor would not be required to fund the grant program in fiscal 2013. The Department of Legislative Services concurs. If the grant to Garrett County is not made for fiscal 2013, the drop between fiscal 2013 and 2014 will be less than 5%, resulting in no fiscal 2014 grant under current projections.

Additional Information

Prior Introductions: SB 495/HB 937 of 2011 were similar to this bill and had hearings in the Senate Budget and Taxation Committee and the House Ways and Means Committee, respectively. Neither committee took any further action on the bills, but provisions limiting decreases in fiscal 2012 direct education aid were included in the Budget Reconciliation and Financing Act of 2011 (Chapter 397).

Cross File: HB 660 (Delegate Beitzel, *et al.*) - Ways and Means.

Information Source(s): Department of Budget and Management, Maryland State Department of Education, Maryland Association of Boards of Education, Department of Legislative Services

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mc/mwc

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