

**Department of Legislative Services**  
Maryland General Assembly  
2009 Session

**FISCAL AND POLICY NOTE**

Senate Bill 1032 (Senator Rosapepe)

Budget and Taxation and Education, Health,  
and Environmental Affairs

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**Funding Formula to Expand K-12 Online Education**

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This bill requires the Maryland State Department of Education (MSDE) to set fees for online courses and services offered by the Maryland Virtual Learning Opportunities (MVLO) Program at 90% of the target per pupil amount for each full-time equivalent (FTE) public school student enrolled in an online course. This fee schedule begins in fiscal 2012. MSDE must also establish an online course fee policy for individuals not enrolled in public schools. Beginning in 2010, MSDE must submit an annual report on the progress of MVLO by September 1.

The bill expresses legislative intent that the Governor include in the fiscal 2010 State budget an appropriation of \$1.5 million for MVLO. In fiscal 2011, the Governor must include in the State budget an appropriation of \$1.5 million for the program from the allocation for Maryland in the federal American Recovery and Reinvestment Act (ARRA) of 2009.

The bill takes effect July 1, 2009.

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**Fiscal Summary**

**State Effect:** General fund expenditures increase by \$1.5 million in FY 2010 to increase the capacity and course offerings of MVLO. In FY 2011, federal stimulus fund expenditures increase by \$1.5 million to further increase MVLO capacity and course offerings. Special fund revenues and expenditures increase by an estimated \$4.4 million in FY 2012 from local school system and individual course fees. Future year special fund revenues and expenditures reflect estimated increases in the target per pupil amount. **This bill establishes a mandated appropriation for FY 2011.**

(\$ in millions)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
SF Revenue	\$0	\$0	\$4.4	\$4.5	\$4.6
GF Expenditure	\$1.5	\$0	\$0	\$0	\$0
SF Expenditure	\$0	\$0	\$4.4	\$4.5	\$4.6
FF Expenditure	\$0	\$1.5	\$0	\$0	\$0
Net Effect	(\$1.5)	(\$1.5)	\$0	\$0	\$0

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

**Local Effect:** Local school system expenditures for MVLO courses may increase but will depend on local decisions about the use of MVLO courses. Local school system expenditures will be an estimated \$442 per student per MVLO course in FY 2012. Long-term savings may be realized through expanded use of MVLO courses. Revenues are not affected.

**Small Business Effect:** None.

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## Analysis

**Current Law:** MSDE must provide virtual learning opportunities that include expanded educational choices not otherwise available to students. Virtual professional development opportunities for educational staff must also be provided. MSDE is responsible for developing and procuring online courses and services.

There is a Maryland Virtual Learning Opportunities Fund. The State Board of Education may set reasonable fees for online courses and services provided through MVLO. The fees charged must be set so as to produce funds to support maintenance of Maryland virtual learning opportunities.

**Background:** According to the International Association for K-12 Online Learning, as of fall 2008, 21 states offer full-time online schools. These schools are often charter schools, although some noncharter, district-run programs are also available to students across some states. Other states, including Maryland, offer supplemental online courses.

In Maryland, supplemental online courses are offered through MVLO. MVLO is managed by MSDE and is designed to expand the access of Maryland public school students to challenging curricula aligned to the Maryland Content Standards and other appropriate standards through the delivery of high quality online courses. MVLO offers approximately 62 online courses through the Maryland Virtual School (MVS) in collaboration with the local school systems. Students may only take a course through MVS with the permission of their local school systems and their school principals. Credit can only be awarded for MSDE-approved courses. MVLO is designed for use by high school students; Maryland does not offer online learning opportunities designed for elementary and middle school students.

In fiscal 2008, 935 students were enrolled in non-MSDE-funded online courses. MSDE estimates the same number of students will be enrolled in online courses in fiscal 2009. MSDE reports that MVLO's current course offerings and capacity are below demonstrated student and staff needs and that, under the current funding structure, MVLO will continue to operate in a limited capacity. Currently, local school systems reimburse MSDE for a course on a per pupil basis. Some local school systems pass the costs on to the student, while others pay most or all of the costs.

