

Department of Legislative Services
 Maryland General Assembly
 2022 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 1045 (Delegate Kittleman, *et al.*)
 Ways and Means

Primary and Secondary Education – Enrollment Count – Average Daily Attendance

This bill alters the definition of full-time equivalent (FTE) enrollment that is used to calculate State education aid and local government education funding requirements to include the average daily attendance from September through December of the prior school year instead of the September 30 count from the prior year used under current law. **The bill takes effect July 1, 2022, and is applicable to the calculation of education funding for fiscal 2024 and subsequent fiscal years.**

Fiscal Summary

State Effect: General and special fund expenditures decrease by \$245.2 million in FY 2024, including a \$245.7 million decrease in education aid and a \$500,000 increase in information technology costs for the Maryland State Department of Education (MSDE). Future year savings reflect ongoing aid reductions. Revenues are not affected. **This bill decreases a mandated appropriation beginning in FY 2024.**

(\$ in millions)	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Revenues	\$0	\$0	\$0	\$0	\$0
GF/SF Exp.	0	(245.2)	(240.1)	(250.2)	(252.6)
Net Effect	\$0.0	\$245.2	\$240.1	\$250.2	\$252.6

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

Local Effect: Local school system revenues from direct State aid decrease by \$245.7 million in FY 2024 and by an estimated \$252.6 million in FY 2027. Required county appropriations to local school systems decrease by an estimated \$269.8 million in FY 2024 and by \$362.2 million in FY 2027. Local school system retirement expenditures decrease beginning in FY 2026.

Small Business Effect: None.

Analysis

Current Law:

Full-time Equivalent Enrollment and Major Education Aid

FTE means the sum of:

- the number of students enrolled in kindergarten through grade 12 or their equivalent in regular day school programs on September 30 of the prior school year;
- the number of FTE students enrolled in evening high school programs during the prior school year; and
- the number of Pathways in Technology Early College High students.

Funding for major education aid programs is determined by wealth-equalized formulas, in that the State provides more aid per pupil to school systems in the less wealthy jurisdictions and less aid per pupil to school systems in the more wealthy jurisdictions. The foundation formula grant was altered by Chapter 36 of 2021, such that the count of students to be funded is the greater of (1) the prior year FTE enrollment or (2) the three-year moving average of FTE enrollment.

Maintenance of Effort and Local Share

Each year, the county government (including Baltimore City) is required to appropriate funds to the local board of education equivalent to at least the same per pupil level as in the prior year (*i.e.*, maintenance of effort (MOE)), or its required local share – whichever is greater. Beginning with the fiscal 2022 appropriation, the per pupil MOE level each year is based upon the greater of (1) the prior year FTE enrollment and (2) the three-year moving average of FTE enrollment.

For fiscal 2023, the MOE calculation will use the fiscal 2021 local appropriation (instead of fiscal 2022) except for counties whose required fiscal 2022 MOE was adjusted by the escalator provision. Further, September 2019 FTE enrollment must be used to determine per pupil wealth for purposes of the escalator provision used to determine required fiscal 2022 and 2023 MOE. The enrollment count used in MOE excludes the 2020-2021 school year, which affects the calculation in fiscal 2022 through 2024. Also, county governments may, to the extent authorized under federal law, use federal funds received for COVID-19 relief to meet MOE requirements. Beginning in fiscal 2024, repealed is the requirement that a county that is below the statewide five-year moving average education effort level must increase its per pupil MOE amount by the lesser of

(1) the increase in local wealth per pupil; (2) the statewide average increase in local wealth per pupil; or (3) 2.5% (*i.e.*, MOE escalator).

Beginning in fiscal 2023, local governments must fund the greater of MOE or the local share of all wealth-equalized formulas (instead of only the foundation formula). This includes the local share of the compensatory education, English language learner, special education, comparable wage index (CWI), beginning in fiscal 2024, full-day prekindergarten, college and career ready, transitional supplemental instruction (through fiscal 2026), and career ladder grant programs. Also, counties that benefit from the compensatory education State funding floor are required to fund the local share of the concentration of poverty grant programs. However, for some counties, the combined local share across these several programs is subject to adjustments described below.

Education Effort Adjustment to Local Share Requirement

Local governments are required to fund the local share of the foundation program and the required local shares for several existing and new funding formula programs. Effective in fiscal 2022, the law also includes a mechanism for establishing a maximum local share that a county must fund each year. This involves “local education effort,” which is determined for each county by dividing the county’s local share of major education aid by the county’s wealth. An “education effort index,” which is the local education effort divided by the “State average education effort” is then determined. A “maximum local share” is calculated for each county, which is the county’s local wealth multiplied by the State average education effort.

Each county with an education effort above 1.0 for two consecutive years receives relief based upon its “education effort adjustment,” which is the amount by which that calculated local share exceeds the maximum local share. This relief (which results in increases to State aid) is provided to counties within one of three tiers, based on whether the education effort is (1) greater than 1.0 but less than 1.15; (2) at least 1.15 but less than 1.27; or (3) at least 1.27. State relief for the first tier is phased up from 10% of the education effort adjustment in fiscal 2022 to 50% by fiscal 2030. State relief for the second tier is phased up from 20% of the education effort adjustment in fiscal 2022 to 100% by fiscal 2030. State relief for the third tier is 100% beginning in fiscal 2022. However, the education effort adjustment for a county is only allowed to the degree that per pupil MOE is met each year.

