

Department of Legislative Services
 Maryland General Assembly
 2008 Session

FISCAL AND POLICY NOTE

House Bill 185 (Delegate Bates, *et al.*)
 Ways and Means

Parental Choice Scholarship Program

This bill establishes the Parental Choice Scholarship Program for Maryland students who have not graduated from high school and either attended public schools during the preceding semester or are beginning school in Maryland. The amount of a scholarship ranges from \$500 to \$3,000 per year and is based inversely on the income level of a student’s parents or guardians. The scholarship funds may be used to pay the tuition and fees necessary to attend participating public or private schools in the State.

The bill takes effect July 1, 2008.

Fiscal Summary

State Effect: General fund expenditures would increase by an estimated \$560,000 in FY 2009 to administer the scholarship program. Future year expenditure estimates reflect regular salary increases and inflation. General fund expenditures would increase significantly beginning in FY 2009 to fund scholarships, but the costs would be at least partially offset by reductions in State aid to public schools. Revenues would not be affected.

(in dollars)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	560,000	535,700	562,100	589,900	619,200
Net Effect	(\$560,000)	(\$535,700)	(\$562,100)	(\$589,900)	(\$619,200)

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

Local Effect: Local school revenues from State aid would decrease beginning in FY 2009 due to the diversion of students from public schools to private schools. Minimum required local funding for education could increase due to the inclusion of

public and private school students in enrollment counts used to calculate local maintenance of effort. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: Meaningful impact on private schools.

Analysis

Bill Summary: A public or private school may apply to the Maryland State Department of Education to participate in the program. In order to qualify, a private school must hold a certificate of approval from the State Board of Education and must • comply with applicable health and safety codes; • hold a valid occupancy permit if required by the county where the school is located; • demonstrate financial accountability; and • provide academic accountability to parents of students in the program by regularly reporting on students' progress.

A qualifying student may apply to MSDE for a scholarship to attend a participating private school or a participating public school that is outside the student's school district. MSDE must determine the amount of the scholarship based on the income of the student's parents or guardians during the calendar year immediately preceding the school year for which a scholarship is sought. A student whose family income meets the eligibility guidelines to qualify for free or reduced price meals would be eligible for a \$3,000 scholarship. Scholarship levels incrementally decrease as family income levels increase. The lowest scholarship level, \$500, is available to a student from a family in which the income level is more than 250% of the level that would qualify the student for reduced price meals. A scholarship may not in any way be refunded, rebated, or shared with the student or the student's parent or guardian.

If a participating school does not have a sufficient number of open spaces to accommodate all applicants under the program, it must use a random selection process to fill its spaces. Preference may be given, however, to previously enrolled students and the siblings of enrolled students.

A student receiving a scholarship must be included in the full-time equivalent enrollment count of the county where the student's school is located for purposes of calculating State education aid. Any amount needed for scholarships is deducted from the State aid for a school system, with the State retaining any funds in excess of the amount needed for scholarships.

MSDE must ensure that eligible students and their parents are aware of the program and must create a readily available standardized form for students to submit to participating

schools to establish their eligibility and apply for admission. MSDE must also prohibit a school from further participation in the program if it misrepresents its qualifications for participation or fails to comply with the requirements of the program. If a school is barred from future participation in the program, MSDE is required to promptly notify affected students and their parents.

Local boards of education are required to forward the student records of students participating in the program to the schools in which the students enroll. Student transportation must also be provided by local boards of education under the same conditions as the board provides to other students attending nonpublic schools.

MSDE must adopt regulations to implement the program.

Current Law: The State does not provide scholarships for students to attend private or public schools. Public schools are funded with a combination of State, local, and federal funds, and students attend the schools free of charge. In general, a student must attend the appropriate level public school in the attendance area of the student's permanent residence. For situations in which students are permitted to attend schools in other districts, the "sending" school system must reimburse the "receiving" system.

For the 2007-2008 school year, a student from a family of four with an annual income of \$38,203 or less is eligible for free or reduced price meals.

With the exception of students with disabilities who are placed by the school systems in appropriate nonpublic schools, local school systems are not required to provide transportation to students attending private schools.

Background: Scholarship or school voucher programs targeted to specific student populations have been implemented in the District of Columbia and seven states – Arizona, Florida, Maine, Ohio, Utah, Vermont, and Wisconsin. Some of the programs provide vouchers to low-income or special education students, while other programs make vouchers available to students in struggling schools or to foster care children. All of the voucher programs operating in the U.S. target a specific subset of the general student population.

The Utah legislature passed a bill in 2007 that was similar to this one and would have provided vouchers to students irrespective of income, disability, or how well their school was performing. However, opponents of the legislation were able to suspend implementation of the bill by petitioning it to a voter referendum, and the bill was then defeated by Utah voters in November 2007.

State Expenditures: General fund expenditures would fall into two categories: MSDE administrative costs and scholarship costs. The administrative costs associated with implementing and monitoring the program are estimated at \$559,978 in fiscal 2009. The cost of providing scholarships to qualified students, including the offsetting effect on State education aid, cannot be reliably estimated without further clarification of the funding structure that would be used.

