

Department of Legislative Services
 Maryland General Assembly
 2009 Session

FISCAL AND POLICY NOTE

House Bill 602 (Delegate Bates, *et al.*)
 Ways and Means

Smart Start Scholarship Program

This bill establishes the Smart Start Scholarship Program for Maryland children entering public and private prekindergarten programs. A child whose family income is up to 2.5 times the income that qualifies the child for free or reduced price meals is eligible for a scholarship. Based inversely on family income, the amount of a scholarship ranges from 25% to 100% of the amount a county would have received from State and local sources to educate the child, with further adjustments made to reduce scholarships for students in half-day or part-time programs. The scholarships may be used to attend participating public or private prekindergarten programs.

The bill takes effect July 1, 2009.

Fiscal Summary

State Effect: General fund expenditures increase by an estimated \$415,500 in FY 2010 to administer the scholarship program. Future year expenditure estimates reflect regular salary increases and inflation. Revenues are not affected.

(in dollars)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	415,500	422,600	442,100	462,700	484,200
Net Effect	(\$415,500)	(\$422,600)	(\$442,100)	(\$462,700)	(\$484,200)

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

Local Effect: Local school expenditures increase significantly beginning in FY 2010 to fund student scholarships. **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 elementary school may apply to the Maryland State Department of Education (MSDE) 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 public school may apply to accept out-of-county students who receive scholarships.

A qualifying student may apply to MSDE for a scholarship to attend a participating school. 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 is eligible for a scholarship equal to the lesser of the dollar amount the county would have received from State and local sources to educate the child *or* the school's annual cost per child, including operating and capital costs. Scholarship levels incrementally decrease as family income levels increase. A child from a family with an income more than 2.5 times the income level that qualifies the child for reduced price meals is not eligible for scholarship funds. 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 (FTE) 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 conduct an evaluation of the program measuring parental satisfaction; program effectiveness; and the impact on the capacity, availability, and quality of schools and child care. An initial evaluation report must be submitted by December 31, 2010, and a final report is due December 31, 2011. MSDE must adopt regulations to implement the program.

Current Law: The State does not provide scholarships for students to attend private schools or public schools in other jurisdictions. Local school systems must make publicly funded prekindergarten available to all low-income four-year-old children. Prekindergarten students are not included in the FTE enrollment counts used to determine State aid.

For the 2008-2009 school year, a student from a family of four with an annual income of \$39,220 or less is eligible for free or reduced price meals and is eligible for publicly funded prekindergarten.

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 United States target a specific subset of the general student population.

State Expenditures: General fund expenditures increase by an estimated \$415,484 in fiscal 2010, which accounts for the bill's July 1, 2009 effective date. This estimate reflects the cost of hiring six additional staff at MSDE to manage the program, including:

- two education program specialists to implement, monitor, and evaluate the program;
- an auditor to track private schools' compliance with program requirements;

- a budget specialist to track scholarship expenditures and the impact on State aid expenditures; and
- two office secretaries to support the team.

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

Positions	6
Salaries and Fringe Benefits	\$382,484
Start-up and Operating Expenses	<u>33,000</u>
Total FY 2009 State Expenditures	\$415,484

Future year expenditures reflect full salaries with 4.4% annual increases and 3% employee turnover and 1% annual increases in ongoing operating expenses.

Prekindergarten students are not included in the FTE enrollment counts used to determine State aid to local school systems. Therefore, the bill does not require additional State spending as a result of granting scholarships to prekindergarten students.

Local Expenditures: State aid formulas and local appropriations to boards of education are provided as lump sums, not as per student appropriations. It is not possible, therefore, to identify an amount that is “received” for the education of a specific child as required for the determination of scholarship amounts. Absent further clarification of the methods that will be used to determine scholarship amounts, the fiscal impact on local school systems cannot be estimated. However, the following observations attempt to provide some perspective on the potential fiscal effects.

- Approximately 48,000 prekindergarten students per year attend private schools in Maryland. It is estimated that at least two-thirds of these students (32,000 prekindergarten students) will apply and qualify for scholarships under the program each year, representing a new cost to local school systems.
- Current estimates suggest that Maryland’s 24 local school systems will receive approximately \$10.3 billion from local governments and direct State aid in fiscal 2010. This amount will be used to serve approximately 835,000 FTE public school students in prekindergarten through grade 12. In the aggregate, this averages approximately \$12,330 per public school student. If an additional 32,000 prekindergarten students (16,000 FTE student) are funded with the

same amount, per student funding decreases to approximately \$12,100 (\$6,050 for half-day prekindergarten programs).

- Prekindergarten slots in Maryland public schools are fully subscribed by resident students in most counties, so it is unlikely that many public schools will apply to participate in the program.

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

Additional Information

Prior Introductions: A similar bill, HB 188 of 2008, received an unfavorable report from the House Ways and Means Committee.

Cross File: None.

Information Source(s): National Conference of State Legislatures, Maryland State Department of Education, Department of Legislative Services

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mlm/mwc

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