Additional Reductions to Local Share

A county may be eligible for a reduction in the required local share of major aid formulas in three additional ways: (1) if a county receives State funds from the guaranteed tax base (GTB) program, the local share may be reduced by the amount of GTB funds, except that for Baltimore City only the amount above \$10 million may be reduced from the local share;

(2) if a county receives State funds to support the minimum funding floors of 15% for the foundation and 40% for the targeted programs; and (3) if a county has a CWI index of at least 0.13, the local share of CWI may be reduced by 50%. However, in all of these cases, the local share may not be reduced below the required per pupil MOE amount.

Annual Submission of Education Aid Data

On or before December 1, 2021, and each December 1 thereafter, MSDE must submit to the Department of Budget and Management (DBM) and the Department of Legislative Services (DLS) the enrollment counts and other data necessary to calculate the funding formulas to implement the Blueprint for Maryland's Future for the upcoming fiscal year.

State Expenditures: General and special fund expenditures for education aid decrease by \$245.7 million in fiscal 2024 and by \$252.6 million in fiscal 2027 due to a reduction in the FTE student enrollment count used in the education aid formulas. The largest decrease is in the foundation program, the State's main education aid formula, but other programs, such as the CWI and the student transportation formula, are also affected because they include an FTE enrollment component. Education effort index funding increases because there is an increase in the degree to which the grant recipient's local effort exceeds the statewide average effort. In addition, there are relatively modest impacts on several programs that have a wealth component since wealth is measured on a per FTE student basis.

The calculation of FTE enrollment under the bill will prohibit MSDE from meeting the statutory deadline for providing enrollment data to DBM and DLS. This will present practical challenges for assuring that education aid is properly accounted for in the annual budget bill.

According to data reported by MSDE on mdreportcard.org, Maryland's average attendance rate for the 2018-2019 school year, the most recent full school year prior to the COVID-19 pandemic (which suppressed public school enrollment), was 93.5%. Students are absent for a variety of reasons, ranging from illness to truancy. Attendance rates for individual school systems ranged from 87.1% in Baltimore City to 95.0% or above in three counties, indicating that student absenteeism is more pervasive in some areas of the State. The 2018-2019 rate for each local school system is shown in **Exhibit 1**.

Exhibit 1
Attendance Rates
2018-2019 School Year

Allegany	93.1%	Harford	94.7%
Anne Arundel	94.0%	Howard	95.0%
Baltimore City	87.1%	Kent	92.4%
Baltimore	93.5%	Montgomery	93.9%
Calvert	94.8%	Prince George's	93.7%
Caroline	93.4%	Queen Anne's	94.5%
Carroll	95.0%	St. Mary's	93.8%
Cecil	92.7%	Somerset	92.4%
Charles	94.5%	Talbot	93.8%
Dorchester	91.8%	Washington	94.2%
Frederick	95.0%	Wicomico	93.0%
Garrett	93.8%	Worcester	93.9%

Statewide Rate: 93.5%

Note: For counties shown as 95%, the attendance rate may exceed 95.0%.

Source: Maryland State Department of Education, mdreportcard.org

The projected fiscal 2024 to 2027 impact of the bill by aid program is detailed in **Exhibit 2**. In fiscal 2024, general fund savings realized from reduced State education aid will be partially offset by a one-time expense, estimated at \$500,000, to update information technology systems at MSDE to enable existing databases to accommodate the new enrollment methodology. These estimates make use of attendance percentage data that is available from MSDE, account for the three-year average enrollment used in formula funding, and assume that local school systems will be motivated to, and have some success in, decreasing absentee rates as a result of the legislation.

Exhibit 2
Estimated Impact on General Fund Expenditures by Education Aid Program
Fiscal 2024-2027
(\$ in Millions)

<u>Program</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>
Foundation Program	(\$255.2)	(\$237.4)	(\$251.9)	(\$268.6)
Comparable Wage Index	(8.7)	(9.0)	(9.1)	(9.5)
Compensatory Education	(4.2)	(4.3)	(4.6)	(4.7)
Special Education Formula	(1.3)	(1.3)	(1.4)	(1.5)
English Language Learners	(1.5)	(1.6)	(1.7)	(1.7)
Concentration of Poverty	0.2	0.3	0.4	0.7
Education Effort Index	28.1	19.6	22.6	38.7
Guaranteed Tax Base	(5.6)	(9.0)	(7.1)	(8.7)
Student Transportation	2.5	2.5	2.6	2.6
Total	(\$245.7)	(\$240.1)	(\$250.2)	(\$252.6)

Source: Department of Legislative Services

Local Fiscal Effect: Local school system revenues from direct State aid decrease by \$245.7 million in fiscal 2024 due to the reduction in FTE school enrollment counts used to determine State aid. The projected impact for fiscal 2024 through 2027 for each local school system is shown in **Exhibit 3**.