MSDE Administrative Costs

General fund expenditures could increase by an estimated \$559,978 in fiscal 2009, which accounts for the bill’s July 1, 2008 effective date. This estimate reflects the cost of hiring eight additional staff at MSDE to manage the program, including:

- a division director to oversee implementation of the program;
- an education program specialist to assist the director in program monitoring and to develop and supervise outreach programs;
- two auditors to track private schools’ compliance with program requirements;
- two budget specialists to track scholarship expenditures and the impact on State aid expenditures; and
- two office secretaries to support the team.

Eight full-time salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses are included in the estimate.

Positions	8
Salaries and Fringe Benefits	\$514,728
Start-up and Operating Expenses	<u>45,250</u>
Total FY 2009 State Expenditures	\$559,978

Future year expenditures reflect • full salaries with 4.4% annual increases and 3% employee turnover; and • 2% annual increases in ongoing operating expenses.

Scholarship Costs

The fiscal impact of providing student scholarships is discussed in the categories that follow.

- *Private School Scholarships for Students Who Would Attend Private Schools Without Scholarships:* Scholarships provided to these students represent a cost to the State that is not offset by a decrease in State aid for public schools.
- *Private School Scholarships for Students Who Would Otherwise Attend Public Schools:* Scholarships for these students represent a cost to the State that is offset by a decrease in State aid for public schools.
- *Public School Scholarships:* It is assumed that public schools would not apply to participate in the program.

Private School Scholarships for Students Who Would Attend Private Schools Without Scholarships

In fiscal 2009, the first year of the program, scholarships would be granted to two categories of private elementary and secondary school students whose schooling would not otherwise be subsidized by the State.

- *Students who attended public schools in the previous semester:* According to statistical reports from MSDE, approximately 5,100 Maryland students transfer from public schools to private schools each year even without financial inducement. It is assumed that all of these students would apply for scholarships to use in the 2008-2009 school year. Estimating an average scholarship cost of \$1,750 for these students, general fund expenditures would increase by \$8.9 million in fiscal 2009.
- *Students who are starting school in the State for the first time:* Although there are no data on the number of students who transfer from other states to Maryland private schools, there are approximately 45,000 students who begin prekindergarten at private schools each year. Assuming scholarships for these students average \$2,000 per year, general fund expenditures would increase by an estimated \$90.0 million in fiscal 2009.

In total, scholarships for these two categories of students would increase general fund expenditures by an estimated \$98.9 million in fiscal 2009. Assuming students who qualify for scholarships in fiscal 2009 continue to be eligible in future fiscal years, this amount would increase each year. Eventually, all private school students would be eligible for the awards. In September 2006, the private school enrollment was approximately 185,000. If every current private school student received a scholarship averaging \$1,750, general fund expenditures would increase by \$323.8 million.

Private School Scholarships for Students Who Would Otherwise Attend Public Schools

It is assumed that the enactment of this program would result in some students transferring from public schools to private schools. This would increase scholarship costs, but would presumably decrease general fund expenditures for public school aid. The bill is not clear on the method that would be used to deduct from State education aid; however, the State will spend approximately \$5,500 per student on direct aid for public schools in fiscal 2009, so it is assumed that providing scholarships of \$3,000 or less to this group of students would be less costly than educating them in public schools. If the average scholarship level for this group of students is \$2,000, there would be a net savings of approximately \$3,500 per student.

The total general fund savings would depend on the percentage of students who decide to transfer to a private school as a result of the bill. There are approximately 850,000 public school students in Maryland. If 2% of these students (17,000) transfer to private schools as a result of the bill, savings to the State would total approximately \$59.5 million. If 5% of students transfer (42,500), the State would save \$148.8 million. As the State's per pupil funding for public education increases with inflation, the savings from the program would increase accordingly.

Public School Scholarships

The bill also allows an eligible student to use a scholarship to attend any public school participating in the program, as long as the school is in a different district from the residence of the scholarship applicant. The bill is not clear on how the scholarship funds would be used in this scenario; however, absent any financial incentive to accept additional students, it is assumed that public schools would not apply to participate in the program. If the bill means to provide the normal State aid plus scholarship funds to participating public schools, the costs would be significant.

Local Revenues: Assuming the bill would compel some students to transfer out of public schools and into private schools participating in the program, State aid to local school systems would decrease accordingly. In fiscal 2009 the State will provide approximately \$5,500 per student in direct aid to local school systems.

Local Expenditures: The bill requires public and private school students in the scholarship program to be included in the enrollment counts for the local school systems. Only public school students are currently included in these counts. Including some private school students would result in higher enrollments and would therefore increase the required minimum appropriations from local governments to local school systems.

Small Business Effect: Participating private schools would benefit from the ability to receive public funds to support students enrolling in the schools. Currently, private schools do not receive public funds.

Additional Information

Prior Introductions: None.

Cross File: None.

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