

Department of Legislative Services
 Maryland General Assembly
 2007 Session

FISCAL AND POLICY NOTE

Senate Bill 225 (Senator McFadden)
 Budget and Taxation

Teacher Incentive Act of 2007

This bill creates a tax credit against the State income tax for mathematics, science, and special education teachers who are hired beginning in the 2007-2008 school year at a school that is not making adequate 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 July 1, 2007 and applies to tax year 2007 and beyond.

Fiscal Summary

State Effect: General fund revenues could decrease by \$4.3 million in FY 2009 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 \$34,000 in FY 2008, which reflects one-time tax form changes and computer programming expenditures.

(\$ in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
GF Revenue	\$0	(\$4.30)	(\$7.96)	(\$11.43)	(\$11.43)
GF Expenditure	.03	0	0	0	0
Net Effect	(\$.03)	(\$4.30)	(\$7.96)	(\$11.43)	(\$11.43)

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 3,300 stipends totaling \$5.8 million were awarded to teachers under the program. The proposed fiscal 2008 State budget includes \$7.6 million for the stipends and bonuses. The Act also established a tax credit program for public school teachers who pay tuition for graduate-level courses to maintain either a standard professional or advanced professional certification. The credit is 100% of the unreimbursed amount of tuition paid, or \$1,500, whichever is less. In tax year 2005, 7,898 teachers claimed a total of approximately \$7.1 million in credits.

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 574 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 2008 State budget includes a total of \$4.0 million for a workforce shortage scholarship program from which McAuliffe awards will be made. 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 2006-2008*, the State Board of Education reports teacher shortages for all 24 of Maryland's local school systems. Critical areas of shortage include health occupations, technology education, dance, computer science, foreign languages, English for speakers of other languages, mathematics, science, and special education. The report also declares 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 data for Maryland show that many local school systems have not come close to achieving this standard. The percentage of courses that were not taught by highly qualified teachers in each local

school system is shown in **Exhibit 1**. Statewide, approximately 21% of courses were not taught by highly qualified teachers, with percentages for individual school systems ranging from slightly more than 53% in Baltimore City to nearly 3% in Allegany County.

Exhibit 1
Percentage of Courses Not Taught by Highly Qualified Teachers
2005-2006 School Year

Allegany	2.8%	Harford	10.7%
Anne Arundel	15.5%	Howard	11.0%
Baltimore City*	53.2%	Kent	17.1%
Baltimore	16.5%	Montgomery	14.5%
Calvert	13.0%	Prince George's	37.9%
Caroline	10.5%	Queen Anne's	15.3%
Carroll	10.8%	St. Mary's	6.7%
Cecil	10.5%	Somerset	31.0%
Charles	27.0%	Talbot	8.1%
Dorchester	33.1%	Washington	10.9%
Frederick	10.7%	Wicomico	25.5%
Garrett	6.7%	Worcester	10.8%

Maryland 20.6%

* 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. 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 2006-2007 school year, 332 schools (265 elementary and middle schools and 67 high schools) were identified as schools in need of improvements. Another 311 schools were identified as not making AYP, and 370 schools (328 elementary schools, 36 middle and high schools, and 6 charter schools) received funding under Title 1 of NCLB.

State Revenues: Although the bill is effective tax year 2007, tax credits could be claimed beginning in tax year 2008, the year that teachers hired in the 2007-2008 school year complete their first year of employment at an eligible school. As a result, general fund revenues could decrease by approximately \$4.3 million in fiscal 2009. 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), 804 schools meet at least one of the qualifications of the bill;
- MSDE estimates that a total of 2,867 science, math, and special education teachers would qualify for the credit in the 2007-2008 school year. Future years are based on the change in total State school enrollment;
- elementary teachers who teach science or mathematics as well as other subjects 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 \$34,000 in fiscal 2008 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: SB 742 of 2006, an identical bill, was not reported from the Senate Budget and Taxation Committee.

Cross File: None.

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

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