

Department of Legislative Services
Maryland General Assembly
2012 Session

FISCAL AND POLICY NOTE

House Bill 118

(Delegate Anderson)(By Request - Baltimore City
Administration)

Ways and Means

Education - Retiree Health Savings - Maintenance of Effort

This bill excludes reductions in the cost of health benefits for retired county school board employees from the maintenance of effort (MOE) calculation for a county if a similar reduction is made for all participants in a health benefits program for retired employees that is administered by the county and that includes retired employees of the county and the county school board. The bill further provides that for fiscal 2013, a reduction in county funding due to a specified change in health program cost allocations for county school board retirees is not subject to MOE.

The bill takes effect June 1, 2012, and applies to a county's required public school MOE amount beginning in fiscal 2013.

Fiscal Summary

State Effect: General fund expenditures decrease by an estimated \$4.1 million in FY 2014 due to an anticipated decrease in State education aid under the guaranteed tax base program. Savings in FY 2015 and thereafter may continue at a similar level. Revenues are not affected.

Local Effect: County appropriations to local public school systems are reduced for some counties in an amount equivalent to any savings generated for school board retiree health costs. State aid through the guaranteed tax base program will decrease for some school systems in FY 2014, including an estimated \$4.1 million decrease for Baltimore City schools.

Small Business Effect: None.

Analysis

Bill Summary: For fiscal 2013 only, a reduction in county funding due to a change in the allocation of county board retiree health benefit costs from (1) the estimated number of retired employees of the county board to (2) an estimate of the amount of actual claims for the number of retired employees of the county board, is not be subject to maintenance of effort.

Current Law: Under the MOE requirement, each county government (including Baltimore City) must provide on a per pupil basis at least as much funding for the local school system as was provided in the prior fiscal year. If a county does not comply with the MOE requirement in a given year, then any increase in State funding for the foundation program is withheld in the second following year. However, the following are excluded from the calculation determining prior year funding for the local school system:

- a nonrecurring cost that is supplemental to the regular school operating budget, if the exclusion qualifies under regulations adopted by the State board; and
- the cost of a program that has been shifted from the county school operating budget to the county operating budget.

A county may apply to the State Board of Education for a one-year waiver of the MOE requirement. A waiver is granted if the State board determines through the evaluation of several factors that the county's fiscal condition significantly impedes the county's ability to fund the maintenance of effort requirement.

A county governing body has the authority to reduce funding for education below the full MOE amount but is prohibited from reducing county funding below the local share of the foundation program for public schools. A county's failure to provide at least the full MOE amount, however, is still subject to penalty (any increase in the foundation program) unless the county receives a waiver from the State Board of Education.

Background: Chapter 397 of 2011 authorized counties (including Baltimore City) to reduce the required fiscal 2012 MOE level by an amount equal to any reduction in recurring costs for current retiree health benefits if these costs are shifted from the county to the local board of education. The provision also states the intent of the General Assembly that any funds shifted from Baltimore City to the Baltimore City Board of School Commissioners in fiscal 2011 be included in the local appropriation used to calculate fiscal 2012 State aid under the guaranteed tax base program. In response, Baltimore City shifted \$31.4 million in health benefits costs for retired school board employees from the city's budget to the school system's budget in fiscal 2011 and received an additional \$12.2 million in State aid from the guaranteed tax base program.

The guaranteed tax base program provides additional State education aid to school systems in low-wealth jurisdictions. The amount of State aid is based in part on the county appropriation to the local board of education in the prior fiscal year; a higher local appropriation in fiscal 2011, for example, results in a greater amount of State aid in fiscal 2012. The program is designed to give a qualifying low-wealth county an incentive to provide more local funding to the local board of education. Nine jurisdictions qualify for the program in fiscal 2013: Baltimore City and Allegany, Caroline, Cecil, Charles, Dorchester, Somerset, Washington, and Wicomico counties.

State Fiscal Effect: If a county reduces its local school appropriation in response to the bill's provisions, and if that county receives funding through the guaranteed tax base program, State general fund expenditures are reduced in the following year as a result of reduced guaranteed tax base funding for that county.

Baltimore City advises that it intends to use the authorization granted by this bill to reduce fiscal 2013 health benefits costs for city and school board retirees and to reallocate total costs between city and school board employees. In total, the city estimates that the resulting reduction in its required fiscal 2013 MOE amount will be \$12.0 million. Assuming the city reduces its appropriation to the school board accordingly, general fund expenditures for State aid will decrease by an estimated \$4.1 million in fiscal 2014.

Local Fiscal Effect: If a county reduces its local school appropriation in response to the bill's provisions, and if the county receives State funding through the guaranteed tax base program, State aid revenue through the guaranteed tax base program will be reduced in the following year.

Also, savings realized by a county that meets the bill's requirements (*e.g.*, where the health benefits program for retired school employees is administered by the county and includes retired employees of the county and the county school board) will not be counted against that county in determining the MOE obligation for the following year. Thus, required county expenditures are reduced.

Baltimore City advises that from fiscal 2012 to 2013, it projects a \$12.0 million reduction in the cost of health care benefits for Baltimore City Public School System retirees, and that \$6.5 million of the projected cost reduction is achieved by an allocation shift as described in the bill. Assuming these projections are correct, the Baltimore City MOE requirement for fiscal 2013 would be reduced by \$12.0 million versus current law. Assuming Baltimore City reduces its appropriation to the school system by this amount, guaranteed tax base funding to Baltimore City would be reduced by approximately \$4.1 million in fiscal 2014.

There is no indication from any other local school system that it will use the authority granted in the bill to reduce its required MOE amount or its appropriation to the local school system.

Additional Information

Prior Introductions: None.

Cross File: SB 244 (Senator Jones-Rodwell)(By Request - Baltimore City Administration) - Budget and Taxation.

Information Source(s): Baltimore City; Charles, Frederick, Garrett, Montgomery, and Worcester counties; Department of Budget and Management; Maryland State Department of Education; Maryland Association of Counties; Maryland State Retirement Agency; Department of Legislative Services

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Analysis by: Scott P. Gates

Direct Inquiries to:
(410) 946-5510
(301) 970-5510