

Department of Legislative Services
Maryland General Assembly
2013 Session

FISCAL AND POLICY NOTE

House Bill 1033
Ways and Means

(Delegate Stocksdale)

Education - Taxpayers' Savings Act

This bill requires tuition reimbursement for the parents of eligible children who reside in the State and attend a nonpublic school that is certified by, or registered with, the State upon the parents' request. Annual reimbursements must be made available by the local board of education until the earlier of completion of high school or the student's twenty-first birthday. The annual reimbursement is the lesser of the tuition paid or 60% of the annual per pupil aid the local board of education would have received from State and local sources to educate the eligible student had the student enrolled in a public school in the county.

Students for whom nonpublic school tuition reimbursement is provided are included in the full-time equivalent enrollment (FTE) used to determine State education aid to the county. Funds used for reimbursement are subtracted from State education aid to the county; the county receives the remaining State aid in excess of the funds needed for reimbursement.

The bill takes effect July 1, 2013.

Fiscal Summary

State Effect: General fund expenditures increase substantially; under one set of assumptions, expenditures increase by \$20.6 million in FY 2015 and by \$85.2 million in FY 2018. The Comptroller's Office may incur minimally increased expenditures to monitor and report on reimbursements. The Maryland State Department of Education (MSDE) and the Comptroller's Office can adopt required regulations using existing resources. **This bill requires a mandated appropriation beginning in FY 2015.**

| (\$ in millions) | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|------------------|---------|----------|----------|----------|----------|
| Revenues | \$0 | \$0 | \$0 | \$0 | \$0 |
| GF Expenditure | 0 | 20.6 | 40.8 | 62.5 | 85.2 |
| Net Effect | \$0 | (\$20.6) | (\$40.8) | (\$62.5) | (\$85.2) |

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

Local Effect: Local school system revenues from State aid may increase by \$20.6 million in FY 2015 and by \$85.2 million in FY 2018. However, local expenditures for tuition reimbursements and on additional transportation for students may exceed the State aid increases. **This bill may impose a mandate on a unit of local government.**

Small Business Effect: Meaningful impact on private schools.

Analysis

Bill Summary: Eligible children include those entering kindergarten and those that attended a public school in the immediate prior year before initial participation in the program. The local board of education must remit payment to the parent of an eligible student within 30 days after receipt of the request for reimbursement. Federal funds may not be used for reimbursement. An eligible student may not receive reimbursement in an amount that is more than the cost of tuition at the eligible school.

By October 1 of each year, the Comptroller must submit to the Governor and the General Assembly a report on the number and amount of reimbursements claimed and the number of eligible nonpublic schools enrolling eligible students. The Comptroller, in consultation with MSDE, must adopt regulations to carry out this provision.

The local board of education must provide an eligible nonpublic school a complete copy of an eligible student's school records. The local board must provide transportation for the eligible student under the same conditions as the local board is required to provide transportation for other resident children to nonpublic school.

The bill explicitly does not expand the regulatory authority of the State or a local school system to impose any additional regulation of nonpublic schools beyond those reasonably necessary to enforce the requirements of the bill. MSDE must adopt regulations to implement provisions of the bill.

Current Law: The State does not provide tuition reimbursements for students attending private schools. With the exception of students with disabilities who are placed by the school systems in appropriate nonpublic schools, local school systems are not required to provide transportation to students attending private schools.

Background: States have experimented with school choice in a variety of forms, including charter schools, magnet schools, tax credits and deductions, vouchers and scholarships, and home schooling. The issue is also often broken down into private school choice and public school choice. School vouchers, also referred to as opportunity scholarships, are state-funded scholarships that pay for students to attend private school rather than public school. Private schools must meet minimum standards established by legislatures in order to accept voucher recipients. School voucher programs typically target subgroups of students. According to the National Conference of State Legislatures, there are 12 states plus the District of Columbia with school voucher programs. Of those, eight states offer vouchers to special-needs students, four states and the District of Columbia offer them to low-income students or students from failing schools, and two states offer them to certain rural students. Louisiana and Ohio have programs for both low-income and special-needs students.

State Fiscal Effect: Under one set of assumptions, described below, general fund expenditures for State education aid increase by \$20.6 million in fiscal 2015 due to increases in the FTE student enrollment count used in the education aid formulas and by \$85.2 million in fiscal 2018. The largest funding increase is in the foundation program, the State's main education aid formula, but other programs, such as the geographic cost of education index and the student transportation formula, are also affected because they include an FTE enrollment component. In addition, there will be impacts on programs that have a wealth component (specifically, the compensatory education, special education, limited English proficiency, and guaranteed tax base formulas) since wealth is measured on a per FTE student basis.

The bill specifies that students for whom tuition reimbursements are received are included in the annual September 30 FTE enrollment counts used to determine State aid allocations to local school systems. The bill allows tuition reimbursement for a child entering kindergarten, with reimbursements continuing until the child completes high school or turns 21. Under current law, a portion of these students would likely be attending private schools without being included in the State aid enrollment counts. Any students who would otherwise be attending a private school who are included in the FTE count under the bill, therefore, represent a new cost for the State.

