

Department of Legislative Services  
 Maryland General Assembly  
 2013 Session

FISCAL AND POLICY NOTE

House Bill 1026 (Delegate Clagett)  
 Ways and Means

Education - Public School Funding - Calculation

This bill alters the full-time equivalent (FTE) enrollment count methodology used for the State education aid formulas by weighting at 70% the number of students enrolled in schools on September 30 and weighting at 30% the number of students enrolled on March 31 of the prior school year.

The bill takes effect July 1, 2013, and applies to the calculation of payments of State aid beginning in fiscal 2015.

Fiscal Summary

**State Effect:** General fund expenditures for State education aid decrease by an estimated \$4.3 million in FY 2015 due to an expected reduction in FTE enrollment counts. Future year cost savings reflect continued lower FTE enrollment counts, the estimated impact of reduced State aid on teachers' retirement costs beginning in FY 2017, and inflation. 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	(4.3)	(4.7)	(5.2)	(5.4)
Net Effect	\$0	\$4.3	\$4.7	\$5.2	\$5.4

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

**Local Effect:** Local school system revenues from direct State education aid decrease by an estimated \$4.3 million in FY 2015 and by \$5.1 million in FY 2018 due to decreases in FTE enrollment counts; however, some school systems could realize increases in State aid. Local teachers' retirement expenditures decrease minimally beginning in FY 2016. Required county appropriations to local school systems will also be affected, including potential increases for some school systems.

**Small Business Effect:** None.

## Analysis

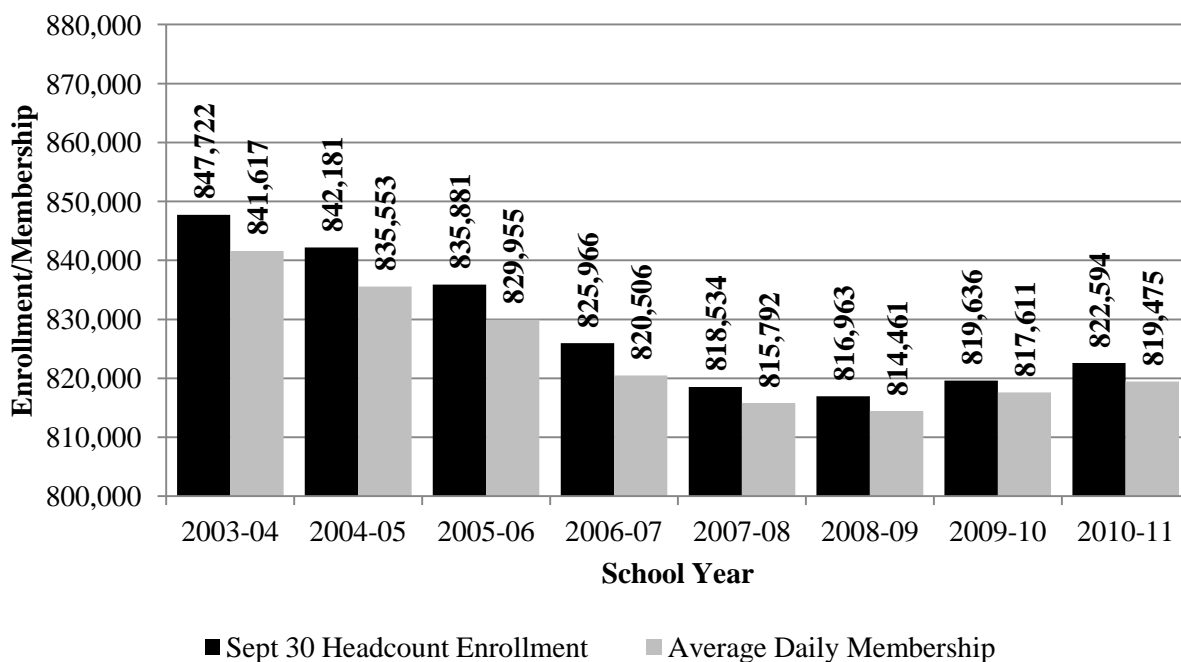
**Current Law:** FTE student enrollment counts used in the State education aid formulas include all kindergarten through grade 12 students enrolled in each local school system on September 30 of the preceding school year, less out-of-state students attending Maryland schools and discounted for part-time students.

