

**Department of Legislative Services**  
Maryland General Assembly  
2013 Session

**FISCAL AND POLICY NOTE**

Senate Bill 277

(The President, *et al.*) (By Request - Administration)

Budget and Taxation

**State Aid for Public Education - Certification of Net Taxable Income**

This Administration bill requires State education aid formulas that include a local wealth component to be calculated twice, once using a net taxable income (NTI) amount for each county based on tax returns filed by September 1 and once using an NTI amount based on tax returns filed by November 1. Each local school system then receives the greater State aid amount of the results from the two calculations. The bill, however, phases in the increased State aid over a five-year period, beginning in fiscal 2014.

The bill takes effect July 1, 2013.

**Fiscal Summary**

**State Effect:** General fund expenditures on State education aid increase by \$8.3 million in FY 2014, and by \$55.9 million in FY 2018. The Governor's proposed FY 2014 budget includes \$8.3 million for this purpose. The Comptroller's Office can compute November 1 NTI with existing resources. Revenues are not affected.

(\$ in millions)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	8.3	18.6	31.1	43.2	55.9
Net Effect	(\$8.3)	(\$18.6)	(\$31.1)	(\$43.2)	(\$55.9)

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

**Local Effect:** Education aid increases for most counties beginning in FY 2014; total increases in State aid to local school systems are equivalent to the increased State expenditures described above. No county receives less State aid as a result of the bill.

**Small Business Effect:** The Administration has determined that this bill has minimal or no impact on small business (attached). The Department of Legislative Services concurs with this assessment.

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## Analysis

**Bill Summary:** The Comptroller must certify annually the amount of NTI based on both tax returns filed on or before September 1 and tax returns filed on or before November 1. Counties that receive a greater amount of State aid as a result of the new calculation receive 20% of the resulting increase in fiscal 2014, 40% in fiscal 2015, 60% in fiscal 2016, 80% in fiscal 2017, and the full calculated increase beginning in fiscal 2018. The bill applies to the following education aid programs that use local wealth to calculate State aid:

- foundation program;
- compensatory education grants;
- grants for limited English proficiency education;
- special education grants; and
- guaranteed tax base program.

**Current Law:** A county's wealth, for the purpose of calculating State education aid, is the sum of 40% of real property assessable base, 50% of personal property assessable base, 100% of public utilities' assessable base, and 100% of NTI of county residents. The property bases are determined as of July 1 of the previous fiscal year, and NTI is computed from September 1 of the second preceding calendar year.

**Background:** The Governor's proposed fiscal 2014 budget includes \$8.3 million in education aid that is contingent upon enactment of legislation altering the calculation of NTI for State education aid program formulas. Approximately 75% of State aid to public schools is distributed inversely to local wealth, whereby the less affluent school systems receive relatively more State aid. **Appendix 1** shows components of the local wealth measure, including NTI and various property-based measures of wealth, as well as total and per pupil wealth, by county under current law.

### *Net Taxable Income*

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 NTI, as calculated by the Comptroller's Office, only includes taxable income amounts for completed tax returns. Using data from

income tax returns submitted by September 1 undercounts total NTI, 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 NTI 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.

**State Expenditures:** General fund expenditures on State education aid increase by \$8.3 million in fiscal 2014 and by \$55.9 million in fiscal 2018. **Appendix 2** shows how the increase in State education aid under the bill is determined for fiscal 2014. The total cost includes continuing to provide State aid based on September 1 NTI to counties that would lose State aid by shifting to the November 1 date. Out-year expenditures reflect anticipated enrollment growth for education aid programs that involve a wealth factor, including students eligible for free and reduced-price meals, limited English proficient students, and special education students, as well as increases in the per pupil foundation amount each year.

**Local Revenues:** Local education revenues increase beginning in fiscal 2014 for most counties; the statewide total increase among counties is equivalent to increased State education aid as described above. **Appendix 2** shows the impact by local school system for fiscal 2014.

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### Additional Information

**Prior Introductions:** None.

**Cross File:** HB 229 (The Speaker, *et al.*) (By Request - Administration) - Ways and Means.

**Information Source(s):** Baltimore City, Department of Budget and Management, Maryland State Department of Education, Comptroller's Office, Department of Legislative Services

**Fiscal Note History:** First Reader - February 11, 2013  
mc/rhh

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**Appendix 1 – Components of Local Wealth Measure – Education Funding Formulas  
Fiscal 2014**

