

Department of Legislative Services  
 Maryland General Assembly  
 2014 Session

FISCAL AND POLICY NOTE  
 Revised

House Bill 814

(Delegate Beitzel, *et al.*)

Ways and Means and Appropriations

Budget and Taxation

Education - State Grant to Counties With Small and Declining Student Enrollment

This bill requires the State to provide a grant in fiscal 2015 through 2017 to a local board of education if (1) full-time equivalent (FTE) enrollment is less than 5,000, (2) FTE enrollment in the current fiscal year is less than the prior fiscal year, and (3) “total direct education aid” in the current fiscal year is less than the prior fiscal year by more than 1%. The grant must equal 50% of the decrease in total direct education aid.

The bill takes effect June 1, 2014.

Fiscal Summary

**State Effect:** State aid to public schools increases in instances that a qualifying local board of education’s “total direct education aid” would otherwise decrease by more than 1%. As a result, general fund expenditures increase by \$593,100 in FY 2015. **This bill establishes a mandated appropriation for FY 2016 if the grant is not funded in FY 2015.** There is no fiscal impact in FY 2016 and 2017 from the bill’s grant formula.

(in dollars)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	593,100	0	0	0	0
Net Effect	(\$593,100)	\$0	\$0	\$0	\$0

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

**Local Effect:** State education aid in FY 2015 increases by \$464,100 for Garrett County and increases by \$129,000 for Kent County. County expenditures are not directly affected.

**Small Business Effect:** None.

## Analysis

**Bill Summary:** The bill expresses the intent of the General Assembly that the Governor transfer funds for the fiscal 2015 grant to a county if funds are restricted for this purpose in the fiscal 2015 budget bill. Further, if the funds are restricted but not transferred in fiscal 2015 then the county must receive that funding in fiscal 2016 (in addition to any fiscal 2016 grant the county may qualify to receive).

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.

The bill also expresses the intent of the General Assembly that the impact of declining enrollment on small school districts be reviewed as part of the adequacy study originally required by Chapter 288 of 2002. The review must include an evaluation of using a small-size factor in the calculation of State education aid and of transportation costs in a county that has small enrollment but is geographically large. Also, the adequacy study must include a review of the definition of wealth that is used to calculate State education aid, with a focus on geographically large counties with small populations and that have a greater proportion of their wealth from property assessments than other counties.

**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 Maryland State Department of Education, 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, 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.

#### *Legislative Initiatives to Address State Aid Decreases*

Chapter 397 of 2011 provided 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.

Chapter 1 of the first special session of 2012 required the State to provide a grant to a local board of education to ensure that “total direct education aid” for fiscal 2013 decreases by no more than 5% below the fiscal 2012 aid amount, a threshold exceeded by Garrett County. The calculated grant to Garrett County totaled \$1.2 million.

Chapter 425 of 2013 provides that for fiscal 2014 only, if a local board of education’s total direct education aid in the current fiscal year is less than the prior year by more than 1%, the State must provide a grant to the local board of education equal to 25% of the decrease in total direct education aid from the prior fiscal year to the current fiscal year. While this resulted in a calculated grant of \$2.1 million to be shared by Carroll, Garrett, Harford, and Kent counties, funding for this grant was not mandatory and, while the General Assembly restricted funds in the State budget, the Governor did not transfer the funds. The fiscal 2015 budget includes a negative deficiency to revert the funds to the general fund.

**State Expenditures:** Under current law, direct education aid (as defined by the bill) in fiscal 2015 to Garrett and Kent counties will decrease by \$928,200 (4.7%) and \$257,900 (3.0%) respectively, a combined decrease of \$1,186,100. The bill provides a grant equal to half of the decrease; therefore, general fund expenditures under the bill increase by \$593,100 in fiscal 2015, assuming that the fiscal 2015 budget bill includes the required language and funds are in fact transferred to the two counties in fiscal 2015. The fiscal

2015 budget bill (SB 170/Ch. 462) includes language restricting \$595,085 of the general fund appropriation for the Early College Innovation Fund (Program RA02.13) for this purpose only, contingent on enactment of this bill or its cross file. If the funds are not transferred by the Governor in fiscal 2015, then the bill mandates the fiscal 2015 grants in fiscal 2016 as well as any fiscal 2016 grants. However, current law aid estimates suggest that no county will qualify for a grant under the bill in fiscal 2016 or 2017 by virtue of a 1% annual decrease in direct education aid, even after factoring in fiscal 2015 grants to Garrett and Kent counties under the bill.

**Local Revenues:** Garrett and Kent counties are the only local school systems that meet all three criteria for a grant in fiscal 2015 (FTE enrollment below 5,000, declining FTE enrollment, and a decrease in direct education aid of more than 1%). Under current law, direct education aid in fiscal 2015 to Garrett County decreases by 4.7%, or \$928,200 and to Kent County decreases by 3.0%, or \$257,900. Because the bill provides a grant for half of the decrease, State education aid to Garrett County increases by \$464,100 and to Kent County increases by \$129,000, assuming that the fiscal 2015 budget bill includes the required language and funds are in fact transferred to the two counties in fiscal 2015. Although State aid is not expected to decrease by more than 1% in the near future for counties that otherwise qualify for a grant under the bill, the bill would provide some protection in fiscal 2016 and 2017 for small local school systems experiencing significant declines in enrollment and/or rapid increases in local wealth. Only Dorchester, Somerset, and Talbot school systems have fewer than 5,000 FTES in addition to Garrett and Kent counties.

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### Additional Information

**Prior Introductions:** None.

**Cross File:** SB 534 (Senators Edwards and Hershey) - Budget and Taxation.

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

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