

Department of Legislative Services
 Maryland General Assembly
 2016 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 209 (Delegate Krebs, *et al.*)
 Appropriations

Education - State Grant to Counties With Declining Student Enrollment

This bill requires the State to provide a grant in fiscal 2017 and 2018 to a local board of education if (1) full-time equivalent (FTE) enrollment in the current fiscal year is less than the prior fiscal year and (2) “total direct education aid” in the current fiscal year is less than the prior fiscal year by more than 1%. The grant must equal 100% of the decrease in total direct education aid.

The bill takes effect June 1, 2016.

Fiscal Summary

State Effect: State aid to public schools increases for local school systems in which total direct education aid would otherwise decrease by more than 1%. As a result, general fund expenditures increase by \$25.4 million in FY 2017. **This bill establishes a mandated appropriation for FY 2018 if the grant is not funded in FY 2017.** Based on current aid projections, no fiscal impact is anticipated in FY 2018. However, given slightly different assumptions, State expenditures in FY 2018 could total \$9.9 million.

(\$ in millions)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	25.4	0	0	0	0
Net Effect	(\$25.4)	\$0.0	\$0.0	\$0.0	\$0.0

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

Local Effect: State education aid in FY 2017 increases by \$25.3 million for Baltimore City and increases by \$65,000 for Kent County. School system expenditures are not directly affected. Based on current aid projections, no local school system is anticipated to receive a grant in FY 2018. However, given slightly different assumptions, Baltimore City may receive \$8.6 million, and Carroll County may receive \$1.3 million in FY 2018.

Small Business Effect: None.

Analysis

Bill Summary: The bill expresses the intent of the General Assembly that the Governor transfer funds for the fiscal 2017 grant to a county board of education if funds are restricted for this purpose in the fiscal 2017 budget bill. Further, if the funds are restricted but not transferred in fiscal 2017, then the county board *must* receive that funding in fiscal 2018, in addition to any fiscal 2018 grant the county board 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.

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 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. This study is under way and scheduled to be completed by fall 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 provided 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. Even though the General Assembly restricted funds in the State budget, the Governor did not transfer the funds. The fiscal 2015 budget included a negative deficiency to revert the funds to the general fund.

Chapters 515 and 516 of 2014 require the State to provide a grant in fiscal 2015 through 2017 to a local board of education if (1) 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. Chapters 515 and 516 express 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). Chapters 515 and 516 resulted in grants to Kent County of \$86,321 in fiscal 2016 and \$64,973 in fiscal 2017; the latter amount appears in the Governor’s fiscal 2017 proposed budget.

Chapters 515 and 516 also expressed 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. These items have in fact been incorporated in the adequacy study, and the final report on declining and increasing enrollment was submitted in June 2015.

The report found that as of December 2014, 16 states, including Maryland, have no provisions in their funding formulas to accommodate declining enrollment. The states that do address the funding consequences of school enrollment declines take a number of different approaches, and, for Maryland, the study team recommended changing the student count used in the foundation formula calculations to a multi-year rolling average of the FTE count currently used. The rolling average, which would average a system's FTE enrollment count over two to four years, would temporarily reduce the funding impact of declining enrollment. Using the higher of the two numbers prevents school systems that are experiencing enrollment growth from being penalized.

The Governor's proposed fiscal 2017 budget includes \$5.6 million in discretionary funding for selected counties, including \$4.0 million for Carroll County, \$1.3 million for Garrett County, and \$300,000 for Kent County. However, these funding amounts are not linked to a specified aid formula. Fourteen local school systems have declining FTE enrollment for fiscal 2017 State aid purposes. Of those 14 systems, total direct education aid as defined by the bill decreases by 1% or more in only 2 systems – Baltimore City (-2.9%) and Kent County (-1.5%).

State Expenditures: Under Chapters 515 and 516 of 2014, Kent County Public Schools receives a grant of \$64,973 in fiscal 2017. The bill doubles this outcome for Kent County by restoring 100% of the loss in total direct aid rather than 50% under current law. This results in a grant of \$129,946 for Kent County, an increase of \$64,973 in general fund expenditures. Also, by removing the cap of 5,000 FTE enrollment, Baltimore City Public Schools becomes eligible for a grant because its total direct education aid under current law decreases by \$25.3 million in fiscal 2017, or 2.9%. Therefore the bill results in the equivalent \$25.3 million in general fund expenditures to fund the grant to Baltimore City.

If the funds are not transferred by the Governor in fiscal 2017, then the bill mandates the fiscal 2017 grants in fiscal 2018 as well as any fiscal 2018 grants. Current law aid estimates suggest that no county will qualify for a grant under the bill in fiscal 2018 due to a 1% annual decrease in direct education aid, even after factoring in fiscal 2017 grants to

Baltimore City and Kent County under the bill. However, direct aid as defined by the bill is projected by the Department of Legislative Services (DLS) to decrease by about 0.9% for Carroll County in fiscal 2018 and by about 0.4% for Baltimore City. If Carroll County direct aid decreases by 1%, then the county public schools receive \$1.3 million in fiscal 2018; if Baltimore City direct aid decreases by 1%, then Baltimore City receives \$8.6 million in fiscal 2018. Thus, general fund expenditures may increase by up to \$9.9 million in fiscal 2018 under this slightly different set of assumptions than those currently projected.

Local Revenues: For reasons discussed above, Kent County receives an additional \$64,973 in fiscal 2017, and Baltimore City receives an additional \$25.3 million. If the funds are not transferred by the Governor in fiscal 2017, then the bill mandates the fiscal 2017 grants in fiscal 2018 as well as any fiscal 2018 grants.

Current law aid estimates by DLS suggest that no county will qualify for a grant under the bill in fiscal 2018 due to a 1% annual decrease in direct education aid, even after factoring in fiscal 2017 grants to Baltimore City and Kent County under the bill. However, as discussed above, under somewhat different total aid outcomes than are forecasted, in fiscal 2018 Baltimore City may receive \$8.6 million, and Carroll County may receive \$1.3 million in grants under the bill.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - February 8, 2016
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