<b>County</b>	<b>Real Property</b>	<b>Personal Property</b>	<b>Utility Operating</b>	<b>Net Taxable Income</b>	<b>Total Local Wealth</b>	<b>Per Pupil Local Wealth</b>	<b>Per Pupil Rank</b>
Allegany	\$1,449,888,800	\$164,332,000	\$6,392,000	\$834,266,150	\$2,454,878,950	\$291,969	21
Anne Arundel	29,656,739,200	1,275,948,500	36,024,000	12,995,776,430	43,964,488,130	582,726	6
Baltimore City	13,501,326,600	926,470,500	137,326,000	7,028,428,338	21,593,551,438	272,405	24
Baltimore	31,123,644,400	1,461,864,000	104,858,000	16,534,644,543	49,225,010,943	477,845	9
Calvert	4,670,886,400	409,017,500	57,314,000	2,023,120,892	7,160,338,792	450,740	10
Caroline	1,082,556,000	49,942,000	5,076,000	406,734,434	1,544,308,434	295,845	20
Carroll	7,307,653,200	289,679,000	13,467,000	3,751,312,028	11,362,111,228	431,724	12
Cecil	3,840,804,400	181,027,500	18,502,000	1,634,395,881	5,674,729,781	378,139	16
Charles	6,315,567,200	433,630,000	17,092,000	2,947,038,152	9,713,327,352	377,701	17
Dorchester	1,200,711,200	57,661,500	2,573,000	385,771,240	1,646,716,940	370,298	18
Frederick	10,238,485,600	136,090,500	24,651,000	5,258,222,837	15,657,449,937	397,821	14
Garrett	1,854,735,800	81,783,000	34,387,000	385,844,900	2,356,750,700	601,519	5
Harford	10,347,653,200	488,987,500	19,700,000	5,263,542,017	16,119,882,717	434,674	11
Howard	16,955,249,600	756,831,500	26,808,000	9,042,074,301	26,780,963,401	525,599	8
Kent	1,208,440,000	17,584,000	2,038,000	310,920,125	1,538,982,125	765,949	3
Montgomery	63,725,703,000	1,849,946,000	106,986,000	29,173,997,982	94,856,632,982	654,775	4
Prince George's	30,496,057,600	1,446,001,500	56,178,000	13,491,903,324	45,490,140,424	386,186	15
Queen Anne's	3,187,602,000	29,875,500	3,829,000	1,012,085,362	4,233,391,862	564,189	7
St. Mary's	4,778,184,800	124,690,500	4,527,000	2,243,379,398	7,150,781,698	428,524	13
Somerset	564,166,000	35,887,500	1,156,000	189,260,197	790,469,697	290,081	22
Talbot	3,704,778,000	28,860,000	2,687,000	807,372,090	4,543,697,090	1,062,356	2
Washington	4,920,866,400	254,254,500	17,349,000	2,188,001,966	7,380,471,866	337,200	19
Wicomico	2,468,521,200	214,939,500	11,653,000	1,250,086,947	3,945,200,647	284,068	23
Worcester	6,181,856,800	151,184,500	4,060,000	823,416,012	7,160,517,312	1,146,967	1
<b>Total</b>	<b>\$260,782,077,400</b>	<b>\$10,866,488,500</b>	<b>\$714,633,000</b>	<b>\$119,981,595,546</b>	<b>\$392,344,794,446</b>	<b>\$473,886</b>	

Note: Total local wealth includes the sum of net taxable income; 100% of the assessed value of the operating real property of public utilities; 40% of all other real property; and 50% of the assessed value of personal property. The fiscal 2014 education aid calculations are based on tax year 2011 net taxable income for tax returns filed by September 1 after the tax year ends; and the assessable base for July 1, 2012 (fiscal 2013).

**Appendix 2 – Proposed Net Taxable Income Adjustment  
Direct Education Aid – Fiscal 2014**

<b>County</b>	<b>Direct Aid September NTI</b>	<b>Direct Aid November NTI</b>	<b>Difference</b>	<b>Greater of Sept. and Nov.</b>	<b>Cost Over Current Law</b>	<b>20% Phase-in in Year One</b>
Allegany	\$75,183,613	\$76,738,812	\$1,555,199	\$76,738,812	\$1,555,199	\$311,040
Anne Arundel	323,408,009	326,281,065	2,873,056	326,281,065	2,873,056	574,611
Baltimore City	914,824,340	913,033,528	-1,790,812	914,824,340	0	0
Baltimore	577,049,727	571,836,901	-5,212,826	577,049,727	0	0
Calvert	81,136,641	82,346,103	1,209,462	82,346,103	1,209,462	241,892
Caroline	46,283,431	47,139,038	855,607	47,139,038	855,607	171,121
Carroll	137,098,055	139,019,872	1,921,817	139,019,872	1,921,817	384,363
Cecil	96,904,796	98,976,282	2,071,486	98,976,282	2,071,486	414,297
Charles	158,472,964	162,792,852	4,319,888	162,792,852	4,319,888	863,978
Dorchester	34,848,814	35,552,952	704,138	35,552,952	704,138	140,828
Frederick	227,569,191	229,917,501	2,348,310	229,917,501	2,348,310	469,662
Garrett	20,956,346	21,391,387	435,041	21,391,387	435,041	87,008
Harford	200,320,100	203,267,124	2,947,024	203,267,124	2,947,024	589,405
Howard	221,529,684	221,421,284	-108,400	221,529,684	0	0
Kent	9,546,973	9,757,842	210,869	9,757,842	210,869	42,174
Montgomery	608,511,847	585,987,316	-22,524,531	608,511,847	0	0
Prince George's	942,746,203	955,447,474	12,701,271	955,447,474	12,701,271	2,540,254
Queen Anne's	33,206,132	33,561,399	355,267	33,561,399	355,267	71,053
St. Mary's	94,779,771	96,336,546	1,556,775	96,336,546	1,556,775	311,355
Somerset	26,797,244	27,294,636	497,392	27,294,636	497,392	99,478
Talbot	12,418,653	12,418,653	0	12,418,653	0	0
Washington	160,068,909	163,311,513	3,242,604	163,311,513	3,242,604	648,521
Wicomico	123,036,286	124,889,100	1,852,814	124,889,100	1,852,814	370,563
Worcester	19,389,637	19,389,637	0	19,389,637	0	0
<b>Total</b>	<b>\$5,146,087,365</b>	<b>\$5,158,108,816</b>	<b>\$12,021,451</b>	<b>\$5,187,745,385</b>	<b>\$41,658,020</b>	<b>\$8,331,604</b>



ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: State Aid for Public Education - Certification of Net Taxable Income

BILL NUMBER: SB 277 / HB 229

PREPARED BY: Budget and Management

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON  
MARYLAND SMALL BUSINESS

OR

WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND  
SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

The proposed legislation will have no impact on small business in Maryland.