**State Revenues:** Special fund revenues increase by an estimated \$4.4 million in fiscal 2012. This estimate reflects the following information and assumptions.

- It is assumed that individuals not enrolled in local school systems will pay the same per course fees as students enrolled in local school systems.
- MSDE assumes that an additional 10,000 students will enroll in MVLO courses in fiscal 2012 because the \$3 million in online course infrastructure improvements made during fiscal 2010 and 2011 will make the courses more appealing.
- Assuming the additional students each take one one-semester course per year, this equates to approximately 714 additional FTE students enrolled in MVLO courses.
- It is estimated that the target per pupil amount will be \$6,874 in fiscal 2012. The bill requires local school systems to reimburse MSDE 90% of the per pupil amount per FTE student enrolled in an MVLO course, which will be \$6,187.
- Assuming 714 FTE students and a \$6,187 per FTE student reimbursement rate, special fund revenues will be approximately \$4.4 million in fiscal 2012.

Future year revenues reflect increases in the target per pupil amount and a constant enrollment of approximately 10,000 students per year.

**State Expenditures:** General fund expenditures increase by \$1.5 million in fiscal 2010 to increase the capacity and course offerings of MVLO. MSDE advises that the additional funds will be used to hire two permanent employees for MVLO and to contract for technical assistance. In fiscal 2011, \$1.5 million in federal ARRA funds must be included in the State budget for MVLO. MSDE estimates that \$3 million provided over two years will increase the capacity of MVLO to meet the demonstrated student and staff needs for online learning. It is unclear, however, what federal ARRA funds will be used to meet this mandate. The Governor's budget plan for fiscal 2010 and 2011 uses the ARRA State Fiscal Stabilization Funds that have been earmarked for education to support regular increases in education aid formulas, so any redirection of these federal funds for MVLO will result in an equivalent general fund expenditure increase for the education aid formulas. Further, State Fiscal Stabilization Funds must be used to support formulas that are in place prior to October 1, 2008. If any funds are left over after support is provided for existing formulas, the remaining federal funds must be distributed through

the allocation used for the existing federal Title I allocation. However, the Governor may have greater discretion with other ARRA funds or Maryland could receive some of the competitive education grants available through the legislation.

In future years, it is assumed that special fund expenditures will match the special fund revenues generated by the course fees. The additional expenditures will be used to support MVLO.

**Local Expenditures:** Local school system expenditures depend on local decisions to enroll students in MVLO courses. Given the assumptions detailed below, local school system expenditures will be approximately \$442 in fiscal 2012 per MVLO course. Currently, MVLO costs to local school systems vary from \$15 to \$625 per course depending on the vendor and the local school system's reimbursement policy.

- It is estimated the target per pupil amount will be \$6,874 in fiscal 2012. The bill requires local school systems to reimburse MSDE 90% of the per pupil amount per FTE student enrolled in an MVLO course, which will be \$6,187.
- High school students generally take about seven courses over two semesters each year. An MVLO course will therefore represent about one-fourteenth of an FTE, or approximately \$442 per course.

In future years, per course costs will increase relative to the target per pupil amount.

In fiscal 2009, 90% of the target per pupil amount is \$6,025, yet local school systems are spending an average of nearly \$13,900 per student. Paying 90% of the target per pupil amount for each FTE student enrolled in an MVLO course, therefore, may represent a significant savings to local school systems, particularly if large numbers of students enroll in the online courses. Although there would probably need to be some initial local investments in technology to enable expanded use of MVLO, long-term savings could be realized.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Allegany, Harford, Montgomery, Talbot, and Wicomico counties; Baltimore City, Department of Budget and Management; Maryland State Department of Education; International Association for K-12 Online Learning; Department of Legislative Services

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