

Department of Legislative Services
Maryland General Assembly

FISCAL NOTE

House Bill 559 (Delegates O'Donnell and Morgan)

Ways and Means

Educational Opportunities Program of 1998

This bill establishes a Maryland School Resources Conservation Commission in the Maryland State Department of Education (MSDE). The commission is authorized to provide educational assistance grants to eligible parents and guardians for the cost of tuition or equivalent fees incurred by a child attending a public or nonpublic school in the State. MSDE is required to calculate the amount of cost savings that results from the transfer of students from public to nonpublic schools and to distribute the amount to the commission.

This bill takes effect July 1, 1998.

Fiscal Summary

State Effect: General fund administrative expenditures could increase by \$105,400 in FY 1999 and by \$132,000 in FY 2003. State general fund expenditures under the basic current expense formula could decrease by an indeterminate amount in future years. State special fund expenditures for educational assistance grants could increase by a significant amount beginning in FY 2000. Special fund revenues could increase by an indeterminate amount depending upon the level of private contributions made to the program.

Local Effect: Indeterminate effect on local expenditures and revenues.

Small Business Effect: Meaningful impact.

Fiscal Analysis

Bill Summary: Individuals may receive an educational assistance grant if:

- The child has been enrolled for a full academic year in a State school that requires tuition payments or equivalent fees;
- The child was enrolled in a public school for at least three consecutive years or entered the first grade at a nonpublic school after July 1, 1998; and
- The parent's gross family income does not exceed \$75,000 in the calendar year of the student's enrollment.

The educational assistance grant cannot exceed:

- the actual tuition or equivalent fees paid at a public or nonpublic school;
- 50% of the per pupil basic current expense amount; or
- 75% of the per pupil basic current expense amount if the student has a disability.

Background: Approximately 166,000 students attended nonpublic schools in Maryland in 1996, representing 17% of all students. Schools operated by the Catholic Archdiocese serve around 61,000 students in Maryland. Tuition ranges between \$1,500 and \$3,500 per student at most Catholic elementary schools and between \$3,500 and \$6,500 at most Catholic secondary schools. The Association of Independent Maryland Schools (AIMS) reports an average tuition for its member schools of \$8,600 for elementary students and \$10,700 for high school students. In comparison, the average statewide cost per student at public schools totaled \$6,530 in fiscal 1996. Many private schools, especially parochial schools, have parent organizations that subsidize the school's operation, thereby keeping both costs and tuition low.

State Effect: State education aid under the basic current expense formula is based on student enrollment in the prior year. Accordingly, any reduction in student enrollment pursuant to this legislation will reduce State aid expenditures in the following year. However, the potential cost savings from reduced enrollment could be partially or fully offset by the disbursement of educational assistance grants.

The educational assistance grant cannot exceed the amount of tuition or 50% of the basic current expense per pupil for regular students. The basic current expense per pupil in fiscal 2000 is estimated at \$3,901, of which \$1,982 is State funds and \$1,919 is local funds. Since the basic current expense per pupil amount is lower than most private school tuition payments, the State would be responsible for paying 50% of this amount to eligible parents. This amount is estimated to total \$1,950 in fiscal 2000. In addition, it is estimated that approximately 87% of families in Maryland have adjusted gross incomes of less than \$75,000

and would be eligible to receive the grants.

The actual impact on State expenditures will depend upon the number of students receiving educational assistance grants and whether they would have attended a public school. There would be no savings to the State if these students would have attended a private school absent this legislation.

Maryland School Resources Conservation Program Expenditures

Currently, approximately 11,000 first graders enroll in nonpublic schools each year. This bill would enable their parents to receive an educational assistance grant totaling \$1,950 in fiscal 2000, even though the students would not have attended a public school. Accordingly, program expenditures would increase by \$18.7 million with no corresponding reduction in public school operating or capital expenditures (11,000 students x 87% being eligible for grant x \$1,950 per pupil grant).

However, the State would save approximately \$1,982 for each student who would have attended a public school but went to a nonpublic school instead because of this bill. In the last five years, nonpublic school enrollment has increased at a higher rate than public school enrollment. Between 1991 and 1996, public school enrollment increased by 11% compared to a 19% increase in nonpublic school enrollment. Assuming 1% of public school students in grades three through twelve transferred to private schools, the State would save approximately \$11.9 million in basic current expense funding. MSDE is required to transfer these projected State cost savings to the Maryland School Resources Conservation Program fund. **Exhibit 1** shows the projected State cost savings if 1% of public school students transfer to private schools and if all first graders in private schools receive an educational assistance grant.

