

Department of Legislative Services
 Maryland General Assembly
 2018 Session

FISCAL AND POLICY NOTE
 Third Reader - Revised

House Bill 1697

(Delegate McIntosh, *et al.*)

Appropriations and Ways and Means

Budget and Taxation

Education - Commercial Gaming Revenues - Constitutional Amendment

This proposed constitutional amendment, if approved by the voters at the next general election, requires the Governor to provide supplemental State funding for public education through the use of commercial gaming revenues that are dedicated to public education in the State budget beginning in fiscal 2020. Supplemental funding must total \$125.0 million in fiscal 2020, \$250.0 million in fiscal 2021, and \$375.0 million in fiscal 2022. In all subsequent years, 100% of the gaming revenues dedicated to public education must be used for supplemental funding. The bill repeals the constitutional provision specifying that capital projects at community colleges and public senior higher education institutions are among the purposes for which revenue from video lottery terminal (VLT) facilities is raised. Beginning in fiscal 2020, the Governor must identify in the annual State budget how the supplemental revenue is being used to supplement and not supplant spending on public schools.

Fiscal Summary

State Effect: If the constitutional amendment is approved, general fund expenditures benefiting public schools in the State increase by \$125.0 million in FY 2020 and by \$517.8 million by FY 2023. General fund expenditures for teachers’ retirement may increase by an indeterminate but substantial amount beginning in FY 2022. **This bill establishes a mandated appropriation beginning in FY 2020.**

(\$ in millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	125.0	250.0	375.0	517.8
Net Effect	\$0.0	(\$125.0)	(\$250.0)	(\$375.0)	(\$517.8)

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

Local Effect: It is assumed that the vast majority of supplemental funding provided under the bill will be distributed as education aid to local school systems or used for public school construction. Local teachers' retirement costs may increase beginning in FY 2022.

Small Business Effect: Any impact on small businesses depends on the particular use of additional funding. A reliable estimate cannot be determined.

Analysis

Bill Summary: The supplemental funding must be in addition to the State funding provided through the Bridge to Excellence in Public Schools Act (Chapter 288 of 2002). Supplemental funding under the bill must be used to:

- ensure access to public education that allows children in the State to compete in the global economy of the future;
- provide funding for high-quality early childhood education programs;
- provide opportunities for public school students to participate in career and technical education programs that lead to an identified job skill or certificate;
- allow students to, at no cost to the student, obtain college credit and degrees while in high school;
- support advancement and professionalization of educators in public schools; and
- maintain, renovate, or construct public schools.

Current Law/Background:

State Aid to Public Schools

The great majority of direct State aid to public schools (excluding teachers' retirement) is determined by funding formulas found in Title 5, Subtitle 2 of the Education Article. Together, with some more recent enactments, these funding formulas were set forth in the Bridge to Excellence in Public Schools Act of 2002. The formulas are in part based on the adequacy model, which entails three components. The first is a uniform base cost per pupil that is necessary to provide general education services to students in every school system. The second component of adequacy involves adjustments for the additional costs associated with educating three at-risk student populations: special education students; students eligible for free and reduced-price meals; and students with limited English proficiency. The third component of adequacy is an adjustment that accounts for differences in the local costs of educational resources.

The majority of State education aid formulas also entail wealth equalization across counties, compensating for differences in local wealth by providing less aid per pupil to the more wealthy counties and more aid per pupil to the less wealthy counties. Although on the whole most State aid formulas are designed to have the State pay roughly one-half of program costs, the State's share for the less wealthy counties is higher than 50%, and the State's share for more wealthy counties is lower than 50%.

Commission on Innovation and Excellence in Education

Chapters 701 and 702 of 2016 established the Commission on Innovation and Excellence in Education to, among other charges, (1) review the findings of a consultant's study on adequacy of education funding and its related studies and make recommendations on the funding formula; (2) review and make recommendations on expenditures of local education agencies; (3) review and make recommendations on innovative education delivery mechanisms and other strategies to prepare Maryland students for the twenty-first century workforce and global economy; and (4) review and make recommendations on expanding prekindergarten, including special education prekindergarten. The commission members were appointed during summer 2016, with former University System of Maryland Chancellor Dr. William "Brit" Kirwan being appointed to serve as chair of the commission. To date, the commission has held 17 all-day meetings, as well as 4 public hearings in Stevensville, Frederick, Upper Marlboro, and Baltimore City.