**Background:** The State does not report enrollment figures from March 31, so it is difficult to project how a March enrollment count will compare with the current September counts. New students transfer into and out of Maryland schools throughout the year, with enrollment growing for some local school systems and declining in others over the course of a school year. The Maryland State Department of Education does report an average daily membership, which represents the average number of students expected at school each day. Average daily membership (ADM) may give some indication of how enrollments change throughout a school year and may be roughly equivalent to the average of the September 30 and March 31 enrollment counts. **Exhibit 1** displays for eight recent school years the September 30 enrollment count and the ADM. In every year, ADM was very close but slightly below the September 30 enrollment count. Over the eight years, ADM represented about 99.5% of the September 30 enrollment. The bill gives more weight to the current September enrollment count, therefore based on past ADM results, calculated enrollment under the bill will likely be between 99.5% and 100% of September enrollment.

Enrollment and average daily membership are compared by school system in **Exhibit 2**. The exhibit shows that, although average daily membership was about 3,100 students below total enrollment numbers, five school systems, Carroll, Charles, Howard, Montgomery and Washington counties, actually had higher ADM than their September 30 enrollment counts. This is due to transfers *into* these systems outpacing transfers out and school withdrawals.

**State Expenditures:** Using average daily membership as a proxy for the average of September and March enrollments, and then adjusting for the 70% weight placed on September enrollment, general fund expenditures decrease by an estimated \$4.3 million in fiscal 2015, when the new enrollment methodology will be used for the first time. The decrease is attributable to the lower enrollment figure derived from the estimate.

**Exhibit 1**  
**September 30 Enrollment and Average Daily Membership**  
**Kindergarten to Grade 12**  
**2003-2004 to 2010-2011 School Years**



Source: Maryland State Department of Education

After fiscal 2015, the reduction in State aid will grow due to expected annual increases in enrollment. In fiscal 2018, general fund expenditures for direct State education aid will be an estimated \$5.1 million below expected levels due to lower FTE enrollment counts used in the State education aid formulas.

Reductions in direct State education aid beginning in fiscal 2015 will also slow the growth of the State’s share of teachers’ retirement costs. The majority of funding for local school systems supports personnel costs, so reducing State aid to school systems is likely to reduce the number of new personnel hired by school systems and/or reduce growth in the salaries of existing school staff. Either of these outcomes will slow growth in the professional salary bases of local school systems and reduce future retirement costs.

State payments for the teachers’ retirement program are calculated using actual school system salary bases from the second prior fiscal year. Lower State aid levels beginning in fiscal 2015, therefore, will affect teachers’ retirement payments beginning in

fiscal 2017. The reductions are estimated at \$246,000 in fiscal 2017 and \$257,000 in fiscal 2018.

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**Exhibit 2**  
**Comparison of Enrollment and Average Daily Membership**  
**Kindergarten to Grade 12**  
**2010-2011 School Year**

