

Department of Legislative Services
 Maryland General Assembly
 2013 Session

FISCAL AND POLICY NOTE

House Bill 1474
 Ways and Means

(Delegate Luedtke, *et al.*)

Education - State Funding - Operating and Capital Funds

This bill increases from 1% to 5% the fiscal 2015 cap on the inflation rate applied to the per pupil foundation amount used in determining the funding amount for many of the major State education aid formulas. The bill also changes the Geographic Cost of Education Index (GCEI) formula from discretionary to mandated beginning in fiscal 2014. Further, the bill establishes an annual State goal of at least \$350 million to fund public school construction or capital improvement costs.

The bill takes effect July 1, 2013.

Fiscal Summary

State Effect: General fund expenditures for State education aid increase by \$36.0 million in FY 2015. Future year totals reflect ongoing aid increases due to inflation and the estimated impact of increased State aid on teachers' retirement costs beginning in FY 2017. Revenues are not affected.

(\$ in millions)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	36.0	37.3	45.0	47.0
Net Effect	\$0	(\$36.0)	(\$37.3)	(\$45.0)	(\$47.0)

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

Local Effect: Local school system revenues from direct State aid increase by \$36.0 million in FY 2015, increasing to \$39.7 million by FY 2018. Local school system expenditures for teachers' retirement increase by approximately \$2.5 million statewide in FY 2017 and 2018.

Small Business Effect: None.

Analysis

Current Law: For fiscal 2012 through 2015, the per pupil foundation amount is inflated by the lesser of (1) the increase in the Implicit Price Deflator for State and Local Government Purchases (IPD); (2) the increase in the Consumer Price Index for all urban consumers (CPI-U) for the Washington-Baltimore Metropolitan Area; or (3) 1%. Beginning in fiscal 2016, inflation is capped at 5% instead of the 1% limit in place for fiscal 2012 through 2015.

The GCEI formula is established in statute but is not mandated.

Background:

Per Pupil Foundation Amount and Inflation

From fiscal 2002 through 2008, during the phase in of the Bridge to Excellence in Public Schools Act of 2002 (Chapter 288/SB 856), the per pupil foundation amount increased by an average of 8.4% per year. The per pupil foundation amount reached \$6,694 when fully phased in, in fiscal 2008. Chapter 2 of the 2007 special session (HB 1) then froze the per pupil amount at the fiscal 2008 level of \$6,694 for fiscal 2009 and 2010 and capped annual inflationary increases at 5%. The inflation measures used to determine the fiscal 2011 increase in the per pupil amount showed no growth, so the fiscal 2011 target per pupil foundation amount remained at \$6,694.

Chapter 487 of 2009 (HB 101) limited to 1% the fiscal 2012 inflationary increases for the per pupil foundation amount and Chapter 484 of 2010 (SB 141) extended the 1% cap on per pupil funding through fiscal 2015. However, Chapter 397 of 2011 (HB 72) held the per pupil foundation amount at \$6,694 for fiscal 2012; thus, the 1% increase in fiscal 2013 followed five consecutive years of per pupil funding at \$6,694. The bill increases the cap from 1% to 5% in fiscal 2015, or one year earlier than under current law.

Geographic Cost of Education Index

GCEI is a discretionary component of the State aid formulas that provides additional funding to school systems where educational resource costs are above the State average. Since funding for the program began in fiscal 2009, the State has provided aid through the GCEI to 13 local school systems each year. The Governor's proposed fiscal 2014 budget includes \$130.8 million for GCEI. Though funding for GCEI is discretionary under current law, it has been fully funded each year since fiscal 2010. Proposed GCEI funding for fiscal 2014 is shown in **Exhibit 1**.

