

Department of Legislative Services
 Maryland General Assembly
 2001 Session

FISCAL NOTE

House Bill 105 (Delegate Hubbard)
 Ways and Means

Higher Education - Maryland Teacher Scholarships - Terms and Conditions

This bill extends the service obligation for the Maryland Teacher Scholarship to two years per year that the scholarship is received. The bill also increases the annual award amount under the program to equal the total cost of tuition, books, mandatory fees, and room and board. In addition, the bill allows students who attend qualified institutions of higher education outside of Maryland to receive the scholarships. The Maryland State Department of Education must provide an annual report to the Governor and the General Assembly evaluating the impact of the scholarships on the State’s teacher recruitment program.

The bill is effective July 1, 2001 and sunsets June 30, 2011.

Fiscal Summary

State Effect: General fund expenditures could increase by \$18.3 million in FY 2002 due to increased scholarship awards, increased program participation, and the addition of one new administrative position at the Maryland Higher Education Commission. Future year increases reflect increased participation in the program, inflation, and increased salaries.

(\$ in millions)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	18.3	27.6	30.9	33.5	35.1
Net Effect	(\$18.3)	(\$27.6)	(\$30.9)	(\$33.5)	(\$35.1)

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

Local Effect: No direct impact on local finances.

Small Business Effect: None.

Analysis

Current Law: For each year that a Maryland Teacher Scholarship award is received, recipients are obliged to teach full time for one year in a Maryland public school, or repay the award amount plus interest. The annual award is \$2,000 for a student who attends a two-year college or university or \$5,000 for a student who attends a four-year college or university. Scholarship recipients must attend an institution of higher education in Maryland.

Background: The *Maryland Teacher Staffing Report, 2000 - 2002* noted that the State Board of Education projected a shortage of certified teachers for all 24 of Maryland's school systems. The board also acknowledged a shortage of male teachers and minority teachers and recognized several fields -- including art, computer science, mathematics, science, and special education -- as critical shortage areas. The Maryland Teacher Scholarship Program is one of the programs the State has implemented to combat this shortage. Fiscal 2001 is the second year of operation for the program, and so far, about 2,300 awards totaling approximately \$10 million have been accepted. Other State incentive programs designed to attract and retain more qualified teachers include a low-interest mortgage program for teachers, stipends for teachers who earn certification from the National Board for Professional Teaching Standards or who agree to teach in challenging schools, signing bonuses for teachers who graduated in the top 10% of their class, tuition tax credits for teachers who attend graduate school, exemption from earnings limitations for retired teachers reemployed in schools, and teacher mentoring programs.

The Governor's proposed fiscal 2002 budget includes \$11.9 million for the Maryland Teacher Scholarship Program.

State Expenditures: State general fund expenditures for the Maryland Teacher Scholarship Program could increase by \$18.3 million in fiscal 2002 to: (1) pay the full cost of higher education for scholarship recipients; (2) add out-of-State students to those who are eligible for awards under the program; and (3) add an administrative position for the Maryland Higher Education Commission (MHEC). It is assumed that simultaneously increasing the program's service obligation period and its award amount will not result in a change in the number of in-State scholarship recipients. The addition of students attending out-of-State universities, however, would increase the number of students accepting awards. A summary of the costs associated with the bill is provided in **Exhibit 1**, and an explanation of the assumptions used to estimate the costs is provided below.

In-State Awards

In fiscal 2001, 1,669 students have received awards through the Maryland Teacher Scholarship Program with an average award of \$4,813. Based on the costs to attend Maryland's colleges during the 2000-2001 school year and assuming a 3.2% annual increase in higher education costs (the Higher Education Price Index figure), the average award amount would increase to approximately \$9,044 in fiscal 2002 for students who attend in-State institutions, an increase of more than \$4,200 per award. MHEC has estimated that almost 1,000 additional awards will be made in fiscal 2002, increasing the total number of awards to 2,641. If the expected number of students from in-State institutions receive the scholarships, awards for students attending colleges and universities in Maryland would increase to \$23.9 million in fiscal 2002.

It is assumed that 1,000 additional scholarships will be awarded in fiscal 2003, for a total of 3,650 awards. It is then assumed that the number of awards to in-State students would level off, as students who receive awards and annually renew the scholarship begin to graduate.

