

Department of Legislative Services
 Maryland General Assembly
 2023 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 598 (Delegate Wu, *et al.*)
 Appropriations

Education - Funding for General Education Programs - Definition Alterations

This bill alters the methodology for determining the “enrollment count” used for purposes of determining State aid as well as required local government appropriations for public schools. The bill defines “average enrollment change” as dividing the following result by two: the prior school year full-time equivalent (FTE) enrollment minus the third prior school year FTE enrollment count. “FTE enrollment” is also altered by removing the reference to the “prior” school year. “Enrollment count” means the sum of the prior school year FTE enrollment and the average enrollment change. The term “3-year moving average enrollment” is repealed and thus removed from the calculation of the enrollment count. **The bill takes effect July 1, 2023.**

Fiscal Summary

State Effect: State expenditures increase by \$41.9 million in FY 2025 and by \$28.3 million by FY 2028. As discussed further below, additional special and general funds are expended in FY 2025 and 2026, and in FY 2027 and subsequent years, general fund expenditures only increase.

(\$ in millions)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	0	0	40.9	28.3
GF/SF Exp.	0	41.9	49.5	0	0
Net Effect	\$0.0	(\$41.9)	(\$49.5)	(\$40.9)	(\$28.3)

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

Local Effect: As discussed below, county governments in some counties will realize altered local appropriations to local public school systems. State and local funding for local school systems is altered, as discussed below.

Small Business Effect: None.

Analysis

Current Law:

Blueprint for Maryland's Future and Education Funding Formulas

Blueprint for Maryland's Future (Blueprint) legislation, including Chapter 771 of 2019; Chapters 36 and 55 of 2021; and Chapter 33 of 2022 established new programs and updated education funding formulas, to among other provisions provide additional support for schools serving high concentrations of students living in poverty, including community schools and wraparound services, and increased support for students learning English and students with disabilities.

The great majority of direct State aid to public schools (excluding teachers' retirement) is determined by enrollment-based funding formulas generally found in Title 5, Subtitle 2 of the Education Article. Collectively, the formulas account for a uniform base cost per pupil that is necessary to provide general education services to students in every school system and address the additional costs associated with educating three student populations: special education students; students eligible for free and reduced-price meals; and students who are English-language learners. Chapter 36 established additional major education aid programs.

Most 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%.

Full-time Equivalent Enrollment, Enrollment Count, and Foundation Program

FTE enrollment is a key factor in determining most of the direct State aid provided to local school systems. FTE enrollment is also a key factor in determining required minimum funding, or effort, that county governments (including Baltimore City) must provide to local school systems each year. FTE enrollment 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, such that the count of students to be funded, or “enrollment count” is the greater of (1) the prior year FTE enrollment or (2) the three-year moving average of FTE enrollment, thus providing additional funding for school systems experiencing declining enrollment.

Comparable Wage Index

The comparable wage index (CWI) formula provides additional funds to local school systems with above-average costs but does not decrease funding for systems with below-average costs. CWI adjustment values are fixed in statute and range from 0.055 in Charles County to 0.166 in Montgomery County. The formula multiplies the adjustment value by the foundation program for a given county, which is the per pupil foundation amount multiplied by the enrollment count for the county.

Guaranteed Tax Base

The guaranteed tax base (GTB) program is intended to encourage less wealthy jurisdictions to maintain or increase local education tax effort, *i.e.*, local education appropriation as a percent of local tax base. The program provides additional State education aid to counties that have less than 80% of the statewide average wealth per pupil and provide local education funding above the minimum local share required by the foundation program. The program uses local education tax effort and wealth to determine State aid amounts for each eligible school system.

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 the greater of the maintenance of effort (MOE) requirement or the local share amount of all wealth-equalized formulas. The per pupil MOE amount is based upon the greater of (1) the prior year FTE enrollment and (2) the three-year moving average of FTE enrollment. (There is a certain adjustment for fiscal 2024 MOE for specified counties.) The local share amount equals the local share of the foundation formula, compensatory education, English language learner, special education, CWI, 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. 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 the 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 15% of the education effort adjustment in fiscal 2023 to 50% by fiscal 2030. State relief for the second tier is phased up from 20% of the education effort adjustment in fiscal 2023 to 100% by fiscal 2030. State relief for the third tier is 100% beginning in fiscal 2023. 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 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 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.

State Expenditures: Given the effective date of the bill and based upon current projections for FTE enrollment by county, State expenditures, in the form of aid to public schools, increase by an estimated \$41.9 million in fiscal 2025 and by \$28.3 million by fiscal 2028. As shown in **Exhibit 1**, the majority of this increase is due to increased foundation formula State aid, since the enrollment count is an important variable within the foundation formula.

Under current law, local school systems experiencing declining FTE enrollment in recent prior years have an enhanced enrollment count by virtue of taking the greater of the prior

year FTE enrollment and the three-year moving average of FTE enrollment. The bill essentially reverses current law by providing a count for these local school systems that is below the prior fiscal year FTE enrollment count and providing an enhanced enrollment count for school systems that on average are experiencing recent FTE enrollment increases. Based on current projections of FTE enrollment, this results in a statewide increase in the enrollment count. The change to enrollment is discussed further in the Local Fiscal Effect section below.

