

**Department of Legislative Services**  
Maryland General Assembly  
2012 Session

**FISCAL AND POLICY NOTE**

Senate Bill 878 (Senator Ferguson)

Budget and Taxation and Education, Health,  
and Environmental Affairs

**Education - Preschool for All - Establishment and Funding**

This bill establishes a “Preschool for All” program that requires local school systems to make publicly funded prekindergarten available to all four-year-old children by the 2015-2016 school year. Video lottery operators are authorized to offer table games to fund the prekindergarten expansion.

Before the bill takes effect, it is subject to referendum at the November 2012 general election. If the referendum is approved, the bill takes effect 30 days after the election. Additional legislation is required to provide for the operation and regulation of table games. For purposes of the referendum, the bill takes effect July 1, 2012.

**Fiscal Summary**

**State Effect:** If approved by voters, special fund revenues for the Education Trust Fund (ETF) increase significantly due to the implementation of table games at some video lottery terminal (VLT) locations. However, an implementation bill will be needed to determine the fiscal effect of adding table games. General fund and ETF expenditures increase by an estimated \$96.3 million in FY 2014 due to the changes to State education aid formulas. Future year expenditure increases reflect the enrollment of additional prekindergarten students each year, full implementation of Preschool for All by the 2015-2016 school year, and a small media campaign in FY 2014 through 2016.

(\$ in millions)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
SF Revenue	\$0	-	-	-	-
GF/SF Exp.	0	\$96.3	\$106.8	\$127.5	\$151.5
Net Effect	\$0	(\$96.3)	(\$106.8)	(\$127.5)	(\$151.5)

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

**Local Effect:** Local school expenditures increase by an estimated \$212.0 million to \$265.0 million by no later than FY 2016 to pay for an expansion of prekindergarten programs. County minimum required school appropriations will increase significantly due to an increase in full-time equivalent (FTE) enrollments. State aid for local school systems increases by an estimated \$96.3 million in FY 2014 and by an estimated \$151.5 million in FY 2017. The voter referendum can be handled with the existing resources of local boards of elections. **This bill imposes a mandate on a unit of local government.**

**Small Business Effect:** Potential meaningful.

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## Analysis

### Bill Summary:

#### *Preschool for All Program*

Under the Preschool for All program, full-day prekindergarten must be made available for economically disadvantaged (as defined by eligibility for free and reduced-price meals) four-year-old children; half-day programs must be available for all other four-year-olds. School funding formulas are altered to include prekindergarten students in the annual FTE enrollment counts, with economically disadvantaged students counted as 1.0 FTE each and students who do not qualify for free and reduced-price meals counted as 0.5 FTE each. The per pupil amount used to calculate the compensatory education formula, through which existing prekindergarten programs are supported, is phased down over four years from 97% of the per pupil foundation amount in fiscal 2013 to 93% of the per pupil foundation amount in fiscal 2017.

In addition to the adjustments made to State education aid formulas, the calculation of minimum required county funding for public schools is adjusted. Required per pupil amounts are reduced to account for current county contributions to prekindergarten in preparation for the change in FTE enrollment count methodology.

Each local school system must include in its annual comprehensive master plan or master plan update the strategies it will use to ensure the implementation of the Preschool for All program by the 2015-2016 school year. A local school system may use qualified vendors to provide the programs.

The Maryland State Department of Education (MSDE) must adopt regulations that set standards for qualified vendors, and the standards must include a requirement that there be a teacher in each prekindergarten classroom with a State certificate in early childhood education. MSDE also has to establish provider rates for qualified vendors and provide lists of qualified vendors to local school systems each year. Qualified vendors must be

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evaluated for recertification by MSDE at least every three years; MSDE may revoke certification if it finds that a vendor is not in compliance with applicable standards.

To the extent allowable, MSDE must use funds from the federal Challenge grant to assist local school systems and qualified vendors to increase capacity, training, and teacher certification for the enhancement and sustainability of the Preschool for All program. In collaboration with local school systems, MSDE must develop a media campaign to advertise the availability of Preschool for All.

### *Table Games*

The bill specifies that 65% of table game proceeds are distributed to the licensee and 35% to ETF. The State Lottery Commission may determine the suitability of the type of table games to be offered at VLT facilities. The State is prohibited from charging a table game license fee.

