

Department of Legislative Services
2011 Session

FISCAL AND POLICY NOTE

House Bill 777
Ways and Means

(Delegate Bates, *et al.*)

Great Preschools Scholarship Program

This bill establishes the Great Preschools 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, 2011.

Fiscal Summary

State Effect: General fund expenditures increase by an estimated \$399,100 in FY 2012 to administer the scholarship program. Future year expenditure estimates reflect regular salary increases and inflation as well as the absence of start-up costs after FY 2012. Revenues are not affected.

(in dollars)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	399,100	386,100	405,200	425,400	446,600
Net Effect	(\$399,100)	(\$386,100)	(\$405,200)	(\$425,400)	(\$446,600)

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

Local Effect: Local school expenditures increase significantly beginning in FY 2012 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 participating 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.

For purposes of calculating State education aid, 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, as provided in State law. 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, 2012, and a final report is due December 31, 2013. 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 2010-2011 school year, a student from a family of four with an annual income of \$41,348 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 exist 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. In Maine and Vermont, the voucher programs address areas of the states that do not have local public schools, allowing students to attend nonsectarian private schools closer to their homes. All of the voucher programs operating in the United States target a specific subset of the general student population.

Colorado enacted a school voucher program for students who qualify for free or reduced priced lunch that would apply to any Colorado district with at least eight schools that rate poorly under the state's accountability system. However in *Owens, Colorado Governor v. Colorado Congress of Parents, Teachers and Students* the Colorado Supreme Court found the program unconstitutional because it violated the state's express constitutional local control requirements by directing "the school districts to turn over a portion of their

locally raised funds to nonpublic schools over whose instruction the districts have no control.”

State Expenditures: General fund expenditures increase by an estimated \$399,114 in fiscal 2012, which accounts for the bill’s July 1, 2011 effective date. This estimate reflects the cost of hiring five additional staff at MSDE to manage the program, including:

- three education program specialists to implement, monitor, and evaluate the program;
- an auditor to track private schools’ compliance with program requirements; and
- an office secretary to support the team.

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

Positions	5
Salaries and Fringe Benefits	\$363,281
Start-up and Operating Expenses	<u>35,833</u>
Total FY 2012 State Expenditures	\$399,114

Future year expenditures reflect the absence of start-up expenses, full salaries with 4.4% annual increases, 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. Further, prekindergarten students are not included in the enrollment counts used to determine FTE enrollment, so local costs for scholarships will not be offset by increased State aid.

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 29,300 prekindergarten students attended private schools in Maryland in fall 2009. Assuming that this is a relatively stable number and that two-thirds of these students (19,500 prekindergarten students annually) will apply and qualify for scholarships under the program each year, school systems will be required to fund scholarships for this number of students each year.
- Current estimates suggest that Maryland's 24 local school systems will receive approximately \$10.4 billion from local governments and direct State aid in fiscal 2012. This amount will be used to serve approximately 835,800 FTE public school students in prekindergarten through grade 12. In the aggregate, this averages approximately \$12,400 per public school student. If an additional 19,500 prekindergarten students (9,750 FTE students) are funded with the same amount, per student funding decreases to approximately \$12,300 (\$6,150 for half-day prekindergarten programs).
- If local school systems are required to support scholarships up to the average cost per student of \$12,300 for 9,750 FTE students, local school system expenditures will increase by up to \$119.8 million in fiscal 2012.
- If participating private prekindergarten schools have tuitions that are below the cost of educating students in public schools, there is the potential for some level of savings for each prekindergarten student who opts out of public schools to instead attend a low-cost private school. Any savings, however, will be much less than the cost of funding private school scholarships for students who would not otherwise be served with public funds.
- Prekindergarten slots in Maryland public schools are fully subscribed by resident students in most counties, so it is unlikely that public schools will apply to participate in the program.

Senate Bill 87/House Bill 72, BRFA of 2011, include a provision that would reduce the per pupil funding amount for State aid to public schools beginning in fiscal 2012. If enacted, the provision will result in approximately \$94 million to \$110 million in reductions annually in direct State aid to public schools in fiscal 2012 through 2016. If this bill and the BRFA provision are enacted, local school system expenditures will increase by up to \$118.7 million in fiscal 2012, or by \$1.1 million less than under this bill alone.

Small Business Effect: Participating private elementary schools will 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: HB 1121 of 2010 received a hearing in the House Ways and Means Committee, but no further action was taken. HB 602 of 2009 received an unfavorable report from the House Ways and Means Committee.

Cross File: None.

Information Source(s): Allegany, Montgomery and Talbot counties; Maryland State Department of Education; National Conference of State Legislatures; Department of Legislative Services

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mm/mwc

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