Exhibit 1
Projected State Cost Savings

	# Students Receiving Grants	Per Pupil State Cost Savings	Total State Cost Savings
First Graders	9,570	\$0	\$0
Other Students	6,000	\$1,982	\$11.9 million
Total	15,570	n/a	\$11.9 million

In addition to the projected State cost savings, local school expenditures could decrease by \$4,247 for each student that would have attended a public school but went to a nonpublic school instead. However, a portion of these savings are offset by a reduction in State aid

through the basic current expense formula. If 6,000 students transfer from the public school system to private schools, local educational expenditures could decrease by \$25.5 million and State aid would decrease by \$11.9 million for a net local cost savings of \$13.6 million. MSDE is required to transfer these projected cost savings to the Maryland School Resources Conservation Program fund. **Exhibit 2** shows the impact on the Maryland School Resources Conservation Program if 1% (6,000) of public school students in grades three through twelve transfer to private schools and if all first graders in private school receive an educational assistance grant.

Exhibit 2
Projected Net State and Local Education Cost Savings

	# Students Receiving Grants	Program Expenditures (\$1,950 grant)	Projected State Cost Savings (\$1,982)	Projected Local Cost Savings	Net Cost Savings*
First Graders	9,570	\$18.7 million	\$0	\$0	\$0
Other Students	6,000	\$11.7 million	\$11.9 million	\$13.6 million	\$13.8 million
Total	15,570	\$30.4 million	\$11.9 million	\$13.6 million	(\$4.9 million)

-program expenditures equal average grant amount (\$1,950) multiplied by students receiving grants.

-projected State cost savings equal the per pupil State basic current expense amount multiplied by students receiving grants.

-projected local cost savings equal the per pupil instructional costs minus the per pupil State basic current expense amount multiplied by students receiving grants.

-net cost savings equal projected State and local cost savings minus program expenditures.

**does not include potential private contributions or fund raising revenue.*

As shown in **Exhibit 2**, due to the large amount of first graders receiving an educational assistance grant with no corresponding cost savings there are no savings to the State or local governments if only 1% of public school students transfer to private schools. This assumes students receive a \$1,950 grant. In order for the program to be self-supporting and to generate cost savings, over 8,000 eligible public school students have to transfer to private schools or the average grant amount has to be smaller. This would result in a 9% increase in private school enrollment in grades three through twelve. **Exhibit 3** shows the projected cost savings under various scenarios.

Exhibit 3
Scenario Comparison of Projected Cost Savings

% of Students Receiving	# of Students Receiving	Program Expenditures	Projected State Cost	Projected Local Cost	Net Cost Savings
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Grants*	Grants*	(\$1,950 grant)	Savings	Savings	
1%	6,000 ¹	\$30.4 million	\$11.9 million	\$13.6 million	(\$4.8 million)
1.35%	8,100 ²	\$34.5 million	\$16.1 million	\$18.4 million	\$0
1.5%	9,000 ³	\$36.3 million	\$17.9 million	\$20.4 million	\$2 million
2%	12,000 ⁴	\$42.1 million	\$23.8 million	\$27.3 million	\$9 million
5%	30,100 ⁵	\$77.3 million	\$59.6 million	\$68.2 million	\$50.5 million

**does not include first graders*

¹ represents a 7% increase in private school enrollment for grades three through twelve.

² represents a 9% increase in private school enrollment for grades three through twelve.

³ represents a 10% increase in private school enrollment for grades three through twelve.

⁴ represents a 14% increase in private school enrollment for grades three through twelve.

⁵ represents a 34% increase in private school enrollment for grades three through twelve.

Administrative Expenses

General fund administrative expenditures could increase by an estimated \$105,400 in fiscal 1999, which reflects a three-month start-up delay. This estimate reflects the cost of hiring a Staff Specialist, an Office Secretary, and a contractual fund raiser to administer the Maryland School Resources Conservation Program. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salaries and Fringe Benefits	\$56,754
Contractual Services	30,000
Operating Expenses	<u>18,620</u>
Total FY 1999 Administrative Expenditures	\$105,374

Future year administrative expenditures reflect (1) full salaries with 3.5% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

Local Effect: Local school expenditures could decrease by \$4,247 for each student that would have attended a public school but went to a nonpublic school instead. This is based on the projected average per pupil instructional cost in fiscal 1999. However, a portion of these savings are offset by a reduction in State aid through the basic current expense formula. If 6,000 students transfer from the public school system to private schools, local educational expenditures could decrease by \$25.5 million; however, State aid would decrease by \$11.9 million for a net gain of \$13.6 million.

Small Business Effect: There are 1,105 nonpublic schools in the State serving around 166,000 students. Providing students with an educational assistance grant to help offset the tuition cost of private schools could enable more students to attend private schools. This should increase the demand for private schools thus helping both existing private schools and organizations wishing to start new private schools.

Additional Comments: The State and local governments share the cost of school construction projects, with the State share ranging from 50% for the wealthiest school systems to 80% for the less affluent school systems. (For fiscal 1998 through fiscal 2002 Baltimore City's match is 10% for the first \$10 million allocated by the State and 25% on any State funds in excess of \$10 million). The proposed fiscal 1999 State capital budget includes \$222 million for school construction projects. However, this amount is significantly less than requested by the local boards. Accordingly, any new school construction or renovation project that is no longer required pursuant to this legislation would be supplanted with an additional project.

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

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