### **Current Law:**

#### *Prekindergarten Programs*

Local school systems must make publicly funded prekindergarten available to all economically disadvantaged children who are four years old by September 1 of each year. To qualify as economically disadvantaged, a student must be from a family whose income would make the child eligible for free and reduced-price meals if the student was in kindergarten. Regulations also require that four-year-old homeless students be granted access to prekindergarten programs. If a prekindergarten program has vacancies after entrance has been granted to the required populations, the local school system may enroll additional students who exhibit a lack of school readiness.

By regulation, prekindergarten programs must be operated five days a week for at least 2.5 hours per day consistent with the school calendar set by each local board of education (totaling about 450 hours per year). Staffing for each program must maintain a staff to student ratio of 1:10 and must include a paraprofessional and a teacher who holds a valid State certificate in early childhood education. Programs must be aligned with the State Content Standards for prekindergarten.

Because the State mandate to provide prekindergarten only applies to students who are from disadvantaged backgrounds, State funding for prekindergarten programs is provided through the compensatory education formula. A portion of the formula's current per pupil "weight" (which is 97% of the per pupil foundation amount) can be attributed to the State mandate. Prekindergarten students are not included in the annual September 30 FTE enrollment counts.

Minimum county funding levels for public schools are guided by the maintenance of effort (MOE) requirement. Under MOE, each county (including Baltimore City) must provide on a per pupil basis at least as much funding for the local school system as it appropriated in the previous year. FTE enrollment is used to calculate the amounts appropriated per pupil.

### *Gaming in Maryland*

In general, table games are not allowed under the Maryland Constitution. The State Lottery Agency oversees the State's VLT program, which was approved by voters at the November 2008 general election and currently allows for VLTs at five sites, one each in Baltimore City and Allegany, Anne Arundel, Cecil, and Worcester counties. VLT facility operation licenses are awarded by a location commission.

### **Background:**

#### *Publicly Funded Prekindergarten Program*

The Bridge to Excellence in Public Schools Act of 2002 (Chapter 288) required local school systems to make publicly funded prekindergarten programs available to all four-year-old children from economically disadvantaged backgrounds by the 2007-2008 school year. In September 2011, 28,734 students were enrolled in prekindergarten programs funded by the local school systems. Enrollments are displayed by local school system in **Exhibit 1**. Prince George's County (5,460 students) and Baltimore City (4,844) have the highest prekindergarten enrollments in the State.

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**Exhibit 1**  
**Number of Prekindergarten Students in Publicly Funded Programs**  
**September 30, 2011**

Allegany	499	Harford	779
Anne Arundel	1,892	Howard	1,066
Baltimore City	4,844	Kent	122
Baltimore	3,604	Montgomery	3,626
Calvert	386	Prince George's	5,460
Caroline	324	Queen Anne's	252
Carroll	294	St. Mary's	701
Cecil	590	Somerset	201
Charles	891	Talbot	268
Dorchester	256	Washington	485
Frederick	1,059	Wicomico	615
Garrett	131	Worcester	389

**Total State    28,734**

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The Bridge to Excellence Act also provided enhancements to State education aid, including a significant increase through a restructured compensatory education formula that calculates aid for local school systems based on enrollments of students eligible for free and reduced-price meals. A portion of State funding under the compensatory education formula recognizes the additional costs of providing prekindergarten to disadvantaged children. This bill reduces funding through the compensatory education formula and instead includes prekindergarten students in the counts that determine funding for students in kindergarten through grade 12.

Most states (like Maryland) offer prekindergarten programs to targeted populations of young students. The Pew Center on the States reports that nine states and the District of Columbia have prekindergarten programs open to all four-year-olds.

In December 2011, MSDE received a federal Race to the Top (RTTT) Early Learning Challenge grant of \$50 million over four years. The program is designed to narrow the school readiness gap for children in poverty, children with disabilities, and English language learners.

## *Table Games*

In a February 2010 letter to the Governor, the President of the Senate, and the Speaker of the House, the VLT location commission suggested, among other things, that the Governor and the General Assembly may wish to consider whether legislation authorizing table games (*e.g.*, black jack), subject to voter approval, is warranted. The location commission cited strong competition from surrounding states for gambling dollars within the region. Specifically, Delaware, Pennsylvania, and West Virginia allow some VLT facilities to offer table games.