Exhibit 1
Governor's Proposed GCEI Funding
Fiscal 2014
(\$ in Thousands)

Anne Arundel	\$9,274
Baltimore City	22,736
Baltimore	5,628
Calvert	2,278
Carroll	2,516
Charles	3,512
Frederick	6,451
Howard	5,219
Kent	137
Montgomery	33,637
Prince George's	38,612
Queen Anne's	564
St. Mary's	228
Total	\$130,792

Source: Department of Legislative Services

Public School Construction

The Public School Facilities Act (Chapters 306 and 307 of 2004, SB 787/HB 1230) established the State's intent to provide \$2 billion of funding for school construction by fiscal 2013, an average of \$250 million each year for eight years. The goal was met or exceeded each year. The Governor's proposed fiscal 2014 capital budget includes \$325 million for PSCP, including \$25 million in general funds for school security improvements. The State's *Capital Improvement Program* includes \$250 million in each of fiscal 2015 through 2018 to fund school construction. For additional information on public school construction and its funding see the **Appendix – State Funding for Public School Construction Projects**.

State Fiscal Effect: General fund expenditures for education aid increase by \$36.0 million in fiscal 2015 due to increasing from 1% to 5% the cap on annual growth in the per pupil foundation amount and based upon current projections for CPI-U and IPD. The per pupil foundation amount increases by an estimated \$53, from \$6,897 to \$6,950 in fiscal 2015, thus creating a higher base level for future inflationary growth. The largest increase is in the Foundation Program, the State's main education aid formula, but other

programs, such as the compensatory education program, are also affected because they include a per pupil foundation amount component.

Increases in State aid beginning in fiscal 2015 will also increase the growth of teachers' retirement costs, which are paid by the State on behalf of local school systems. The majority of funding for local school systems supports personnel costs, so increasing State aid to school systems is likely to increase the number of new personnel hired by school systems and/or increase growth in the salaries of existing school staff. Either of these outcomes will speed growth in the teacher salary bases of local school systems and increase future retirement costs.

State payments for the teachers' retirement program are calculated using actual school system salary bases from the second prior fiscal year. Increased State aid levels beginning in fiscal 2015, therefore, will affect teachers' retirement payments beginning in fiscal 2017. The increases are estimated at \$6.8 million in fiscal 2017 and \$7.2 million in fiscal 2018. The projected fiscal 2014 to 2018 impact of the bill by aid program is detailed in **Exhibit 2**.

Exhibit 2
Estimated Impact on General Fund Expenditures by Education Aid Program
Fiscal 2014 to 2018
(\$ in Millions)

<u>Program</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
Foundation Program	\$0.0	\$22.2	\$22.8	\$23.3	\$24.3
Geographic Cost Index	0.0	1.0	1.0	1.1	1.1
Compensatory Education	0.0	9.6	10.2	10.4	10.6
Special Education Formula	0.0	2.1	2.2	2.2	2.3
Limited English Proficiency	0.0	1.6	1.8	2.0	2.2
Guaranteed Tax Base	0.0	(0.7)	(0.8)	(0.8)	(0.9)
Other ¹	0.0	0.1	0.1	0.1	0.1
Direct Aid Subtotals	\$0.0	\$36.0	\$37.3	\$38.2	\$39.7
Teachers' Retirement	0.0	0.0	0.0	6.8	7.2
Grand Total	\$0.0	\$36.0	\$37.3	\$45.0	\$47.0

¹ Includes State aid for residential boarding education programs for at-risk youth and for certain students residing in one county but attending school in another county.

Source: Department of Legislative Services

Local Fiscal Effect: Local school system revenues from direct State aid increase by \$36.0 million in fiscal 2015 due to increased per pupil funding. The projected impact for fiscal 2015 is shown by school system in **Exhibit 3**. State education aid will increase annually with inflationary growth.

In addition to increases in direct State aid, State payments on behalf of local school systems for teachers' retirement will increase beginning in fiscal 2017. The increases are projected at \$6.8 million in fiscal 2017 and \$7.2 million by fiscal 2018.

Due to comprehensive pension reform provisions within the Budget Reconciliation and Financing Act of 2011 (Chapter 397, HB 72), local school systems are required to pay a prorated share of the administrative costs of the State Retirement Agency based on the number of their employees who are members of the Teacher Pension System or the Teachers' Retirement System. Chapter 1 (SB 1301) of the 2012 first special session requires local school boards to share in the costs of teachers' retirement by phasing in school board payments of the annual normal cost over four years and sets out the payment required from each school board for fiscal 2013 through 2016. Beginning in fiscal 2017, local school boards will be responsible for the actual normal cost of pensions for qualifying personnel. Under the assumptions described above, county expenditures for teacher retirement increase by approximately \$2.5 million in fiscal 2017 and 2018, ranging from an estimated increase of \$6,000 for Kent County to \$488,000 for Montgomery County.

