

Department of Legislative Services
Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE

Senate Bill 822

(Senator Rosapepe, *et al.*)

Budget and Taxation

Early-In Early-Out Education Act of 2014

This bill alters the definition of full-time equivalent (FTE) enrollment used to determine State education aid to public schools by including the number of public school students who graduated from high school before grade 12 in the previous school year. The amount of funds resulting from including these students through the foundation program and compensatory education, limited English proficiency, special education, and guaranteed tax base grants may only be used by each local school system to expand prekindergarten programs for low-income four-year-old children.

The bill takes effect July 1, 2014.

Fiscal Summary

State Effect: General fund expenditures for direct aid to public schools increase by \$4.0 million in FY 2015 and by \$4.4 million in FY 2019. The annual change in direct aid expenditures averages \$4.1 million but fluctuates due to volatility in the number of students graduating early each year. State teacher retirement expenditures increase by an average of \$413,000 annually beginning as early as FY 2017 if the Governor provides funds for direct aid increases in FY 2015. Revenues are not affected. **This bill affects a mandated appropriation beginning in FY 2016.**

(\$ in millions)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	4.0	3.9	4.6	4.8	4.8
Net Effect	(\$4.0)	(\$3.9)	(\$4.6)	(\$4.8)	(\$4.8)

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

Local Effect: Statewide, local school systems receive approximately \$4.0 million in increased State aid in FY 2015, but State aid decreases for several local school systems each year. Local teacher retirement expenditures change minimally for each county, beginning as early as FY 2017.

Small Business Effect: None.

Analysis

Current Law: FTE student enrollment counts used in the education aid formulas include all kindergarten through grade 12 students enrolled in each school system on September 30 of the preceding school year, less out-of-state students attending Maryland schools and discounted for part-time students.

Chapter 288 of 2002, the Bridge to Excellence in Public Schools Act, required each school system to make publicly funded pre-kindergarten programs available to all economically disadvantaged four-year-old children. Each school system must identify the strategies that will be used to accomplish these requirements in its comprehensive master plan.

Background: State financing of public schools changed considerably in fiscal 2004 with the implementation of new funding formulas established by 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 Maryland State Department of Education (MSDE), in consultation with the Department of Budget and Management and the Department of Legislative Services, must contract with a public or private entity to conduct a study of the adequacy of education funding in the State. The study must be conducted in phases, with the first phase beginning no later than June 30, 2014, and the final phase being completed by December 1, 2016.

The 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, an alteration to the definition of FTE will generally alter the relative wealth per pupil across counties and therefore, generally, State aid to public schools will increase for some counties and decrease for others.

According to data provided by MSDE the number of students graduating early in the past five years ranges from 905 to 1,091. Six jurisdictions (Baltimore City and Anne Arundel, Baltimore, Montgomery, Prince George's, and Washington counties) account for over half of the early graduates in a given year. For jurisdictions with relatively high numbers of early graduates, the total number of early graduates fluctuates considerably from year to year.

State Fiscal Effect: High school graduations typically occur at the end of a school year, whereas the Governor's budget is introduced in January each year. Thus, this analysis assumes that the count of students graduating early in the *second* prior year is used to determine the FTE figure for each county and therefore State education aid, including funding for prekindergarten programs as provided by the bill. Also, this analysis assumes funding in fiscal 2015 though the Governor may not be mandated to provide additional funding until fiscal 2016.

Total State direct education aid increases by approximately \$4.0 million in fiscal 2015 and by \$4.4 million in fiscal 2019. The total amount of this general fund increase fluctuates from year to year due to volatility in early graduation totals, but averages approximately \$4.1 million. This includes an annual average of \$4.0 million dedicated by the bill to expansion of local public prekindergarten programs and a change in other direct education aid to public schools that averages \$122,200 annually statewide. This assumes that for counties whose State aid figures under the programs specified by the bill is a net negative, the loss in aid cannot be applied to expansion of prekindergarten programs.

State formula aid for public school transportation is in part dependent on the annual FTE figure for each local school system. However, the bill does not dedicate the change in funding under this formula to the expansion of prekindergarten. Therefore, this analysis assumes the additional funding under the public school transportation formula, averaging \$266,300 benefits the general public school system program in each county. Similarly, the bill increases State expenditures for public schools under the Net Taxable Income (NTI) adjustment grant by approximately \$134,700 annually.

To the extent that the additional State funding under the bill is used to hire personnel and otherwise increase the statewide salary base for local school systems, State retirement expenditures increase beginning in fiscal 2017. If three-fourths of the increase in direct aid contributes to the salary base, then State retirement aid on behalf of local public school employees increases by approximately \$413,000 annually beginning in fiscal 2017.

Local Fiscal Effect: Altering the definition of FTE to include students graduating early results in changes to the relative wealth per pupil used to determine much of State aid to public schools. Under the bill, some local school systems will realize modest reductions in State aid for public schools while other local school systems receive additional funding, including funding that must be used for the expansion of prekindergarten programs. **Exhibit 1** shows the estimated change in State aid to public schools in each county in fiscal 2015, including funds for expansion of prekindergarten under the bill.

Exhibit 1
Estimated Change in Direct Education Aid under the Bill
Fiscal 2015
(\$ in Thousands)

County	Prekindergarten Expansion Aid	Other Direct Aid	Total
Allegany	\$0.0	(\$82.2)	(\$82.2)
Anne Arundel	161.8	25.4	187.2
Baltimore City	0.0	(153.2)	(153.2)
Baltimore	1,067.5	56.3	1,123.8
Calvert	25.2	0.8	26.1
Caroline	0.0	(44.8)	(44.8)
Carroll	0.0	(41.2)	(41.2)
Cecil	65.1	4.9	70.0
Charles	167.6	4.2	171.8
Dorchester	0.0	(29.4)	(29.4)
Frederick	270.1	17.9	288.0
Garrett	0.0	(22.0)	(22.0)
Harford	0.0	(22.9)	(22.9)
Howard	352.7	25.4	378.1
Kent	0.0	(7.9)	(7.9)
Montgomery	547.9	57.5	605.3
Prince George's	26.1	25.0	51.0
Queen Anne's	0.0	(39.8)	(39.8)
St. Mary's	174.3	10.4	184.7
Somerset	0.0	(3.6)	(3.6)
Talbot	3.1	0.8	3.9
Washington	1,155.6	41.1	1,196.7
Wicomico	158.4	0.7	159.1
Worcester	6.2	1.7	7.8
Total	\$4,181.4	(\$175.0)	\$4,006.4

Note: Figures may not sum due to rounding

Based on assumptions discussed above, the local share of retirement aid is altered beginning in fiscal 2017. Statewide, local retirement costs increase by approximately \$162,700 annually. In each year, retirement expenditures increase for some and decrease for others. The change for each county is minimal compared to total retirement expenditures under current law.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland State Department of Education, Department of Legislative Services

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