Excluding publicly funded nonpublic school enrollment, an estimated 99,400 students in kindergarten through grade 12 attend private schools in Maryland in the 2012-2013 school year (an average of approximately 7,650 students per grade). This amounts to 12.0% of FTE public school enrollment for the same school year. The effect on State costs will be phased in over a 13-year period while private school students from kindergarten through grade 12 (or age 21) are provided support that would not be provided under current law.

Given the bill’s July 1, 2013 effective date, the first FTE enrollment count that could be affected by the bill is September 30, 2013. Each additional student picked up in that FTE count will result in about \$3,475 in additional fiscal 2015 State costs under the State share of the foundation program. The number of additional FTE students that will be included in the State aid calculations cannot be reliably estimated, but it is assumed that reimbursements will be requested for a high percentage of the roughly 7,650 students entering kindergarten. *For illustrative purposes*, if reimbursements are provided for 75% of these students (or about 5,730 students), State costs under the foundation program would increase by approximately \$19.7 million in fiscal 2015. Under the same type of assumptions, by fiscal 2018, when the number of reimbursements for children who under current law receive no funding roughly quadruples, State costs under the foundation program would increase by approximately \$83.9 million. The projected fiscal 2014 to 2018 impact of the bill, under the assumptions described above, by aid program is detailed in **Exhibit 1**.

Exhibit 1
Estimated Impact on General Fund Expenditures by Education Aid Program
Fiscal 2014-2018
(\$ 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 | \$19.7 | \$40.2 | \$61.6 | \$83.9 |
| Geographic Cost Index | 0.0 | 0.9 | 1.9 | 2.9 | 3.9 |
| Compensatory Education | 0.0 | (0.2) | (0.5) | (0.7) | (0.9) |
| Special Education Formula | 0.0 | (0.1) | (0.1) | (0.2) | (0.3) |
| Limited English Proficiency | 0.0 | (0.2) | (0.4) | (0.6) | (0.8) |
| Guaranteed Tax Base | 0.0 | (1.0) | (3.4) | (5.2) | (6.9) |
| Student Transportation | 0.0 | 1.5 | 3.1 | 4.6 | 6.4 |
| Direct Aid Total | \$0.0 | \$20.6 | \$40.8 | \$62.5 | \$85.2 |

Local Fiscal Effect: State aid formulas and local appropriations to local boards of education are provided as lump sums, not as per student appropriations. It is not possible, therefore, to identify an amount that is “received” for the education of a specific child as required for the determination of reimbursement amounts. Absent further clarification of the methods that will be used to determine reimbursement amounts, the fiscal impact on local school systems cannot be estimated. However, the following observations attempt to provide some perspective on the potential fiscal effects.

As detailed above, excluding publicly funded nonpublic school enrollment, approximately 99,400 students in kindergarten through grade 12 attend private schools in Maryland in the 2012-2013 school year. As this number of students increases, so too will FTE counts used to determine State aid. Therefore, State aid to counties increases (as discussed above). However, the county share of formula aid funding will increase as well; in the case of the foundation program, county expenditures increase by about the same amount that State aid increases. Also, county governments will be required to fund tuition reimbursement for an increasing number of students each year, beginning in fiscal 2014. Under one set of assumptions, this number increases by about 5,730 each year for a period of 13 years.

There will be savings for students who opt out of public schools to instead attend a private school. However, these savings will be largely, if not more than, offset by costs associated with students who would not otherwise be supported with State and local funds. These costs include tuition reimbursements as well as substantial costs to provide transportation for an increased number of students to an increased number of locations. Also, the number of students who transition from public school to private school under the bill will be limited by the ability of private schools to accommodate increasing numbers of students.

Because 88% of direct education aid is distributed on a wealth-equalized basis, more affluent counties will be required to draw more heavily upon local funding to support tuition reimbursements. Also, counties with higher numbers of students currently enrolled in private schools and/or higher numbers of road miles will incur disproportionately high levels of additional expenditures, for both tuition reimbursements and student transportation. **Exhibit 2** shows total nonpublic school enrollment by county in the 2012-2013 school year.

Exhibit 2
Total Nonpublic School Enrollment
2012-2013 School Year

| County | Enrollment |
|-----------------|-------------------|
| Allegany | 923 |
| Anne Arundel | 14,851 |
| Baltimore City | 12,988 |
| Baltimore | 26,957 |
| Calvert | 897 |
| Caroline | 101 |
| Carroll | 2,463 |
| Cecil | 1,067 |
| Charles | 2,715 |
| Dorchester | 58 |
| Frederick | 3,256 |
| Garrett | 68 |
| Harford | 4,564 |
| Howard | 6,344 |
| Kent | 349 |
| Montgomery | 34,271 |
| Prince George's | 11,982 |
| Queen Anne's | 460 |
| St. Mary's | 2,273 |
| Somerset | 455 |
| Talbot | 1,115 |
| Washington | 2,489 |
| Wicomico | 1,538 |
| Worcester | 1,006 |
| Total | 133,190 |

Note: Includes nursery school (age 2 through 4) as well as publicly funded nonpublic school students.
Source: Maryland State Department of Education

Small Business Effect: Private schools will benefit from the increased ability of families to pay for private education. Private education in the State will likely expand to meet increased demand provided by the bill.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Carroll, Harford, and Montgomery counties; Maryland State Department of Education; Comptroller's Office; National Conference of State Legislatures; Department of Legislative Services

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ncs/rhh

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