Exhibit 3
Impact on Local School Revenues from Direct State Aid
Fiscal 2015
(\$ in Thousands)

Allegany	\$462
Anne Arundel	2,290
Baltimore City	5,826
Baltimore	4,244
Calvert	567
Caroline	311
Carroll	937
Cecil	704
Charles	1,133
Dorchester	242
Frederick	1,656
Garrett	115
Harford	1,441
Howard	1,546
Kent	53
Montgomery	4,339
Prince George's	6,805
Queen Anne's	234
St. Mary's	664
Somerset	170
Talbot	81
Washington	1,104
Wicomico	840
Worcester	124
Unallocated	78
Total	\$35,968

Note: Numbers may not sum due to rounding

Source: Department of Legislative Services

Additional Information

Prior Introductions: None.

Cross File: SB 958 (Senator Madaleno) - Rules.

Information Source(s): Department of Budget and Management, Maryland State Department of Education, Public School Construction Program, Department of Legislative Services

Fiscal Note History: First Reader - March 18, 2013
mc/rhh

Analysis by: Scott P. Gates

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

Appendix – State Funding for Public School Construction Projects

Subject to the final approval of the Board of Public Works (BPW), the Interagency Committee on School Construction (IAC) manages State review and approval of local school construction projects. Each year, local systems develop and submit to IAC a facilities master plan that includes an analysis of future school facility needs based on the current condition of school buildings and projected enrollment. The master plan must be approved by the local school board. Subsequently, each local school system submits a capital improvement plan to IAC that includes projects for which it seeks planning and/or funding approval for the upcoming fiscal year, which may include projects that the local system has forward funded. In addition to approval from the local school board, the request for the upcoming fiscal year must be approved by the county's governing body. Typically, the submission letter to IAC contains signatures of both the school board president and either the county executive and county council president or chair of the board of county commissioners.

Based on its assessment of the relative merit of all the project proposals it receives, and subject to the projected level of school construction funds available, IAC makes recommendations for which projects to fund to BPW. By December 31 of each year, IAC must recommend to BPW projects comprising 75% of the preliminary school construction allocation projected to be available by the Governor for the upcoming fiscal year. Local school boards may then appeal the IAC recommendations directly to BPW. By March 1 of each year, IAC must recommend to BPW and the General Assembly projects comprising 90% of the allocation for school construction submitted in the Governor's capital budget. Following the legislative session, IAC recommends projects comprising the remaining school construction funds included in the enacted capital budget for BPW approval, no earlier than May 1.

The State pays at least 50% of eligible costs of school construction and renovation projects, based on a funding formula that takes into account numerous factors including each local school system's wealth and ability to pay. The Public School Facilities Act (Chapters 306 and 307 of 2004, SB 787/HB 1230) requires that the cost-share formula be recalculated every three years. The first recalculation occurred in 2007, and the second recalculation occurred in 2010. **Exhibit 1** shows the State share of eligible school construction costs for all Maryland jurisdictions for fiscal 2012, which was determined by the 2007 recalculation, and for fiscal 2013 through 2015, as determined by the 2010 recalculation. The 2013 recalculation will be conducted prior to fall 2013 for implementation beginning in fiscal 2016.

Chapters 306 and 307 also established the State's intent to provide \$2.0 billion of funding for school construction by fiscal 2013, an average of \$250.0 million each year for

eight years. As a result, the Public School Construction Program funding increased from \$125.9 million in fiscal 2005 to \$253.8 million in fiscal 2006, and it has remained above the \$250.0 million target each year since, which resulted in significant increases in school construction assistance to local school boards. As a result, the State achieved the \$2.0 billion goal ahead of schedule. **Exhibit 2** shows annual State public school construction funding since fiscal 2006, by county.