The location commission has awarded video lottery operation licenses for VLT facility locations in three of the five approved jurisdictions: Anne Arundel, Cecil, and Worcester counties. Penn Cecil, in Cecil County, opened in late September 2010 with 1,500 VLTs, and Ocean Downs, in Worcester County, opened in January 2011 and currently is operating 800 VLTs. Power Plant Entertainment Casino Resorts, LLC was awarded a license in December 2009 to operate a 4,750 VLT facility adjacent to Arundel Mills Mall in Anne Arundel County, contingent upon local zoning approval. County officials subsequently approved zoning legislation, but the legislation was petitioned to a local voter referendum for the November 2010 election. Anne Arundel County voters approved the legislation, allowing the VLT facility to go forward. Phase one of that facility is currently scheduled to open with approximately 3,000 VLTs in June 2012, with the full complement of 4,750 VLTs in operation by October 2012. The location commission has not yet awarded licenses for operators in Allegany County and Baltimore City.

Through January 2012, Maryland VLT facilities have generated a total of \$196.2 million in revenues. Of this amount, \$95.1 million has been distributed to ETF to help support State aid for public schools.

**State Revenues:** The bill authorizes the holder of a video lottery operation license to offer table games, subject to voter approval. However, the bill does not specify the total number of table games that may be awarded or the maximum number per facility. The bill does specify that 65% of the proceeds will be distributed to licensees and 35% will be distributed to ETF.

*For illustrative purposes only*, **Exhibit 2** shows the potential total revenue generated and amounts distributed to licensees and ETF from 350 total table games, which assumes that facilities will have a similar number of table games to other states. The estimate is based on casino data for surrounding states and Illinois, Indiana, and Iowa; the current Maryland VLT forecast; and the expected correlation between VLT revenues and table game revenues at existing casinos. The estimates also assume that there is about a six-month implementation delay between approval of table games and introduction of

table games at VLT facilities. Legislative Services advises that the actual amount of revenue generated through table games will depend on the implementing legislation and the number and type of table games awarded.

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**Exhibit 2**  
**Potential Table Game Revenues**  
**(\$ in Millions)**

<u><b>Total Table Games</b></u>	<u><b>FY 2013</b></u>	<u><b>FY 2014</b></u>	<u><b>FY 2015</b></u>	<u><b>FY 2016</b></u>	<u><b>FY 2017</b></u>
350	\$0	\$158.3	\$197.8	\$213.4	\$216.0
Licensees	0	102.9	128.6	138.7	140.4
ETF	0	55.4	69.2	74.7	75.6

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**State Expenditures:** If the referendum is approved by Maryland voters, expenditures for State education aid will increase by an estimated \$96.3 million in fiscal 2014 due to changes in the State education aid formulas. This estimate is based on the information and assumptions discussed below.

- Since local school systems are currently required to make prekindergarten available to all disadvantaged students, most of the students in prekindergarten in September 2012 will be eligible for a 1.0 FTE count (rather than 0.5).
- Because the outcome of the referendum implementing the bill will not be known by the start of the 2012-2013 school year, local school systems will maintain their prekindergarten enrollments at levels similar to the September 2011 enrollment. Any phase-in of additional prekindergarten slots resulting from this bill will not begin until the following school year.
- The FTE enrollment count of prekindergarten students used for fiscal 2014 aid calculations will be an estimated 27,157. As specified in the bill, the compensatory education weight used for fiscal 2014 will drop from 97% to 96% of the per pupil foundation amount.

Because of the one-year lag in State aid enrollment counts, the phase-in of the formula changes will continue through fiscal 2017, one year after the mandate for full implementation. Estimated State aid increases for fiscal 2014 through 2017 are shown by State aid program in **Exhibit 3**. The estimates assume a relatively slow expansion of prekindergarten programs prior to the 2015-2016 school year and that the proportion of four-year-old children who eventually participate in Preschool for All will be roughly equivalent to the proportion of kindergarten students who attend Maryland public schools. The exhibit shows that large increases in foundation program aid will be

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partially offset by declines in compensatory education funding. In fiscal 2017, when all of the additional prekindergarten students are included in the annual enrollment counts, State aid is expected to be \$151.5 million higher than it would be under current law. If participation is lower than anticipated, State costs will decrease accordingly.