Exhibit 1
Change in State Expenditures under the Bill
(\$ in Thousands)

	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>F 2028</u>
Foundation Program	\$36,020.2	\$47,172.3	\$38,734.1	\$26,788.9
Comparable Wage Index	2,262.5	3,369.9	2,654.3	1,817.8
Guaranteed Tax Base	(808.5)	(1,074.8)	(350.2)	(313.4)
Education Effort Index	4,389.3	0.0	(105.6)	0.0
Total	\$41,863.5	\$49,467.4	\$40,932.6	\$28,293.3

Source: Department of Legislative Services

Blueprint for Maryland’s Future Fund (BMFF) special fund revenues are projected to be sufficient to cover mandated annual increases in expenditures for the Blueprint for Maryland’s Future through fiscal 2026. However, current projections indicate that, under current law, revenues in BMFF, including prior-year fund balances, will be less than the current law required increases to annual expenditures under the Blueprint beginning in fiscal 2027. Thus, the expenditures shown in Exhibit 1 are covered by a combination of special and general funds through fiscal 2026 but are covered entirely by general funds beginning in fiscal 2027.

Local Fiscal Effect: Due to enrollment count changes under the bill, shown in **Exhibit 2**, local per pupil MOE results are altered and local share relief provisions are altered. Based upon projected trends in local appropriations, **Exhibit 3** shows the estimated change in local appropriations under the bill. **Exhibit 4** shows estimated changes in combined State aid and local appropriations to public schools under the bill, based on factors discussed above. Effects in fiscal 2025 range from an estimated \$17.2 million decrease in funding for Baltimore City Public Schools to an estimated increase of \$16.4 million for Montgomery County Public Schools.

Exhibit 2
Estimated Changes in Enrollment Counts under the Bill

County	FY 2025	FY 2026	FY 2027	FY 2028
Allegany	(48)	(135)	(94)	(66)
Anne Arundel	1,031	1,024	776	523
Baltimore City	(1,895)	(790)	(557)	(392)
Baltimore	411	1,146	867	584
Calvert	(62)	(193)	(136)	(96)
Caroline	63	29	22	14
Carroll	240	(468)	(328)	(230)
Cecil	40	(193)	(136)	(96)
Charles	361	71	53	35
Dorchester	(79)	5	4	3
Frederick	883	359	272	183
Garrett	(99)	(92)	(65)	(45)
Harford	(3)	(56)	(40)	(28)
Howard	557	827	628	425
Kent	(73)	(44)	(31)	(22)
Montgomery	1,72	2,359	1,791	1,211
Prince George's	674	1,053	795	534
Queen Anne's	(24)	3	2	1
St. Mary's	108	77	59	39
Somerset	1	(2)	(2)	(2)
Talbot	6	17	13	9
Washington	69	44	33	2
Wicomico	188	53	40	26
Worcester	(42)	16	12	8
Total	4,034	5,110	3,978	2,640

Source: Department of Legislative Services

Exhibit 3
Estimated Changes in Local Appropriations under the Bill
(\$ in Thousands)

County	FY 2025	FY 2026	FY 2027	FY 2028
Allegany	(\$212)	(\$593)	(\$390)	\$0
Anne Arundel	0	0	0	0
Baltimore City	(3,353)	946	190	135
Baltimore	0	0	0	0
Calvert	0	0	0	0
Caroline	0	(9)	(3)	(3)
Carroll	0	0	0	0
Cecil	0	0	0	0
Charles	0	0	0	0
Dorchester	(53)	4	(1)	(1)
Frederick	516	0	0	0
Garrett	0	0	0	0
Harford	0	0	0	0
Howard	0	0	0	0
Kent	(291)	(292)	(258)	(190)
Montgomery	0	0	0	0
Prince George's	0	0	0	0
Queen Anne's	0	0	0	0
St. Mary's	0	0	0	0
Somerset	0	0	0	1
Talbot	66	133	108	78
Washington	0	0	0	(7)
Wicomico	0	0	0	0
Worcester	0	0	0	0
Total	(\$3,327)	\$189	(\$355)	\$13

Source: Department of Legislative Services

Exhibit 4
Estimated Changes in State Aid and Local Appropriations under the Bill
(\$ in Thousands)

County	FY 2025	FY 2026	FY 2027	FY 2028
Allegany	(\$671)	(\$2,018)	(\$1,609)	(\$870)
Anne Arundel	9,543	9,929	7,926	5,562
Baltimore City	(17,192)	(7,517)	(5,585)	(4,092)
Baltimore	3,724	10,900	8,690	6,089
Calvert	(564)	(1,847)	(1,372)	(1,008)
Caroline	576	263	209	142
Carroll	2,109	(4,317)	(3,195)	(2,332)
Cecil	355	(1,779)	(1,324)	(973)
Charles	3,319	676	533	365
Dorchester	(693)	47	39	30
Frederick	8,458	3,389	2,699	1,889
Garrett	(870)	(851)	(634)	(454)
Harford	(23)	(532)	(399)	(293)
Howard	5,209	8,101	6,480	4,557
Kent	(639)	(406)	(303)	(223)
Montgomery	16,416	23,457	18,761	13,189
Prince George's	6,294	10,300	8,196	5,728
Queen Anne's	(211)	28	19	10
St. Mary's	986	740	590	409
Somerset	11	(20)	(21)	(20)
Talbot	74	157	127	91
Washington	631	423	332	223
Wicomico	1,752	512	402	274
Worcester	(55)	22	18	12
Total	\$38,536	\$49,657	\$40,578	\$28,306

Source: Department of Legislative Services

Additional Information

Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

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

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