<b>School System</b>	<b>Sep 30, 2010 Enrollment</b>	<b>10-11 Avg. Daily Membership</b>	<b>Difference Number</b>	<b>Percent</b>
Allegany	8,516	8,486	(30)	-0.3%
Anne Arundel	73,811	73,489	(322)	-0.4%
Baltimore City	78,926	78,116	(810)	-1.0%
Baltimore	100,547	100,464	(83)	-0.1%
Calvert	16,410	16,328	(82)	-0.5%
Caroline	5,174	5,150	(24)	-0.5%
Carroll	27,063	27,090	27	0.1%
Cecil	15,347	15,247	(100)	-0.7%
Charles	25,992	26,002	10	0.0%
Dorchester	4,379	4,343	(36)	-0.8%
Frederick	39,204	39,106	(98)	-0.3%
Garrett	4,090	4,070	(20)	-0.5%
Harford	37,612	37,034	(578)	-1.5%
Howard	49,991	50,053	62	0.1%
Kent	2,035	2,027	(8)	-0.4%
Montgomery	140,520	140,670	150	0.1%
Prince George's	120,247	119,354	(893)	-0.7%
Queen Anne's	7,493	7,434	(59)	-0.8%
St. Mary's	16,464	16,333	(131)	-0.8%
Somerset	2,706	2,689	(17)	-0.6%
Talbot	4,258	4,241	(18)	-0.4%
Washington	21,668	21,686	18	0.1%
Wicomico	13,810	13,741	(69)	-0.5%
Worcester	6,331	6,322	(9)	-0.1%
<b>Total</b>	<b>822,594</b>	<b>819,475</b>	<b>(3,119)</b>	<b>-0.4%</b>

Note: Numbers may not sum due to rounding of ADM. SEED School enrollment is excluded.

Source: Maryland State Department of Education

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**Local Fiscal Effect:** Local school system revenues from direct State aid decrease by an estimated \$4.3 million in fiscal 2015 due to the expected reduction in FTE school

enrollment counts used to determine State aid. The projected impact for fiscal 2015 is displayed by school system in **Exhibit 3**. The unusual pattern, with 6 school systems receiving more State aid and 18 receiving less results in part from the fact that school systems with higher dropout rates will have greater enrollment attrition by the March 31 enrollment count, meaning State aid will be reduced more for school systems with higher dropout rates. Also, the relative wealth per pupil across counties under the bill is slightly altered compared to current law, thus altering State aid formulas that include a wealth equalizing factor.

In addition to decreases in direct State aid, State payments on behalf of local school systems for teachers' retirement will decrease beginning in fiscal 2017. The decreases are projected at \$246,000 in fiscal 2017 and \$257,000 in fiscal 2018. The local contribution for teachers' retirement in each county also changes minimally (in some cases it may be higher).

Under the county maintenance of effort for public schools requirement, county (and Baltimore City) governments must appropriate to the local school systems at least as much funding per FTE student as was provided in the previous fiscal year. With the change in the FTE enrollment methodology proposed in the bill, some local governments will be relieved of some portion of the required funding levels beginning in fiscal 2015 while other counties may have to provide more local funding for education. The change in required maintenance of effort appropriations will depend on how the new FTE enrollment methodology affects each local school system. Collectively, county maintenance of effort levels are expected to decrease due to lower FTE enrollments, but some counties may have to provide more funding.

**Additional Comments:** The Department of Legislative Services notes that it will be difficult to implement the bill as drafted, which still uses prior year enrollment figures despite adding a March 31 enrollment count. Due to the timing of the State operating budget, which is enacted in early April each year, the total amount of funding needed for the upcoming fiscal year and the distribution of funds among local school systems will not be known for two to three months *after* enactment of the budget. It may be necessary to drop back to the *second* prior year for enrollment counts, to fully implement the bill, which would result in even lower enrollment counts and larger reductions in State aid than the bill's impact.

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**Exhibit 3**  
**Estimated Impact of HB 1026 on Local School Revenues from State Aid**  
**Fiscal 2015**  
**(\$ in Thousands)**

Allegany	(\$17)
Anne Arundel	(385)
Baltimore City	(2,358)
Baltimore	398
Calvert	(120)
Caroline	(37)
Carroll	172
Cecil	(204)
Charles	283
Dorchester	(98)
Frederick	(33)
Garrett	(32)
Harford	(1,181)
Howard	370
Kent	(6)
Montgomery	1,008
Prince George's	(1,780)
Queen Anne's	(98)
St. Mary's	(266)
Somerset	(38)
Talbot	(7)
Washington	276
Wicomico	(101)
Worcester	(4)
<b>Total</b>	<b>(\$4,259)</b>

Source: Department of Legislative Services

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**Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - March 12, 2013  
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