

**Department of Legislative Services**  
 Maryland General Assembly  
 2008 Session

**FISCAL AND POLICY NOTE**

House Bill 188 (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 and kindergarten programs. A child whose family income is up to 2½ times the income that would qualify 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 receive 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 and kindergarten programs.

The bill takes effect July 1, 2008.

**Fiscal Summary**

**State Effect:** General fund expenditures would increase by an estimated \$405,900 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 2010 due to the inclusion of scholarship students in the enrollment counts used to determine State aid, but these costs would be at least partially offset by repayments of unused portions of scholarships. 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	405,900	387,700	407,000	427,200	448,500
Net Effect	(\$405,900)	(\$387,700)	(\$407,000)	(\$427,200)	(\$448,500)

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

**Local Effect:** Local school expenditures would increase significantly beginning in FY 2009 to fund student scholarships. School system revenues from State aid would increase beginning in FY 2010 to help fund the scholarships. Minimum required local government expenditures in support of education would increase beginning in FY 2010 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.

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## Analysis

**Bill Summary:** A public or private elementary 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 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 would be 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 2½ times the income level that would qualify 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, 2009, and a final report is due December 31, 2010. MSDE must adopt regulations to implement the program.

**Current Law:** The State does not provide scholarships for students to attend private or public schools. Local school systems must have full-day kindergarten for all five-year-old students and must make publicly funded prekindergarten available to all low-income four-year-old children. Kindergarten students are included in the full-time equivalent enrollment counts used to determine State aid, but prekindergarten students are not included in the counts.

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.

**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 \$405,913 in fiscal 2009. The cost of providing scholarships to qualified students, including the potential offsetting effect on State education aid, cannot be reliably estimated without further clarification of the funding structure that would be used. The administrative costs associated with the bill are discussed below; State and local scholarship costs are discussed in the next section.

### **MSDE Administrative Costs**

General fund expenditures could increase by an estimated \$405,913 in fiscal 2009, which accounts for the bill's July 1, 2008 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;
- 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	\$372,813
Start-up and Operating Expenses	<u>33,100</u>
<b>Total FY 2009 State Expenditures</b>	<b>\$405,913</b>

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

**State and Local Scholarship Expenditures:** Although State aid formulas are calculated using per pupil amounts, the formulas determine aggregate levels of funding to be distributed to local school systems. Likewise, 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 would be used to determine scholarship amounts and the portion of the funds that would be retained by the State, the fiscal impact on the State and local school systems cannot be estimated. However, the following notes attempt to provide some perspective on the potential fiscal effects.

- Current estimates suggest that Maryland's 24 local school systems will receive approximately \$10.2 billion from local governments and direct State aid in fiscal 2009. This amount will be used to serve approximately 850,000 public school students in prekindergarten through grade 12. In the aggregate, this averages approximately \$12,000 per public school student.
- Approximately 45,000 prekindergarten students and 15,000 kindergarten students per year attend private schools in Maryland. It is estimated that at least two-thirds of these students (30,000 prekindergarten and 10,000 kindergarten) would apply and qualify for scholarships under the program each year, representing a new cost to the State and local school systems.
- Prekindergarten and kindergarten slots in Maryland public schools are fully subscribed by resident students in most counties, so it is unlikely that many public schools would apply to participate in the program.
- 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.
- Kindergarten students are included in the FTE enrollment counts; however, the State funding lags the enrollment count by one year. Kindergarten students receiving scholarships in fall 2009 under the bill would be included in the enrollment count used to calculate fiscal 2010 State funding. Therefore, there would be no required State spending in support of kindergarten scholarships in fiscal 2009.

- Adding an estimated 10,000 kindergarten students to the enrollment counts each year beginning in fall 2009 would increase general fund expenditures by approximately \$30 million per year beginning in fiscal 2010. A portion of the additional spending would presumably be recovered by the State due to the retention of unused scholarship funds.
- Under the maintenance of effort provisions in State law, local government appropriations per student must be at least as much as the per pupil appropriation in the prior fiscal year. Adding an estimated 10,000 kindergarten students to the official enrollment counts in fall 2009 would increase the minimum required local government appropriations to boards of education. However, local governments often provide funding increases beyond the minimum required amount, so the bill would not necessarily increase local appropriations in every district.

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

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Maryland State Department of Education, Department of Legislative Services

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