The consultant study that the commission was directed to review resulted from the Bridge to Excellence in Public Schools Act (Chapter 288 of 2002), which established State education aid formulas for public schools based on the concept of adequacy (the level of resources that are necessary for all public school students to have the opportunity to achieve academic proficiency standards), and required the State to contract with a consultant to conduct a follow-up study of the adequacy of education funding in the State. The consultant, Augenblick, Palaich, and Associates (APA), was hired and began work in June 2014. APA submitted its final report to the Governor and General Assembly on November 30, 2016. APA recommended that Maryland keep its basic formula structure but that increased spending would be necessary to provide adequate funding. APA found that a total increase of \$2.9 billion over fiscal 2015 spending is needed, with \$1.9 billion from the State and \$1 billion from counties (including Baltimore City). This amount does not include State teacher retirement costs.

In order to develop appropriate policy recommendations, in January 2017, the commission asked the National Center on Education and the Economy (NCEE) to perform a gap analysis to help the commission compare Maryland's education system to systems in top-performing countries and states. The gap analysis was designed to help the commission identify policy priorities and implementation strategies to be considered in conjunction with changes to the State education aid formulas. NCEE presented the

9 Building Blocks for World-Class Education Systems to the commission. The commission has arranged the nine building blocks into five policy areas around which it has organized its policy recommendations.

The commission has requested an additional year in order to fully respond to its charge. In a [preliminary report](#) completed in January 2018, the commission submitted its preliminary policy recommendations (59 in total). It also stated its intention to work during the 2018 interim to develop greater specificity for each recommendation in order to “cost out” their fiscal impact, thereby allowing the commission to make recommendations for adequate funding in its final 2018 report. The allowable uses for the supplemental funding align with some of the preliminary recommendations of the commission. For more information on the commission see the [commission’s web page](#).

Video Lottery Facilities and the Education Trust Fund

The Education Trust Fund (ETF) is a nonlapsing, special fund to be used for continued funding of the Bridge to Excellence in Public Schools Act of 2002 formulas and programs, including the Geographic Cost of Education Index (GCEI). The fund may also be used to support capital projects for public schools, community colleges, and public four-year institutions, as well as to expand public early childhood education programs in the State. A portion of the proceeds from VLTs and table games is dedicated to ETF.

ETF was established during the 2007 special session as part of the VLT legislation to receive approximately half of the gross VLT proceeds, after payouts, to bettors. Chapter 1 of the 2012 second special session made numerous changes to the State’s gaming program, including authorizing a sixth license in Prince George’s County, table games at VLT facilities, and 24-hour per day gaming, which were approved by voters in November 2012. A portion of table game revenues is also distributed to ETF. The estimated ETF revenues as of December 2017 for fiscal 2019 through 2023 are shown in **Exhibit 1**. In March 2018, ETF revenues were written up by approximately \$4.0 million each year (not shown in the exhibit). The exhibit shows that projected ETF revenues are less than the over \$3.3 billion in annual Bridge to Excellence foundation program expenditures, which ETF has been used to support since its inception.

Exhibit 1
Estimated Education Trust Fund Revenues
Fiscal 2019-2023
(\$ in Millions)

<u>ETF</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
VLT	\$408.1	\$414.2	\$404.9	\$411.0	\$417.2
Table Games	94.8	96.3	97.7	99.2	100.7
Total ETF	\$502.9	\$510.5	\$502.6	\$510.2	\$517.8

ETF: Education Trust Fund
VLT: video lottery terminal

Source: December 2017 Board of Revenue Estimates; Department of Legislative Services

State Fiscal Effect: General fund expenditures benefiting public schools in the State increase substantially, beginning in fiscal 2020. Designating the use of a portion of ETF monies for supplemental funding requires general fund expenditures to increase by an equal amount. Currently, all proceeds credited to ETF are budgeted for the Bridge to Excellence foundation formula and programs, including GCEI. The Governor's proposed fiscal 2019 budget includes \$502.9 million in ETF revenues, all of which are directed toward the \$3.3 billion in Bridge to Excellence foundation formulas, including GCEI. The remaining \$2.8 billion in foundation formula funding is general funds.