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**Exhibit 3**  
**Increases in Direct State Education Aid by Program**  
**Fiscal 2014-2017**  
**(\$ in Millions)**

<b><u>Program</u></b>	<b><u>FY 2014</u></b>	<b><u>FY 2015</u></b>	<b><u>FY 2016</u></b>	<b><u>FY 2017</u></b>
Foundation Program	\$92.6	\$105.4	\$126.1	\$163.6
Geographic Cost of Education Index	4.8	5.3	6.2	7.8
Supplemental Grants	0.0	0.0	0.0	0.0
Compensatory Education	(9.1)	(22.2)	(36.6)	(52.2)
Special Education Formula	0.7	5.1	11.8	12.2
Limited English Proficiency	0.6	4.1	10.2	11.3
Guaranteed Tax Base	(0.3)	1.0	0.0	(1.7)
Student Transportation	7.0	8.1	9.7	10.5
<b>Total</b>	<b>\$96.3</b>	<b>\$106.8</b>	<b>\$127.5</b>	<b>\$151.5</b>

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Support for the additional State education aid will be provided first from the new ETF revenues generated by table games at VLT facilities. Any costs above the new revenues will be paid with general funds. Using the estimates for table games revenues from Exhibit 2, general fund expenditures increase by \$40.9 million in fiscal 2014, \$37.7 million in 2015, \$52.8 million in fiscal 2016, and \$75.9 million in fiscal 2017. Actual special fund revenues from table games will depend on the implementing legislation and cannot be reliably determined at this time. It is anticipated, however, that general funds will be needed to supplement any ETF revenues that are generated from table games.

Expanding prekindergarten programs will also increase teachers' retirement costs in future years. State payments for teachers' retirement are calculated using actual school system salary bases from the second prior fiscal year. Assuming local school systems begin expanding prekindergarten programs in fiscal 2014, retirement payments will increase in fiscal 2016. The amount of any increase will depend on local implementation strategies, particularly the extent to which local school systems hire additional prekindergarten teachers to implement the programs rather than using qualified vendors. Regardless, general fund costs for teachers' retirement will further increase required spending under the bill by several million dollars.



State funding for public school construction will not be directly affected by the bill, but it is likely that, over the next several years, counties will prioritize projects needed to support the prekindergarten expansion. School construction spending will not necessarily increase, but the allocation of funding could change to devote additional resources to counties that need to add capacity or renovate space to accommodate additional prekindergarten classes.

Launching a statewide media campaign to advertise the Preschool for All program is expected to increase general fund expenditures by approximately \$10,000 annually in fiscal 2014 through 2016. The State Board of Education and MSDE can adopt any additional regulations necessary to establish standards for qualified vendors and can set provider rates and monitor vendor compliance with existing resources. The uses for federal RTTT Challenge grant funds that are identified in the bill – specifically, increasing capacity, training, and teacher certification for early education programs in the State – are consistent with MSDE’s anticipated programming of the funds.

**Local Revenues:** If the bill is eventually approved by Maryland voters, local school revenues will increase beginning in fiscal 2014 due to additional direct State aid. Based on the assumptions described above, State aid will increase by \$96.3 million in fiscal 2014 and by an estimated \$151.5 million in fiscal 2017. Estimates of the additional State aid for those two years are shown by county in **Exhibit 4**. Three local school systems that have low numbers of current prekindergarten enrollees and lower percentages of students eligible for free and reduced-price meals, Carroll, Howard, and Washington counties, may see decreases in State aid in fiscal 2014. The potential decreases are due in part to the wealth equalization factors in State aid that measure wealth on a per FTE student basis. By fiscal 2017, all local school systems are expected to receive more State aid than they would under current law.