Exhibit 1
State Share of Eligible School Construction Costs
Fiscal 2012-2015

<u>County</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
Allegany	91%	93%	93%	93%
Anne Arundel	50%	50%	50%	50%
Baltimore City	94%	93%	93%	93%
Baltimore	50%	50%	50%	50%
Calvert	61%	56%	56%	56%
Caroline	86%	81%	78%	78%
Carroll	61%	58%	58%	58%
Cecil	75%	70%	69%	69%
Charles	77%	72%	67%	63%
Dorchester	71%	69%	69%	69%
Frederick	72%	67%	62%	60%
Garrett	59%	54%	50%	50%
Harford	59%	63%	63%	63%
Howard	61%	60%	60%	60%
Kent	50%	50%	50%	50%
Montgomery	50%	50%	50%	50%
Prince George's	73%	68%	63%	62%
Queen Anne's	55%	50%	50%	50%
St. Mary's	75%	70%	65%	64%
Somerset	88%	83%	82%	82%
Talbot	50%	50%	50%	50%
Washington	73%	71%	71%	71%
Wicomico	87%	96%	96%	96%
Worcester	50%	50%	50%	50%

Source: Public School Construction Program

Exhibit 2
State Funding for Public School Construction
(\$ in Thousands)

County	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Total FY 06-13
Allegany	\$12,000	\$18,650	\$412	\$0	\$0	842	603	741	\$33,248
Anne Arundel	19,457	22,675	27,827	27,420	25,020	26,200	27,400	33,300	209,299
Baltimore City	21,523	39,436	52,665	41,000	27,733	28,559	32,000	42,600	285,516
Baltimore	25,218	35,053	52,250	40,985	28,000	29,000	32,000	43,300	285,806
Calvert	3,437	2,723	12,644	7,824	8,181	8,450	6,907	7,018	57,184
Caroline	4,699	2,935	2,426	8,100	6,000	3,767	86	350	28,363
Carroll	7,434	8,282	8,219	11,741	10,520	8,444	8,905	12,748	76,293
Cecil	8,656	8,271	9,533	2,674	1,538	1,744	2,414	1,514	36,344
Charles	8,267	10,200	13,170	11,704	8,898	8,335	8,630	8,000	77,204
Dorchester	656	872	6,137	10,400	6,469	5,436	3,502	0	33,472
Frederick	11,910	17,942	18,728	14,759	16,226	14,000	16,300	19,092	128,957
Garrett	1,507	1,235	6,243	3,020	666	0	333	0	13,004
Harford	8,287	11,096	16,238	14,751	16,253	13,835	16,206	14,512	111,177
Howard	15,273	17,808	23,206	18,265	18,262	18,290	22,936	32,490	166,530
Kent	2,000	3,479	1,335	0	388	0	0	0	7,202
Montgomery	30,431	40,040	52,297	53,312	28,350	30,183	33,000	43,106	310,720
Prince George's	29,833	37,425	52,250	41,000	28,200	29,500	31,348	40,375	289,931
Queen Anne's	6,897	3,000	3,925	4,951	3,947	5,750	5,195	0	33,665
St. Mary's	3,271	5,495	9,806	7,266	4,028	6,600	3,064	2,314	41,844
Somerset	14,300	12,022	5,153	0	6,000	6,000	3,257	0	46,732
Talbot	2,422	2,405	2,038	0	436	344	0	0	7,645
Washington	6,431	4,478	8,970	9,368	7,965	7,970	8,400	9,000	62,582
Wicomico	7,616	4,178	8,143	12,960	13,170	9,975	1,597	10,808	68,447
Worcester	2,241	6,872	8,213	5,483	403	0	0	0	23,212
MD School for the Blind								2,800	2,800
Bond Premium		6,100							6,100
Statewide						500	47,500	25,100	73,100
Total	\$253,766	\$322,672	\$401,828	\$346,983	\$266,653	\$263,724	\$311,583	\$349,167	\$2,516,376
Over \$250 million	\$3,766	\$72,672	\$151,828	\$96,983	\$16,653	\$13,724	\$61,583	\$99,167	\$516,376

Note: \$25.0 million of the statewide allocation in fiscal 2013 is for the Energy Efficiency Initiative and is to be distributed based on local requests and need for funding to replace inefficient systems.