

Department of Legislative Services
 Maryland General Assembly
 2013 Session

FISCAL AND POLICY NOTE

House Bill 229
 Ways and Means

(The Speaker, *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.

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.

Additional Information

Prior Introductions: None.

Cross File: SB 277 (The President, *et al.*) (By Request - Administration) - Budget and Taxation.

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**

| County | Real Property | Personal Property | Utility Operating | Net Taxable Income | Total Local Wealth | Per Pupil Local Wealth | Per Pupil Rank |
|-----------------|--------------------------|--------------------------|--------------------------|---------------------------|---------------------------|-------------------------------|-----------------------|
| 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 |
| Total | \$260,782,077,400 | \$10,866,488,500 | \$714,633,000 | \$119,981,595,546 | \$392,344,794,446 | \$473,886 | |

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**

| County | Direct Aid September NTI | Direct Aid November NTI | Difference | Greater of Sept. and Nov. | Cost Over Current Law | 20% Phase-in in Year One |
|-----------------|-------------------------------------|------------------------------------|---------------------|--------------------------------------|----------------------------------|-------------------------------------|
| 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 |
| Total | \$5,146,087,365 | \$5,158,108,816 | \$12,021,451 | \$5,187,745,385 | \$41,658,020 | \$8,331,604 |

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.