

**Department of Legislative Services**  
**Maryland General Assembly**  
**2001 Session**

**FISCAL NOTE**  
**Revised**

Senate Bill 604 (Senator Blount, *et al.*)  
 Economic and Environmental Affairs

Ways and Means

**Public Charter School Act of 2001**

This bill establishes a Maryland Public Charter School Program with primary chartering authority granted to local boards of education and secondary chartering authority granted to the State Board of Education. An application to establish a public charter school must be submitted to the local board of education in the jurisdiction in which the charter school will be located. If the local board of education denies the application, the applicant can appeal the decision to the State Board of Education. The State Board of Education can establish additional public chartering authorities.

**Fiscal Summary**

**State Effect:** State education formula expenditures could increase to the extent that the bill encourages students who currently attend private schools to attend public charter schools. Any future expenditure increase is assumed to be minimal. Administrative costs with the Maryland State Department of Education would increase by \$132,800 in FY 2002. Future year expenditures reflect annualization and inflation. Revenues would not be affected.

(in dollars)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	132,800	157,900	163,800	170,100	176,800
Net Effect	(\$132,800)	(\$157,900)	(\$163,800)	(\$170,100)	(\$176,800)

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

**Local Effect:** A portion of local school expenditures would be redirected to public charter schools. State aid to local school systems and local school expenditures could increase to the extent that the bill encourages students who currently attend private schools to attend public charter schools.

**Small Business Effect:** None.

---

## **Analysis**

**Bill Summary:** Public school staff, parents or guardians of public school students, nonprofit entities, or institutions of higher education in the State can apply to establish a public charter school. Private, parochial, or home schools are not eligible to become a public charter school. Public charter schools must be nonsectarian and open to all students on a space-available basis. Public charter schools cannot discriminate in their enrollment policies or charge tuition to students and must comply with all applicable health and safety laws. Professional staff members of a public charter school must hold the appropriate Maryland certification. Local boards of education must develop and submit a public charter school policy to the State Board of Education.

**Current Law:** Maryland does not have authorizing legislation for the establishment of charter schools.

**Background:** Charter school legislation has been enacted in 36 states, the District of Columbia, and Puerto Rico. The Center for Education Reform estimates that 2,073 charter schools will operate in the 2000-2001 school year serving approximately 520,000 students. This represents approximately 1% of all public school students. Arizona has the most charter schools (408) serving 95,000 students. California has 261 charter schools serving 122,000 students, followed by Texas (182) serving 38,000 students, and Michigan (181) serving 53,000 students. Virginia has one charter school serving 30 students.

According to the U.S. Department of Education, approximately 48% of charter school students are white compared to 59% of public school enrollment. Black students comprise 24% of charter school enrollment and Hispanic students comprise 21%. Charter schools in several states (Connecticut, Illinois, Louisiana, Massachusetts, Michigan, Minnesota, New Jersey, North Carolina, and Texas) enroll a much higher percentage of minority students than all public schools in those states. In addition, charter schools enroll a slightly higher percentage of students eligible for free and reduced-price lunch than public schools (39% versus 37%).

Charter school laws vary considerably across the country; some states, such as Arizona grant maximum autonomy to charter schools, while other states, such as Georgia, provide schools with limited authority. For example, in Arizona, charter schools are legally independent entities with complete waivers from district and state regulations. In Georgia, however, charter schools are considered part of the school district and are granted less freedom over budgets and personnel. While different in many ways, certain characteristics are common for all charter schools. Charter schools cannot charge tuition,

must be nonsectarian, are subject to federal and state laws prohibiting discrimination, and must comply with all health and safety laws. In addition, most charter schools can negotiate and contract for facilities and services, acquire real property, receive and disburse funds, incur temporary debt, and operate as a business or corporation.

Legislation enacted in 1998 established a task force to recommend legislation that would allow Maryland public charter schools to qualify and compete for start-up funds under the federal Charter School Grant Program. This grant program is open to states that have enacted a state law authorizing the granting of charters to schools. The task force identified the provisions that should be contained in such a law.

**State Fiscal Effect:** State funding for public schools could increase to the extent that establishing public charter schools encourages private school students to return to the public school system. Nationally, charter schools enroll only about 1% of public school students. Assuming public charter schools in Maryland experience similar trends, approximately 8,500 students could be enrolled in public charter schools. If a portion of these students comes from private schools, State education funding will increase. Currently 14% of students in Maryland attend private schools.

Administrative expenditures within MSDE would increase by \$132,800 in fiscal 2002, which accounts for the bill's October 1, 2001 effective date. The estimate reflects the cost of two new positions (an education coordinator and an office secretary) to administer and serve as a liaison to the program and \$35,000 to hire consultants to assist in the annual evaluation of the program. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses. Future year expenditures reflect: (1) full salaries with a 6.5% increase in fiscal 2003 and a 4.5% increase each year thereafter, with 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

	<u><b>Fiscal 2002</b></u>
Salaries and Benefits	\$76,400
Consultant Expenses	35,000
Start-up Costs	8,700
On-going Operating Costs	<u>12,700</u>
<b>Total Expenditures</b>	<b>\$132,800</b>

**Local Fiscal Effect:** Pursuant to this legislation, a public charter school must be either a new public school or an existing public school. The bill is silent on the amount of funding that will be provided to public charter schools; however, it is assumed that existing State and local revenues would be used to operate the schools. The estimated average per pupil operating expenditures for public schools in fiscal 2002 is approximately \$7,700.

**Additional Comments:** Even with the availability of State and local funds, public charter schools may still incur financial difficulties. Based on a study by the National Conference of State Legislatures, locating and paying for adequate school facilities pose significant barriers to charter schools. According to this report, new charter schools rarely have a financial track record or assets that enable them to secure loans to lease or buy buildings. In addition, many charter schools do not have access to local district funds available for capital improvements (buildings and major improvements), nor do they have the ability to issue bonds. Accordingly, most charter schools must use a portion of their operating funds to purchase and maintain school facilities. In many states, charter schools are located in commercial office and retail space and other facilities that may not conform to public school standards.

Another major fiscal issue involves start-up costs. According to a report by the Education Commission of the States, most charter schools have initial cash-flow problems because they do not receive any state or local money until the school year begins. Charter schools often have to take out loans for operating and start-up expenses. Further, it can be difficult for a charter school to access or receive federal categorical funds during its first year, because funding for some federal programs is based on prior year enrollment. To alleviate this problem, some states, such as Massachusetts, have made an exception for charter schools by allowing them to qualify for federal categorical funds based on actual enrollment of eligible children during the first year.

---

### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** U.S. Department of Education, National Conference of State Legislatures, Education Commission of the States, Maryland State Department of Education, Department of Legislative Services

**Fiscal Note History:** First Reader – February 16, 2001  
cm/jr Revised – Senate Third Reader – March 29, 2001

---

Analysis by: Hiram L. Burch, Jr.

Direct Inquiries to:  
John Rixey, Coordinating Analyst  
(410) 946-5510  
(301) 970-5510

