

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

Senate Bill 742

(Senator McFadden)

Budget and Taxation

Teacher Incentive Act of 2006

This bill creates a tax credit for mathematics, science, and special education teachers who are hired beginning in the 2006-2007 school year at a school that is not making yearly progress or is a school in need of improvement under the Federal No Child Left Behind Act of 2001 (NCLB), or is receiving funds under Title 1 of NCLB. Eligible teachers must hold an advanced or standard certificate and can claim a \$1,500 tax credit for three consecutive tax years beginning with the first tax year in which they complete their first year of employment at an eligible school. The amount of the credit cannot exceed the tax liability in the tax year, and any unused amount cannot be carried forward to any other tax year.

The bill takes effect June 1, 2006 and applies to tax year 2006 and beyond.

Fiscal Summary

State Effect: General fund revenues could decrease by approximately \$4.2 million in FY 2008 due to credits being claimed by eligible teachers in the first tax year. Future years reflect estimated numbers of teachers claiming the credit as provided by the bill. General fund expenditures could increase by approximately \$32,900 in FY 2007, which reflects one-time tax form changes and computer programming expenditures.

| (\$ in millions) | FY 2007 | FY 2008 | FY 2009 | FY 2010 | FY 2011 |
|------------------|---------|----------|----------|-----------|-----------|
| GF Revenue | \$0 | (\$4.20) | (\$7.75) | (\$11.13) | (\$11.11) |
| GF Expenditure | .03 | 0 | 0 | 0 | 0 |
| Net Effect | (\$.03) | (\$4.20) | (\$7.75) | (\$11.13) | (\$11.11) |

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

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: No similar State or local tax credit exists.

Background: The State has supported a number of efforts and programs designed to attract and retain high quality teachers. The Quality Teacher Incentive Act of 1999 (Chapter 600) established stipends and signing bonuses for qualifying teachers. In the 2004-2005 school year, more than 3,800 stipends totaling \$6.8 million were awarded to teachers under the program. The proposed fiscal 2007 State budget includes \$7.6 million for the stipends and bonuses.

The State also provides funds for a program that pays the National Board for Professional Teaching Standards certification fee for teachers pursuing national board certification. There were at least 428 National Board Certified teachers working in Maryland public schools in the 2004-2005 school year. The Sharon Christa McAuliffe Memorial Teacher Education Award program pays higher education costs for teacher education students who agree to teach in Maryland public schools after graduation. The proposed fiscal 2007 State budget includes \$574,027 for the program. Mentoring programs and teacher salary initiatives have also received State funding in prior years.

Despite these efforts, the State continues to experience teacher shortages. In the *Maryland Teacher Staff Report 2005-2007*, the State Board of Education reported teacher shortages for all 24 of Maryland's local school systems. Critical areas of shortage included dance and theatre; family and consumer science and technology education; computer science; early childhood education; English for speakers of other languages; mathematics; political science; science; Spanish; and special education. The report also declared shortages of male and minority teachers.

Although the teacher shortage has been a concern for several years, NCLB has brought additional attention to the issue. NCLB requires all core academic courses to be taught by highly qualified teachers by 2006. Recently released 2005 data for Maryland, show that many local school systems in Maryland have not come close to achieving this standard. The percentage of 2005 courses that were taught by highly qualified teachers in each local school system is shown in **Exhibit 1**. Statewide, approximately three-quarters of courses were taught by highly qualified teachers, with percentages for individual school systems ranging from 42% in Baltimore City to nearly 94% in Allegany County.

Exhibit 1
Percentage of Courses Taught by Highly Qualified Teachers
2004 – 2005 School Year

| | | | |
|-----------------|-------|-----------------|-------|
| Allegany | 93.6% | Harford | 88.9% |
| Anne Arundel | 84.0% | Howard | 84.2% |
| Baltimore City* | 42.1% | Kent | 75.1% |
| Baltimore | 77.7% | Montgomery | 80.3% |
| Calvert | 85.5% | Prince George's | 62.0% |
| Caroline | 87.0% | Queen Anne's | 81.1% |
| Carroll | 85.6% | St. Mary's | 89.6% |
| Cecil | 86.9% | Somerset | 75.8% |
| Charles | 59.2% | Talbot | 87.8% |
| Dorchester | 56.5% | Washington | 84.4% |
| Frederick | 86.4% | Wicomico | 80.5% |
| Garrett | 90.1% | Worcester | 86.2% |

Maryland 75.3%

* Figure for Baltimore City does not include Edison Schools.
Source: Maryland State Department of Education

NCLB also requires Maryland to set goals for student performance, monitor school progress toward those goals, report the results to parents, and take action if a school is not making progress, or if subgroups of students within a school are not making progress. Adequate Yearly Progress (AYP) is the measure that Maryland uses to track academic progress and make accountability decisions for schools and local school systems. NCLB requires every State to measure AYP and to report AYP for schools, local school systems, and the State. This information is published annually in the Maryland School Performance Report Card as well as the Performance Report Cards for local schools and school systems. There are specific targets, called Annual Measurable Objectives (AMOs), for nine student groups. Each group must meet the AMO for reading and the AMO for mathematics. The "All Students" group in an elementary or middle school must meet the AMO for the attendance rate, the other academic measure for that school. The "All Students" group in a high school must meet the AMO for the graduation rate, the other academic measure for high schools. There are a total of 19 different targets for a school, depending on the subgroups represented in the enrollment. A school that misses the target in the same reported area (reading, mathematics, attendance rate, or graduation

rate) for two consecutive years will be identified as in the School in Improvement process.

In the 2005-2006 school year, 233 schools (162 elementary and middle schools and 71 high schools) were identified as schools in need of improvements. Another 450 schools were identified as not making AYP, and 387 schools (331 elementary schools and 56 middle and high schools) received funding under Title 1 of NCLB

State Revenues: Tax credit could be claimed beginning in tax year 2007, the year that teachers hired in the 2006-2007 school year complete their first year of employment at an eligible school. As a result, general fund revenues could decrease by approximately \$4.1 million in fiscal 2008. Future years reflect estimated number of teachers claiming the credit as provided by the bill. This estimate is based on the following facts and assumptions:

- according to the Maryland State Department of Education (MSDE), 866 schools meet at least one of the qualifications of the bill;
- MSDE estimates that a total of 2,789 science, math, and special education teachers would qualify for the credit in the 2006-2007 school year. Future years are based on the change in total State school enrollment;
- elementary teachers who teach science or mathematics but other subjects as well cannot qualify for the credit;
- 15% of teachers do not return for a second year of employment and 5% do not return for a third year; and
- based on average teacher salaries, it is estimated that the maximum amount of credit (\$1,500) can be claimed in each year.

State Expenditures: The Comptroller's Office reports that it would incur a one-time expenditure increase of \$32,850 in fiscal 2007 to add the credit to the personal income tax form. This includes data processing changes to the SMART income tax return processing and imaging systems and systems testing. The Comptroller's Office would also incur additional, ongoing expenses due to additional data verification requirements. Based on the estimated number of taxpayers who would claim the credit, Legislative Services advises that the ongoing costs can be absorbed within existing budgeted resources.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office, Maryland State Department of Education,
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