With the decrease in FTE enrollment proposed in the bill, local governments will be relieved of some portion of the local share of major education aid and per pupil MOE requirements, beginning in fiscal 2024, thus reducing projected county government appropriations to public schools. The estimated reductions in county government appropriations to public schools are shown by county for fiscal 2024 through 2027 in **Exhibit 4**. Any decreases in county appropriations to local school systems that are attributable to the bill also represent further reductions to school system revenues.

Local school system payments for teachers' retirement will decrease beginning in fiscal 2026. The decreases are projected at \$23.5 million in fiscal 2026 and \$23.6 million in fiscal 2027.

Exhibit 3
Impact of HB 1045 on Local School Revenues from State Aid
Fiscal 2024-2027
(\$ in Thousands)

<u>County</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>
Allegany	(\$1,678)	(\$484)	(\$455)	(\$496)
Anne Arundel	(17,397)	(17,866)	(18,827)	(19,992)
Baltimore City	(72,489)	(77,270)	(79,075)	(68,203)
Baltimore	(34,608)	(33,506)	(35,569)	(38,121)
Calvert	(2,883)	(2,644)	(2,796)	(2,994)
Caroline	(1,952)	(2,378)	(2,243)	(2,533)
Carroll	(3,725)	(3,810)	(4,015)	(4,294)
Cecil	(4,785)	(4,221)	(4,478)	(4,807)
Charles	(5,321)	(5,196)	(5,554)	(6,026)
Dorchester	(2,694)	(2,861)	(3,027)	(3,230)
Frederick	(7,386)	(7,537)	(7,928)	(8,473)
Garrett	(760)	(713)	(751)	(798)
Harford	(6,763)	(6,426)	(6,806)	(7,320)
Howard	(6,946)	(7,008)	(7,295)	(7,697)
Kent	(337)	(308)	(322)	(344)
Montgomery	(14,674)	(10,412)	(10,890)	(11,545)
Prince George's	(44,974)	(41,114)	(43,896)	(47,308)
Queen Anne's	(1,280)	(1,058)	(1,114)	(1,181)
St. Mary's	(3,394)	(2,854)	(2,994)	(3,211)
Somerset	(1,060)	(1,164)	(1,147)	(1,264)
Talbot	(254)	(258)	(268)	(284)
Washington	(5,787)	(5,303)	(5,342)	(6,314)
Wicomico	(4,223)	(5,417)	(5,066)	(5,762)
Worcester	(334)	(342)	(356)	(379)
Total	(\$245,704)	(\$240,149)	(\$250,212)	(\$252,577)

Source: Department of Legislative Services

Exhibit 4
Estimated Reduction in County Local Appropriation Levels
Fiscal 2024-2027
(\$ in Thousands)

<u>County</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>
Allegany	(\$650)	(\$1,648)	(\$1,686)	(\$1,724)
Anne Arundel	(27,600)	(41,245)	(49,718)	(50,841)
Baltimore City	(4,778)	(3,118)	(4,375)	(4,305)
Baltimore	(44,553)	(58,543)	(59,811)	(43,173)
Calvert	(7,111)	(7,380)	(7,656)	(7,939)
Caroline	(1,264)	(656)	(1,013)	(922)
Carroll	(9,573)	(10,907)	(11,233)	(11,583)
Cecil	(2,886)	(4,775)	(3,739)	(3,961)
Charles	(9,391)	(11,674)	(12,039)	(12,433)
Dorchester	(548)	(434)	(516)	(558)
Frederick	(4,962)	(9,456)	(14,426)	(17,595)
Garrett	(1,094)	(1,127)	(1,201)	(1,283)
Harford	(11,769)	(15,447)	(15,927)	(16,433)
Howard	(27,558)	(32,708)	(33,363)	(34,051)
Kent	(732)	(750)	(800)	(853)
Montgomery	(64,965)	(89,062)	(90,551)	(92,100)
Prince George's	(32,296)	(32,916)	(34,504)	(36,232)
Queen Anne's	(1,608)	(3,482)	(3,587)	(3,700)
St. Mary's	(4,819)	(5,826)	(5,986)	(6,158)
Somerset	(593)	(334)	(467)	(447)
Talbot	(1,207)	(1,657)	(1,766)	(1,886)
Washington	(2,104)	(3,783)	(5,583)	(5,581)
Wicomico	(3,817)	(2,104)	(3,086)	(2,860)
Worcester	(3,914)	(5,221)	(5,386)	(5,563)
Total	(\$269,791)	(\$344,251)	(\$368,421)	(\$362,183)

Source: Department of Legislative Services

Additional Information

Prior Introductions: HB 26 of 2011 and HB 1154 of 2010, similar bills, both received a hearing before the House Ways and Means Committee, but no further action was taken on either bill.

Designated Cross File: None.

Information Source(s): Maryland State Department of Education; Department of Budget and Management; Department of Legislative Services

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