

Department of Legislative Services
 Maryland General Assembly
 2002 Session

FISCAL NOTE

Senate Bill 213 (Senator Dyson, *et al.*)
 Education, Health, and Environmental Affairs

Ways and Means

Public Charter School Act of 2002

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. Administrative costs with the Maryland State Department of Education would increase by \$127,300 in FY 2003. Future year expenditures reflect annualization and inflation. Revenues would not be affected.

(in dollars)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	127,300	159,700	165,300	171,300	177,600
Net Effect	(\$127,300)	(\$159,700)	(\$165,300)	(\$171,300)	(\$177,600)

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: Local boards of education have the authority to establish public charter schools. However, there is currently no enabling State statute.

Background: In 1997 the Maryland State Department of Education (MSDE) issued guidelines governing the establishment of public charter schools. Currently, there are no public charter schools operating in Maryland. However, there are a few schools in Baltimore City that are similar to charter schools.

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. As Maryland currently has no authorizing legislation, the task force identified the provisions that should be contained in such a law.

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 operated 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 do public schools (39% versus 37%).

Across the country charter school laws vary considerably; 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.

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 \$127,300 in fiscal 2003, which accounts for the bill's October 1, 2002 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 \$26,300 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 2.5% increase in fiscal 2004 and a 3.5% increase each year thereafter, with 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

Fiscal 2003

Salaries and Benefits	\$80,100
Consultant Expenses	26,300
Start-up Costs	8,800
On-going Operating Costs	<u>12,100</u>
Total Expenditures	\$127,300

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 funds would be used to operate the schools. The estimated average per pupil operating expenditures for public schools in fiscal 2003 is approximately \$8,400.

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.

Additional Information

Prior Introductions: A similar bill was introduced at the 2001 session as SB 604. The bill received a favorable with amendments report from the Senate Economic and Environmental Affairs Committee and was passed by the full Senate. In the House, SB 604 was amended by the House Ways and Means Committee to conform to HB 29, which offered a different approach for establishing charter schools, and was passed by the full House. While a Senate conference committee was appointed, there was not one appointed by the House. Accordingly, the differences were never resolved and both bills failed.

Cross File: None.

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

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