

Department of Legislative Services
 Maryland General Assembly
 2024 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 385 (Senator Lewis Young, *et al.*)
 Budget and Taxation

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, (1) dividing the following result by two: the prior school year full-time equivalent (FTE) enrollment minus the third prior school year FTE enrollment count, and (2) applying adjustment factors for fiscal 2025 to 2033. Average enrollment change is fully phased in by fiscal 2034. “FTE enrollment” is also altered by removing the reference to the “prior” school year. “Enrollment count” means the greater of (1) the prior school year FTE, (2) the 3-year moving average enrollment, or (3) the sum of the prior school year FTE enrollment and the average enrollment change. **The bill takes effect July 1, 2024.**

Fiscal Summary

State Effect: State expenditures increase by \$3.2 million in FY 2025, \$5.0 million in FY 2026, and \$3.2 million in FY 2027; expenditures in FY 2028 and FY 2029 are altered to significantly lesser degrees. By FY 2034, when the legislation is fully phased-in, State expenditures increase by approximately \$39.1 million annually. Revenues are not affected.

(\$ in thousands)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	29.3	140.3	3,242.2	205.1	(0.4)
SF Expenditure	3,149.9	4,894.2	0	0	0
Net Effect	(\$3,179.2)	(\$5,034.6)	(\$3,242.2)	(\$205.1)	\$0.4

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

Local Effect: As discussed below, in some counties, county government appropriations to local public schools increase modestly. State and local funding for local school systems is altered, as discussed below.

Small Business Effect: None.

Analysis

Bill Summary: Adjustment factors for “average enrollment change” for fiscal 2025 to fiscal 2033 aid are shown in **Exhibit 1**. After fiscal 2033, no adjustment factor is applied, and thus average enrollment change is fully phased in.

Exhibit 1 Average Enrollment Change Adjustment Factors by Fiscal Year

Fiscal 2025	0.10
Fiscal 2026	0.20
Fiscal 2027	0.30
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Fiscal 2028	0.40
Fiscal 2029	0.50
Fiscal 2030	0.60
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Fiscal 2031	0.70
Fiscal 2032	0.80
Fiscal 2033	0.90

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 include 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.

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: Based upon current projections for FTE enrollment by county, State expenditures, in the form of aid to public schools, increase by an estimated \$3.2 million in fiscal 2025, \$5.0 million in fiscal 2026, and by \$3.2 million in fiscal 2027. Expenditures in fiscal 2028 and fiscal 2029 are altered to significantly lesser degrees. Fiscal 2025 expenditure increases are not mandated. The fiscal 2025 State budget, as introduced, does not include funding for provisions of the bill. As shown in **Exhibit 2**, most of this increase is due to increased foundation formula State aid since the enrollment count is an important variable within the foundation formula. It should also be noted that by fiscal 2034, the year in which the “average enrollment change” and its impact on the enrollment count is fully phased-in, State expenditures are estimated to increase by approximately \$39.1 million annually.

Exhibit 2
Change in State Expenditures under the Bill
(\$ in Thousands)

	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>
Foundation Program	\$3,067.5	\$5,804.0	\$2,340.2	\$0.0	\$0.0
Comparable Wage Index	82.5	179.6	94.6	0.0	0.0
Guaranteed Tax Base	29.3	140.3	23.1	1.2	(0.4)
Education Effort Index	0.0	(1,089.4)	784.3	204.0	0.0
Total	\$3,179.2	\$5,034.6	\$3,242.2	\$205.1	(\$0.4)

Note: Numbers may not sum to total due to rounding.

Source: Department of Legislative Services

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 SB 385/ Page 5

year FTE enrollment and the three-year moving average of FTE enrollment. The bill provides 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 through fiscal 2027. Because current projections entail decreasing FTE enrollment for each county in fall 2026 and fall 2027, the enrollment count, and thus State foundation and CWI expenditures, are not affected. The change to enrollment is discussed further in the Local Fiscal Effect section below.

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 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 2 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, as shown in **Exhibit 3**, local per pupil MOE results are altered and local share relief provisions are altered. As mentioned above, current projections entail decreasing FTE enrollment for each county in fall 2026 and fall 2027, thus fiscal 2028 and fiscal 2029 enrollment counts are not projected to be affected by the bill. Based upon projected trends in local appropriations, **Exhibit 4** shows the modest estimated change in local appropriations under the bill. **Exhibit 5** shows estimated changes in combined State aid and local appropriations to public schools under the bill, based on factors discussed above. In fiscal 2029, the negligible increase in State aid is offset by similar decreases in county appropriations, thus resulting in a net impact of virtually \$0 for public school revenues.