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**Exhibit 4**  
**Additional State Education Aid**  
**Fiscal 2014 and 2017**  
**(\$ in Thousands)**

<b>County</b>	<b>FY 2014</b>	<b>FY 2017</b>
Allegany	\$2,628	\$1,547
Anne Arundel	2,064	9,039
Baltimore City	35,275	29,745
Baltimore	11,955	20,910
Calvert	243	1,415
Caroline	1,902	1,251
Carroll	(1,446)	2,441
Cecil	2,273	3,852
Charles	1,457	1,223
Dorchester	1,783	1,318
Frederick	1,305	6,890
Garrett	28	374
Harford	615	5,503
Howard	(619)	3,949
Kent	527	343
Montgomery	2,252	13,120
Prince George's	27,740	32,912
Queen Anne's	391	849
St. Mary's	1,702	2,891
Somerset	1,383	884
Talbot	225	120
Washington	(647)	5,453
Wicomico	2,912	5,317
Worcester	314	109
<b>Total</b>	<b>\$96,265</b>	<b>\$151,456</b>

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**Local Expenditures:** If the referendum is approved by qualified Maryland voters, counties and local school systems will experience increased costs to implement the bill. The counties will be required to provide additional funding to the local school systems under the MOE requirement, and local school systems are required to implement the Preschool for All program. Local school construction costs may also increase.

### *County Appropriations to Local School Systems*

Minimum county appropriations for local school boards will increase significantly as additional students are added to FTE enrollment counts. Counties' per pupil MOE amounts will be reduced for the calculation of fiscal 2014 required minimum appropriations, but FTE enrollments will grow as more prekindergarten students are added to the counts in subsequent years. By fiscal 2017, when the full complement of prekindergarten students will be included in the FTE enrollment counts, minimum county school appropriations could be as much as \$160 million higher than they would be under current law. Local governments often provide funding for public schools above the minimum MOE requirement, so the actual impact of the legislation on local funding for schools cannot be reliably estimated. However, through the inclusion of prekindergarten students in the annual FTE enrollment counts, counties will participate in providing financial support for the Preschool for All program.

### *Implementation of the Preschool for All Program*

Local school expenditures will increase to support the prekindergarten expansion in public schools or to contract with qualified vendors to provide the services. In December 2009, MSDE released *Maryland's Preschool for All Business Plan*, which estimated the cost (in fiscal 2009 dollars) for a half-day prekindergarten block at \$2,705 per participant. However, the most recent school spending data for the State suggests that per pupil spending is more than \$13,500, including approximately \$9,000 per pupil in the instructional and special education categories and another \$700 per pupil in student transportation. These figures alone suggest costs of at least \$4,000 to \$5,000 for each half-day prekindergarten student and \$8,000 to \$10,000 for each full-day student.

When the Preschool for All program is fully implemented in the 2015-2106 school year, it is anticipated that approximately 62,650 students will participate in the program, including about 29,450 in full-day programs and 33,200 in half-day programs. This results in an FTE enrollment count of approximately 45,050, an estimated 26,500 higher than an equivalent measure for the current fiscal year. Assuming a cost of \$8,000 to \$10,000 per additional FTE student, local school expenditures will increase by \$212.0 million to \$265.0 million annually by fiscal 2016.

In general, it is anticipated that the additional county funding and State aid combined should be enough to support the costs of the Preschool for All program. The possible exception would be in fiscal 2016, when local school systems will be required to have fully operational programs. Due to the one-year lag in enrollment counts, however, the full amounts of State and county funding will not be provided until fiscal 2017.

### *School Construction Costs*

Depending on local school system implementation of the Preschool for All program, counties may need to finance additional school construction projects to add capacity or renovate spaces for prekindergarten students. Alternatively, counties and local school systems may be able to re-order priorities to ensure capacity by the 2015-2016 school year. Greater use of qualified vendors may also help local school systems keep school construction costs down.

**Small Business Effect:** Many day care centers and preschools are small businesses. Those that are able to gain accreditation and become qualified vendors under the Preschool for All program will benefit from the utilization of public funds to support tuition costs for four-year-old children. However, those that are unable to gain status as qualified vendors will be negatively impacted by the loss of a large segment of their four-year-old students, who are likely to move to programs that are offered at no cost to the family.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Prince George's County, Baltimore City, Department of Budget and Management, Maryland State Department of Education, Comptroller's Office, Maryland State Lottery Agency, Department of Legislative Services

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