

Department of Legislative Services
Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE

House Bill 1079
Ways and Means

(Delegate Shoemaker, *et al.*)

Education - Maintenance of Effort Requirement - Alterations

This bill alters the State's public school maintenance of effort (MOE) requirements. The bill repeals the requirement that a county that has an education effort below the five-year statewide average education effort must increase its MOE payment to the local school board in years when the wealth base per pupil is increasing. The cost of a fixed term lease for a school facility is excluded from MOE if the lease term expires and the cost does not continue into the current year. The State Board of Education (State board) must approve a county's request to exclude from MOE an appropriation for a start-up cost to implement the Maryland College- and Career-Ready Standards (MCCRS) and the Partnership for Assessment of Readiness for College and Careers (PARCC) assessments as a qualifying nonrecurring cost. The State board, in collaboration with county governments and local boards of education, must conduct a specified study and report findings and recommendations by December 31, 2015.

The bill takes effect June 1, 2015.

Fiscal Summary

State Effect: The State board can conduct the required study using existing resources. Because penalties for failure to meet MOE requirements have not been assessed in the past, it is anticipated that State revenues are not affected.

Local Effect: County governments are afforded greater budget flexibility. Some county governments will be relieved of a requirement to increase, not merely maintain, per pupil expenditures in certain years; thus, expenditures in those counties are reduced.

Small Business Effect: None.

Analysis

Bill Summary: An appropriation that is withdrawn by the county governing body following a determination that the cost is not a qualifying nonrecurring cost, is not included in calculating a county's MOE appropriation. The State board may not deny a county's request to exclude an appropriation from MOE as a qualifying nonrecurring cost solely because the nonrecurring cost is (1) necessary to meet or comply with a federal or State mandate or (2) an occasional cost that may be scheduled on a multi-year cycle, including performance audits and actuarial studies.

The State board, in collaboration with county governments and local boards of education, must study the feasibility of a year-round process for approving county requests to exclude nonrecurring costs from MOE. The study must include consideration of (1) the budget schedules of counties and school boards whose budget processes fall after existing application deadlines and (2) changes to existing law to make the application process more flexible and useful for county governing bodies and local boards of education. The State board must report findings and recommendations to the Senate Budget and Taxation Committee and the House Ways and Means Committee by December 31, 2015.

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 board as was provided in the prior fiscal year. Statute exempts from the MOE calculation qualifying nonrecurring costs as approved by the Maryland State Department of Education (MSDE), the cost of any program that has been shifted from the local school board's operating budget to the county operating budget, and debt service payments for school construction. The Budget Reconciliation and Financing Acts of 2011 and 2012 (Chapter 397 of 2011 and Chapter 1 of the 2012 first special session) provided one-year exemptions from MOE for a county (including Baltimore City) that shifted recurring health care costs for current retirees to the local school board if those costs were reduced the following year. Chapter 647 of 2013 made this exemption permanent, and also excluded recurring retiree health costs from MOE if they resulted in additional State aid that was dedicated to public school construction.

Chapter 6 of 2012 requires a county governing body to apply to the State board for a waiver from the State's MOE requirement if the county is unable to fund the full MOE amount. If a county does not receive a waiver from the State board, it must fund the full MOE amount or the State will intercept the county's local income tax revenues in the amount by which the county is below MOE and forward the funds to the local school board. Counties that receive waivers and are making above-average education effort may request "rebasing waivers" that allow limited decreases to their annual MOE amounts if they can demonstrate ongoing problems with meeting MOE.

Also under Chapter 6 of 2012, beginning in fiscal 2015, a county that has an education effort below the five-year statewide average education effort must increase its MOE payment to the local school board in years when the wealth base per pupil is increasing. The required increase is the lesser of the increase in a county's per pupil wealth, the average statewide increase in per pupil local wealth, or 2.5%. This provision ensures an increase in the amount a county provides to the local school board concomitant with an increase in county wealth.

Under current law, a county governing body is not authorized to reduce appropriations after a local board of education's budget is approved. A county's MOE requirement for a given year is based upon the highest local appropriation to its school operating budget for the prior fiscal year. Each local board of education must submit its proposed budget to its county governing body not less than 45 days before the date for levying local taxes, or on an earlier date on or after March 1, as requested by the county fiscal authority. Each county must submit its approved budget to the State Superintendent of Schools no later than 7 days after approval of the budget, or June 30, whichever is earlier. No later than 15 days after receipt of the county's approved budget, the State Superintendent must certify whether the county has met State funding requirements and must notify the county and county board of certification.

Background: As of January 2015, the State board has certified that the school appropriations of all 24 counties have met the fiscal 2015 MOE requirement. The State board granted an MOE waiver in the amount of \$2.9 million regarding Baltimore City's fiscal 2015 appropriation. The waiver request, agreed to by city government and the Baltimore City Public School System, eliminates (beginning with fiscal 2015) the ongoing effect on MOE from a fiscal 2013 budgeting error made by Baltimore City. The budgeting error resulted from the city's use of an incorrect (high) enrollment figure for determining the required MOE total for fiscal 2013.

Beginning in fiscal 2015, a county that has an education effort below the five-year statewide average education effort must increase its MOE payment to the local school board in years when its local wealth base is increasing. Statewide per pupil local wealth declined slightly from fiscal 2014 to 2015 and again from fiscal 2015 to 2016. Therefore, no jurisdiction has been required to increase its MOE appropriation in fiscal 2015 or 2016 under this provision.

PARCC

The new State curriculum known as the Maryland College- and Career-Ready Standards, which is aligned with the Common Core State Standards (CCSS), was fully implemented statewide in the 2013-2014 school year. The MCCRS frameworks were accepted by the State board in June 2011. As a result of the new curriculum, Maryland also required a new

assessment system. In 2010, after adopting CCSS, Maryland joined PARCC, which is a consortium of 12 states (as of February 2015) working to develop a common set of assessments in English language arts and mathematics aligned to CCSS and, in turn, to MCCRS. PARCC measures student progress and tracks status on a trajectory toward college and career readiness.

Local Fiscal Effect: Generally, the bill provides county governments with greater budget flexibility by making exclusions from the MOE requirement based on nonrecurring costs more likely, and allowing counties to withdraw appropriations to local school boards after the county budget has been adopted if MSDE determines a cost does not qualify for exclusion from MOE. Repealing the requirement that a county that has an education effort below the five-year statewide average education effort must increase its MOE payment to the local school board in years when the wealth base per pupil is increasing, will reduce required expenditures for those counties that fall below the specified threshold in a given year.

Based on the relevant history of per pupil appropriations by county, and a projection that statewide per pupil wealth will increase for purposes of fiscal 2017 State education aid, the Department of Legislative Services projects that seven counties will be required under current law to provide increased per pupil effort in fiscal 2017: Allegany, Garrett, Kent, Queen Anne's, Somerset, Wicomico, and Worcester. For five of these counties, it is projected that the increased effort required will be equivalent to the estimated 0.7% average statewide increase in per pupil local wealth. For Allegany and Kent counties, the required increase in effort is projected to be the substantially lower increase in the respective county's per pupil wealth.

Additional Information

Prior Introductions: None.

Cross File: SB 627 (Senator Eckardt, *et al.* - Budget and Taxation), is listed as a cross file but the bills are not identical.

Information Source(s): Montgomery County, Department of Budget and Management, Maryland State Department of Education, Maryland Association of Counties, Department of Legislative Services

Fiscal Note History: First Reader - March 4, 2015
min/rhh

Analysis by: Scott P. Gates

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