Exhibit 3
Estimated Changes in Enrollment Counts under the Bill

County	FY 2025	FY 2026	FY 2027
Allegany	2	5	5
Anne Arundel	44	27	20
Baltimore City	0	171	34
Baltimore	0	0	40
Calvert	0	0	3
Caroline	0	0	1
Carroll	51	43	6
Cecil	5	0	4
Charles	37	23	7
Dorchester	0	9	1
Frederick	111	105	11
Garrett	0	0	1
Harford	4	23	9
Howard	0	7	14
Kent	0	0	0
Montgomery	0	0	38
Prince George's	53	142	30
Queen Anne's	1	10	2
St. Mary's	0	0	4
Somerset	2	6	1
Talbot	0	2	1
Washington	14	30	6
Wicomico	26	28	3
Worcester	0	3	1
Total	350	634	242

Source: Department of Legislative Services

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

County	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Allegany	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Anne Arundel	0.0	0.0	0.0	0.0	0.0
Baltimore City	0.0	0.0	0.0	0.0	0.0
Baltimore	0.0	0.0	0.0	0.0	0.0
Calvert	0.0	0.0	0.0	0.0	0.0
Caroline	0.0	0.0	(0.6)	0.3	(0.3)
Carroll	0.0	0.0	0.0	0.0	0.0
Cecil	0.0	0.0	0.0	0.0	0.0
Charles	0.0	0.0	0.0	0.0	0.0
Dorchester	0.0	(3.2)	0.0	0.0	0.0
Frederick	0.0	0.0	0.0	0.0	0.0
Garrett	0.0	0.0	0.0	0.0	0.0
Harford	0.0	0.0	0.0	0.0	0.0
Howard	0.0	0.0	0.0	0.0	0.0
Kent	0.0	0.0	0.0	0.0	0.0
Montgomery	0.0	0.0	0.0	0.0	0.0
Prince George's	0.0	0.0	0.0	0.0	0.0
Queen Anne's	0.0	0.0	0.0	0.0	0.0
St. Mary's	0.0	0.0	0.0	0.0	0.0
Somerset	0.0	(2.8)	0.4	(0.2)	0.1
Talbot	0.0	18.6	6.9	0.0	0.0
Washington	0.0	(9.0)	(0.1)	0.0	0.0
Wicomico	0.0	(11.9)	3.7	(1.3)	0.6
Worcester	0.0	0.0	0.0	0.0	0.0
Total	\$0.0	(\$8.4)	\$10.3	(\$1.2)	\$0.4

Source: Department of Legislative Services

Exhibit 5
Estimated Changes in State Aid and Local Appropriations under the Bill
(\$ in Thousands)

County	FY 2025	FY 2026	FY 2027	FY 2028
Allegany	\$16.5	\$50.0	\$49.4	\$0.0
Anne Arundel	407.9	260.2	201.0	0.0
Baltimore City	0.0	643.1	1,143.0	204.0
Baltimore	0.0	0.0	400.2	0.0
Calvert	0.0	0.0	34.3	0.0
Caroline	0.0	0.0	12.5	0.0
Carroll	444.1	396.9	62.8	0.0
Cecil	41.4	0.0	34.9	0.0
Charles	342.8	222.3	69.5	0.0
Dorchester	0.0	85.1	12.8	0.0
Frederick	994.5	985.7	107.4	0.0
Garrett	0.0	0.0	8.4	0.0
Harford	32.5	220.2	93.7	0.0
Howard	0.0	73.2	139.8	0.0
Kent	0.0	0.0	2.6	0.0
Montgomery	0.0	0.0	399.0	0.0
Prince George's	495.7	1,392.7	313.2	0.0
Queen Anne's	12.4	91.6	19.8	0.0
St. Mary's	0.0	0.0	41.9	0.0
Somerset	21.3	51.7	10.2	0.0
Talbot	0.0	21.9	8.1	0.0
Washington	126.9	273.6	54.7	0.0
Wicomico	243.2	254.4	31.6	0.0
Worcester	0.0	3.8	1.8	0.0
Total	\$3,179.2	\$5,026.2	\$3,252.5	\$204.0

Source: Department of Legislative Services

Additional Comments: Removing the word “prior” from the definition of FTE alters the count for the foundation program and wealth equalization of multiple major aid programs by altering definitions used for wealth equalization, such that these would be based on the current year and thus figures not available at the time of the annual budget allowance. This analysis does not account for the considerable, but uncertain, changes to State aid and local appropriations by local education agency that follow from this aspect of the bill.

Additional Information

Recent Prior Introductions: Similar legislation has been introduced within the last three years. See HB 598 of 2023.

Designated Cross File: HB 221 (Delegate Wu, *et al.*) - Appropriations.

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

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