

Department of Legislative Services
 Maryland General Assembly
 2022 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 1426 (Delegate Luedtke)
 Appropriations

Primary and Secondary Education - Maintenance of Effort Requirements -
 Alterations

This bill requires, for fiscal 2023, county governments (including Baltimore City) to appropriate local funds to the public school operating budget in an amount not less than the greater of (1) the per pupil maintenance of effort (MOE) requirement for fiscal 2023 or (2) the county’s fiscal 2022 local appropriation, minus any applicable federal COVID-19 funding received by the county that is used to exceed MOE in fiscal 2022. County governments also remain subject to minimum appropriations resulting from the requirement to provide the local share of major education aid, after accounting for local share relief provisions. **The bill takes effect June 1, 2022.**

Fiscal Summary

State Effect: Special fund expenditures increase by approximately \$158,200 in FY 2024 and \$115,600 in FY 2025, in the form of increased guaranteed tax base (GTB) funding to Allegany County. **This bill increases a mandated appropriation in FY 2024 and 2025.**

(in dollars)	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Revenues	\$0	\$0	\$0	\$0	\$0
SF Expenditure	0	158,200	115,600	0	0
Net Effect	\$0	(\$158,200)	(\$115,600)	\$0	\$0

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

Local Effect: Local school system revenues and expenditures increase in FY 2023 through 2025. Local government expenditures increase in FY 2023 through 2025 for some counties due to increased public school funding requirements. Allegany County receives increased GTB funding, in the amounts described above. **This bill increases a mandate on a unit of local government.**

Small Business Effect: None.

Analysis

Current Law:

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 at least the same per pupil level as in the prior year (*i.e.*, MOE), or its required local share – whichever is greater. Beginning with the fiscal 2022 appropriation, the per pupil MOE level each year is based upon the greater of (1) the prior year full-time equivalent (FTE) enrollment and (2) the three-year moving average of FTE enrollment.

For fiscal 2023, the MOE calculation will use the fiscal 2021 local appropriation (instead of fiscal 2022) except for counties whose required fiscal 2022 MOE was adjusted by the escalator provision. Further, September 2019 FTE enrollment must be used to determine per pupil wealth for purposes of the escalator provision used to determine required fiscal 2022 and 2023 MOE. The enrollment count used in MOE excludes the 2020-2021 school year, which affects the calculation in fiscal 2022 through 2024. Also, county governments may, to the extent authorized under federal law, use federal funds received for COVID-19 relief to meet MOE requirements. Beginning in fiscal 2024, repealed is the requirement that a county that is below the statewide five-year moving average education effort level must increase its per pupil MOE amount by the lesser of (1) the increase in local wealth per pupil; (2) the statewide average increase in local wealth per pupil; or (3) 2.5% (*i.e.*, MOE escalator).

Beginning in fiscal 2023, local governments must fund the greater of MOE or the local share of all wealth-equalized formulas (instead of only the foundation formula). This includes the local share of the compensatory education, English language learner, special education, comparable wage index ((CWI), beginning in fiscal 2024), 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 program. 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. Effective in fiscal 2022, 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 that 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 10% of the education effort adjustment in fiscal 2022 to 50% by fiscal 2030. State relief for the second tier is phased up from 20% of the education effort adjustment in fiscal 2022 to 100% by fiscal 2030. State relief for the third tier is 100% beginning in fiscal 2022. 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 index 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.

Guaranteed Tax Base Program

The GTB 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. GTB funding in a given fiscal year depends upon the level of local appropriations for the immediate prior fiscal year.

State Expenditures: Special fund (Blueprint for Maryland’s Future Fund) expenditures increase by approximately \$158,200 in fiscal 2024 and \$115,600 in fiscal 2025, in the form of increased GTB funding. These increases, which amount to considerably less than a 1% increase in GTB each year compared to current law estimates, result from anticipated increased local funding effort made by Allegany County under the bill, in fiscal 2023 and 2024, as further discussed below.

Local Fiscal Effect: For fiscal 2023, the bill requires local governments to appropriate local funds to the public school operating budget in an amount not less than the greater of (1) the per pupil MOE requirement for fiscal 2023 or (2) the county’s fiscal 2022 local appropriation, minus any applicable federal COVID-19 funding received by the county that is used to exceed MOE in fiscal 2022. This establishes another factor, along with MOE and local share, in determining the minimum required local appropriation in fiscal 2023. As shown in **Exhibit 1**, the minimum required local appropriation will be higher in 14 jurisdictions, amounting to approximately \$159.5 million statewide. Reliable data regarding any applicable federal COVID-19 funding is not available. To the extent that federal funding is determined to meet the criteria under the bill, the estimated impact on the required local appropriations will be lower.

