

Department of Legislative Services
 Maryland General Assembly
 2018 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 557 (Delegate M. Washington, *et al.*)
 Appropriations and Ways and Means

Primary and Secondary Education - Education Trust Fund - Use of Fund

This bill requires, beginning in fiscal 2020, the Governor to annually appropriate from the Education Trust Fund (ETF) to each local board of education an amount equal to the total amount of money in the ETF multiplied by that local board’s percentage of State “direct education aid” for public schools. This appropriation may not supplant required funding for programs or formulas established under the Education Article. Allowable uses of ETF funding are altered by excluding capital projects at community colleges and public senior higher education institutions and, though funding for public school education remains as an allowable use, specific reference to continuation of the funding and formulas established by the Bridge to Excellence in Public Schools Act of 2002 is repealed. **The bill takes effect July 1, 2018.**

Fiscal Summary

State Effect: General fund expenditures for State aid increase by \$510.5 million in FY 2020 and by \$517.8 million by FY 2023. General fund expenditures for teacher retirement 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	510.5	502.6	510.2	517.8
Net Effect	\$0.0	(\$510.5)	(\$502.6)	(\$510.2)	(\$517.8)

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

Local Effect: Beginning in FY 2020, local public school systems annually receive over \$500 million in additional State aid; expenditures increase by equivalent amounts. Local retirement expenditures increase statewide beginning in FY 2022.

Small Business Effect: None.

Analysis

Bill Summary: The bill defines “direct education aid” as the total financial assistance provided by the State to a local board of education under the following:

- the foundation program, including funds for the geographic cost of education;
- transportation;
- compensatory education;
- students with limited English proficiency;
- special education students; and
- the guaranteed tax base program.

The provision that expenditures from the ETF must be made in accordance with the State budget is repealed.

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 (Chapter 288 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%.

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 video lottery terminals (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 for fiscal 2019 through 2023 are shown in **Exhibit 1**. The exhibit shows that the projected ETF revenues are less than the over \$3.3 billion in annual Bridge to Excellence foundation program expenditures.

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: Board of Revenue Estimates; Department of Legislative Services

State Expenditures: General fund expenditures increase by \$510.5 million in fiscal 2020 and by \$517.8 million by fiscal 2023, consistent with the estimates shown in Exhibit 1.

Designating the use of ETF monies for supplemental grants to local boards of education 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 over \$500 million annually to preserve funding of the foundation formula.

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 to hire additional teachers and/or to increase salaries beginning in fiscal 2020, State teachers' retirement costs will increase beginning in fiscal 2022.

Local Fiscal Effect: Beginning in fiscal 2020, State aid revenues for public schools in Maryland increase by over \$500 million annually, as discussed above. Local school system expenditures increase by equivalent amounts beginning in fiscal 2020. **Exhibit 2** shows the projected percentage of direct education aid, as defined by the bill, for fiscal 2020 and the estimated revenue increases for each county's local public school system in that year, totaling \$510.5 million. Through fiscal 2023 and beyond, local school systems each receive an *annual* amount of funding that is similar to those shown for fiscal 2020.

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 each local public school system's salary base. Accordingly, local expenditures for teacher retirement increase beginning in fiscal 2022.

Exhibit 2
Fiscal 2020 Increase in Direct State Education Aid
(\$ in Millions)

County	% of Direct Education Aid	State Aid Increase
Allegany	1.4%	\$7.3
Anne Arundel	6.5%	33.3
Baltimore City	14.3%	72.9
Baltimore	12.0%	61.4
Calvert	1.4%	7.3
Caroline	1.0%	5.0
Carroll	2.3%	11.5
Cecil	1.8%	9.3
Charles	3.2%	16.6
Dorchester	0.8%	4.0
Frederick	4.4%	22.2
Garrett	0.4%	1.8
Harford	3.6%	18.5
Howard	4.7%	23.8
Kent	0.2%	0.8
Montgomery	12.6%	64.5
Prince George's	19.9%	101.5
Queen Anne's	0.6%	3.1
St. Mary's	1.9%	9.8
Somerset	0.6%	2.9
Talbot	0.2%	1.3
Washington	3.2%	16.1
Wicomico	2.7%	13.8
Worcester	0.3%	1.8
Total	100.0%	\$510.5

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - March 6, 2018
mag/rhh

Analysis by: Scott P. Gates

Direct Inquiries to:
(410) 946-5510
(301) 970-5510