Out-of-State Awards

It is estimated that about 525 entering freshmen per year would accept an award from the Maryland Teacher Scholarship Program to attend an out-of-State institution. As higher education students are eligible to and choose to renew their scholarships, the number of out-of-State awards will increase to almost 1,000 by fiscal 2005 before leveling off as students graduate and begin serving as teachers in Maryland public schools. These figures are based on the estimates and assumptions listed below.

- For the next five years, there will be approximately 60,000 high school graduates per year in Maryland;
- 60% of high school graduates will go to college;
- 35% of graduates going to college will attend an out-of-State institution;
- 9.3% of graduates will enroll in an education program;
- 64% of students enrolling in teacher education programs have a high school grade point average of 3.0 or higher;
- 70% of eligible freshman will accept the awards; and
- 50% of freshman, sophomore, and junior scholarship recipients will be eligible to and will choose to renew their scholarships.

MHEC advises that for the 2000-2001 school year the average annual cost of college in the U.S. is \$13,167. Assuming a 3.2% annual increase in these costs, scholarships for 525 out-of-State education students would cost approximately \$7.1 million in fiscal 2002. Future years reflect increases to the cost of higher education and increases in the number of awards.

Administrative Costs for the Maryland Higher Education Commission

One additional employee would be needed in order to meet the increased administrative demands that the legislation would impose on the commission. To fund this position, general fund expenditures would increase by an estimated \$35,952 in fiscal 2002, which accounts for a 90-day start-up delay and the bill's July 1, 2001 effective date. The estimate reflects the cost of hiring one administrative specialist to help review additional scholarship applications and to track the costs of out-of-State tuitions. The estimate includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salary and Fringe Benefits	\$30,821
One-time Costs and Ongoing Operating Expenses	<u>5,131</u>
Total FY 2002 State Personnel Expenditures	\$35,952

Future year expenditures reflect: (1) a full salary 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.

The Maryland State Department of Education (MSDE) advises that it would require additional personnel to handle the annual reporting requirements of the legislation. However, MSDE currently tracks and reports on recruiting and retention strategies, and the Department of Legislative Services believes the reporting activities required by the bill could be performed with existing MSDE resources.

Local Fiscal Effect: The bill would not have a direct effect on local government expenditures or revenues. Local governments would benefit indirectly, however, if the bill results in increases to the number of available school teachers and to the number of service obligation years. If the estimates described above are accurate, the number of service years owed by scholarship recipients would increase significantly. (See Exhibit 1.)

Additional Information

Prior Introductions: HB 544 of 2000 would have increased the maximum Maryland Teacher Scholarship amount to \$9,000 under specified conditions. The bill received an unfavorable report from the House Ways and Means Committee.

Cross File: None.

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

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Exhibit 1
HB 105
Estimated Cost of Modifying Maryland Teacher Scholarship Program

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
<i>In-State Awards</i>					
# Awards	2,641	3,650	3,650	3,650	3,650
Average Cost per Award	\$9,044	\$9,334	\$9,633	\$9,941	\$10,259
Total Cost	\$23,886,387	\$34,068,627	\$35,158,823	\$36,283,905	\$37,444,990
<i>Out-of-State Awards</i>					
# Awards	525	787	919	984	984
Average Cost per Award	\$13,588	\$14,023	\$14,472	\$14,935	\$15,413
Total Cost	\$7,133,424	\$11,042,540	\$13,295,219	\$14,700,713	\$15,171,136
<i>Administrative Costs</i>	\$35,951	\$43,187	\$45,602	\$48,186	\$50,954
<i>Total Cost</i>	\$31,055,762	\$45,154,354	\$48,499,643	\$51,032,804	\$52,667,080
Service Obligations (years)	6,332	8,875	9,137	9,269	9,269
<i>Current Program</i>					
# Awards	2,641	3,650	3,650	3,650	3,650
Average Cost per Award	\$4,813	\$4,813	\$4,813	\$4,813	\$4,813
Total Cost	\$12,711,296	\$17,567,450	\$17,567,450	\$17,567,450	\$17,567,450
Service Obligations (years)	2,641	3,650	3,650	3,650	3,650
Total Cost HB 105	\$18,344,466	\$27,586,904	\$30,932,193	\$33,465,354	\$35,099,630
<i>(Total Cost - Current Program Cost)</i>					