Exhibit 1
Fiscal 2023 Local Effort
(\$ in Millions)

County	Current Law			Under the Bill	
	Maintenance of Effort	Local Share ¹	Minimum Required Local Appropriation	Minimum Required Local Appropriation ²	Increase in Minimum Appropriation
Allegany	\$31.5	\$21.1	\$31.5	\$31.9	\$0.4
Anne Arundel	774.4	600.3	774.4	784.7	10.3
Baltimore City	274.4	309.6	309.6	275.5	0.0
Baltimore	846.6	714.2	846.6	888.3	41.7
Calvert	132.6	74.2	132.6	134.7	2.1
Caroline	16.1	15.1	16.1	16.0	0.0
Carroll	197.1	126.8	197.1	204.6	7.5
Cecil	89.2	75.2	89.2	88.5	0.0
Charles	193.6	127.1	193.6	200.7	7.1
Dorchester	20.9	20.7	20.9	20.8	0.0
Frederick	307.3	227.4	307.3	316.3	9.1
Garrett	28.4	25.6	28.4	28.7	0.3
Harford	274.3	203.3	274.3	293.8	19.5
Howard	604.8	359.6	604.8	628.3	23.5
Kent	18.1	16.6	18.1	18.6	0.5
Montgomery	1,721.7	1,320.3	1,721.7	1,752.7	31.0
Prince George's	720.5	796.8	796.8	766.8	0.0
Queen Anne's	62.2	48.2	62.2	62.6	0.4
St. Mary's	108.4	81.9	108.4	114.5	6.1
Somerset	10.5	8.6	10.5	10.4	0.0
Talbot	43.2	45.9	45.9	43.9	0.0
Washington	106.8	86.8	106.8	105.8	0.0
Wicomico	49.1	41.5	49.1	48.9	0.0
Worcester	97.1	63.1	97.1	96.3	0.0
Total	\$6,728.7	\$5,409.8	\$6,842.9	\$6,933.3	\$159.5

¹ Excludes local retirement costs. Reflects local share relief provisions. Assumes that education effort index State funding and associated relief are provided in fiscal 2023. Otherwise, local share for Baltimore City and Prince George's County, respectively, are \$408.6 million and \$823.3 million in fiscal 2023.

² Shows fiscal 2022 local appropriation subject to the maintenance of effort.

Source: Department of Legislative Services

Since several local governments consistently fund their local school system above the minimum requirement, the projected impact on local appropriations will be considerably less than the amount shown in Exhibit 1. Based on current projections of local appropriations to public schools, of the 14 jurisdictions with a higher minimum required local appropriation, 4 counties (Calvert, Carroll, Charles, and Frederick) are projected to exceed the new minimum required funding level and 5 counties (Baltimore, Harford, Howard, Kent, and St. Mary's) are projected to partially cover the new minimum required funding level. Only 5 of the 14 jurisdictions (Allegany, Anne Arundel, Garrett, Montgomery, and Queen Anne's) are not projected to provide any additional funding over the new minimum required funding level established by the bill. As shown in **Exhibit 2**, the anticipated statewide impact of the new minimum required funding level will total \$88.4 million in fiscal 2023. Because the new minimum required funding levels result in increased per pupil appropriations in fiscal 2023, the MOE amounts in future years are also affected. Accordingly, Exhibit 2 also shows the estimated increase in the minimum required funding level in fiscal 2024 and 2025, totaling \$15.2 million and \$2.2 million, respectively. No changes to estimated local appropriations in fiscal 2026 or subsequent years are anticipated.

Exhibit 2
Estimated Increase in Local Appropriations under the Bill
(\$ in Millions)

County	Fiscal 2023	Fiscal 2024	Fiscal 2025
Allegany	\$0.4	\$0.3	\$0.0
Anne Arundel	10.3	10.1	2.2
Baltimore City	0.0	0.0	0.0
Baltimore	29.5	3.9	0.0
Calvert	0.0	0.0	0.0
Caroline	0.0	0.0	0.0
Carroll	0.0	0.0	0.0
Cecil	0.0	0.0	0.0
Charles	0.0	0.0	0.0
Dorchester	0.0	0.0	0.0
Frederick	0.0	0.0	0.0
Garrett	0.3	0.0	0.0
Harford	7.2	0.4	0.0
Howard	5.7	0.0	0.0
Kent	0.1	0.0	0.0
Montgomery	31.0	0.0	0.0
Prince George's	0.0	0.0	0.0
Queen Anne's	0.4	0.0	0.0
St. Mary's	3.5	0.5	0.0
Somerset	0.0	0.0	0.0
Talbot	0.0	0.0	0.0
Washington	0.0	0.0	0.0
Wicomico	0.0	0.0	0.0
Worcester	0.0	0.0	0.0
Total	\$88.4	\$15.2	\$2.2

Note: To the extent that applicable federal COVID-19 relief funds were used to exceed the fiscal 2022 maintenance of effort requirement, the local effect is less than shown.

Source: Department of Legislative Services

Guaranteed Tax Base Program

Under current law, eight counties are projected to receive GTB funding in each of fiscal 2023 through 2028 (and beyond). Of these, per Exhibit 2, only Allegany County local appropriations are expected to be affected by the bill. Because local public school appropriations effort in a given year drives GTB funding in the next, the bill is anticipated to increase State GTB revenues to Allegany County, by approximately \$158,200 in fiscal 2024 and \$115,600 in fiscal 2025. Because the required minimum appropriation for Allegany County is above the local share minimum in fiscal 2024 and 2025, under current projections, this GTB funding is not estimated to provide relief to local appropriations in the form of local share reductions.

Additional Information

Prior Introductions: None.

Designated Cross File: SB 640 (Senator King) - Budget and Taxation.

Information Source(s): Kent, Montgomery, and Washington counties; Maryland Association of Counties; Department of Budget and Management; Department of Legislative Services

Fiscal Note History: First Reader - March 30, 2022
js/hlb

Analysis by: Scott P. Gates

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