Thus, using ETF for purposes under the bill does not alter the amount of special fund expenditures; instead, general fund expenditures increase by \$125.0 million in fiscal 2020, by \$250.0 million in fiscal 2021, and by \$375.0 million in fiscal 2022. General fund expenditures increase by the full amount in the ETF beginning in fiscal 2023 (or \$517.8 million).

Teachers' retirement costs are paid primarily by the State, based on local school system salaries from the second prior fiscal year. Assuming that a significant portion of the additional funding is used by local school systems to hire additional teachers and/or to increase salaries beginning in fiscal 2020, teachers' retirement costs will increase beginning in fiscal 2022.

Some portion of the supplemental funding may be used to cover administrative costs of State agencies, including the Maryland State Department of Education, to establish additional positions and to cover any additional State retirement costs associated with these positions.

Local Fiscal Effect: State funding benefiting local school systems increases by substantial amounts, beginning in fiscal 2020, based on the assumption that the vast majority of supplemental funding will be distributed to local school systems. Given the multiple allowable uses for the additional funding, it is not known how much of this additional funding will go to each local school system, or the degree to which these funds will be restricted for certain purposes, or targeted toward operating versus capital expenditures.

Local school boards are responsible for the actual normal cost of pensions for qualifying personnel. Many of the likely uses for the additional State revenues involve hiring additional staff. This, combined with the potential increase in salaries for existing positions, will tend to expand the salary base for local public school systems. Accordingly, local expenditures for teachers' retirement increase beginning in fiscal 2022.

For illustrative purposes, Appendix 1 shows State aid to public schools by jurisdiction under the proposed fiscal 2019 State budget, including \$5.8 billion in direct aid and \$732.9 million in retirement aid.

Additional Information

Prior Introductions: None.

Cross File: SB 1122 (Senator Conway, *et al.*) - Budget and Taxation.

Information Source(s): Maryland Association of Community Colleges; Comptroller's Office; Maryland State Department of Education; Maryland Higher Education Commission; Baltimore City Community College; University System of Maryland; Morgan State University; St. Mary's College of Maryland; Public School Construction Program; Department of Budget and Management; Maryland State Board of Elections; Maryland State Lottery and Gaming Control Agency; Department of Legislative Services

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Appendix 1 – State Aid to Public Schools in Fiscal 2019

County	Direct Aid	Retirement
Allegany	\$83,598,873	\$6,723,759
Anne Arundel	367,601,316	61,591,324
Baltimore City	861,168,948	62,241,365
Baltimore	679,224,208	87,121,525
Calvert	82,503,576	12,971,692
Caroline	56,868,613	4,516,195
Carroll	133,083,108	19,019,050
Cecil	108,291,704	12,843,718
Charles	184,278,369	20,932,663
Dorchester	43,784,406	3,681,006
Frederick	249,731,122	30,546,998
Garrett	21,963,804	2,911,542
Harford	211,978,446	26,749,784
Howard	257,487,898	55,443,007
Kent	10,084,020	1,719,512
Montgomery	715,331,518	155,859,060
Prince George's	1,142,797,075	108,999,822
Queen Anne's	35,867,497	5,839,587
St. Mary's	107,285,272	12,860,701
Somerset	32,608,823	2,636,552
Talbot	14,854,709	3,332,461
Washington	178,234,925	16,020,341
Wicomico	148,433,872	11,794,186
Worcester	20,022,028	6,564,931
Unallocated	39,345,930	0
Total	\$5,786,430,060	\$732,920,781