

**R00A99**  
**Early Childhood Development**  
Maryland State Department of Education

***Operating Budget Data***

(\$ in Thousands)

	<u>FY 16</u> <u>Actual</u>	<u>FY 17</u> <u>Working</u>	<u>FY 18</u> <u>Allowance</u>	<u>FY 17-18</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$66,491	\$70,395	\$76,579	\$6,184	8.8%
Adjustments	0	0	-19	-19	
<b>Adjusted General Fund</b>	<b>\$66,491</b>	<b>\$70,395</b>	<b>\$76,560</b>	<b>\$6,164</b>	<b>8.8%</b>
Special Fund	1,708	1,320	1,320	0	
<b>Adjusted Special Fund</b>	<b>\$1,708</b>	<b>\$1,320</b>	<b>\$1,320</b>	<b>\$0</b>	<b>0.0%</b>
Federal Fund	103,675	118,406	117,575	-831	-0.7%
Adjustments	0	0	-34	-34	
<b>Adjusted Federal Fund</b>	<b>\$103,675</b>	<b>\$118,406</b>	<b>\$117,541</b>	<b>-\$865</b>	<b>-0.7%</b>
<b>Adjusted Grand Total</b>	<b>\$171,875</b>	<b>\$190,122</b>	<b>\$195,421</b>	<b>\$5,299</b>	<b>2.8%</b>

Note: Includes targeted reversions, deficiencies, and contingent reductions.

- The adjusted fiscal 2018 allowance reflects an increase of \$5.3 million when compared to the fiscal 2017 working appropriation. General fund increases occur due to funding for prekindergarten expansion (\$3.7 million) and the Child Care Subsidy Program (CCS) (\$2.7 million), offset by decreased spending for salaries, fringe benefits, and operating expenses. Federal fund decreases occur primarily due to the end of funding for Race to the Top – Early Learning Challenge (\$4.0 million) and assessments (\$900,000), offset by increased funding for child care (\$2.1 million) and preschool development (\$2.4 million).
- Contingent reductions reduce the fiscal 2018 allowance by \$19,473 in general funds and \$33,685 in federal funds due to the across-the-board reduction for a supplemental pension payment. Annual payments are mandated for fiscal 2017 through 2020 if the unassigned general fund balance exceeds a certain amount at the close of the fiscal year. This action is tied to a provision in the Budget Reconciliation and Financing Act of 2017.

Note: Numbers may not sum to total due to rounding.

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***Personnel Data***


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	<b><u>FY 16</u></b> <b><u>Actual</u></b>	<b><u>FY 17</u></b> <b><u>Working</u></b>	<b><u>FY 18</u></b> <b><u>Allowance</u></b>	<b><u>FY 17-18</u></b> <b><u>Change</u></b>
Regular Positions	168.50	166.00	166.00	0.00
Contractual FTEs	<u>40.00</u>	<u>42.00</u>	<u>41.00</u>	<u>-1.00</u>
<b>Total Personnel</b>	<b>208.50</b>	<b>208.00</b>	<b>207.00</b>	<b>-1.00</b>

***Vacancy Data: Regular Positions***

Turnover and Necessary Vacancies, Excluding New Positions	12.35	7.44%
Positions and Percentage Vacant as of 12/31/16	14.00	8.43%

- There are no regular position reductions for the Division of Early Childhood Development (DECD) in fiscal 2018. However, in fiscal 2017, DECD lost 2.5 vacant positions as part of Section 20 of the fiscal 2017 budget bill.
- DECD had 14.0 vacant positions at the close of calendar 2016, giving it an 8.4% vacancy rate. This rate is 1.0% more than the DECD budgeted turnover rate. One of its vacant positions is for the Assistant State Superintendent of Early Childhood Development following the retirement of the former assistant state superintendent. The Maryland State Department of Education (MSDE) is currently recruiting a new assistant state superintendent and hopes to fill the position in the coming months.

## ***Analysis in Brief***

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### **Major Trends**

***Growth for Prekindergarten, Infants and Toddlers, and Preschool Special Education; Decrease for Head Start:*** Between academic 2011 and 2015, participation in State publicly funded prekindergarten has had slow but steady growth, with increased enrollment by 506 students between academic 2015 and 2016. The Infants and Toddlers program experienced an increase of 398 children for academic 2016, while Preschool Special Education experienced an increase of 368 children. Head Start has declined by 545 children.

***Decrease in Participation for Maryland EXCELS and Child Care Credentialing:*** Maryland EXCELS (Excellence Counts in Early Learning and School-Age Care) experienced a decline in programs participating for the first time in fiscal 2016, when participation declined from 5,249 programs in fiscal 2015 to 4,591 programs in fiscal 2016. However, Maryland EXCELS has experienced a significant increase in programs choosing to publish their Maryland EXCELS rating, from 748 in fiscal 2015 to 2,144 in fiscal 2016. Child care providers in the State are also participating in the State credentialing program at a decreased rate, from 18.0% in fiscal 2015 to 16.9% in fiscal 2016. This is the second year in a row that the State has experienced a decrease in credentialing, after hitting a high of 23.0% in fiscal 2014. **DECD should comment on why participation in Maryland EXCELS and the State credentialing program has declined and what it is doing to market these programs to providers.**

### **Issues**

***Prekindergarten Expansion:*** In 2014, Maryland was awarded a federal grant that provides \$15.0 million annually through fiscal 2019 to continue the expansion of publicly funded prekindergarten. In its grant application, the State committed to matching funds of \$3,672,000 in fiscal 2018 and \$7,344,000 in fiscal 2019. Chapters 683 and 684 of 2016 mandated that these matching funds be provided in the fiscal 2018 and 2019 budgets. The mandated funding has been provided in the fiscal 2018 allowance. The fiscal 2018 allowance also includes \$16.0 million in federal funding to be provided for expansion under the grant, approximately \$1.8 million more than what is provided in the fiscal 2017 working appropriation due to carryover funds from prior fiscal years. **DECD should comment on the impact for the State budget if federal grant funding for prekindergarten expansion is not received beyond fiscal 2019. DECD should also update the committees on how it will consolidate funding streams for prekindergarten expansion, given its various general and federal fund sources and their associated eligibility requirements.**

***Child Care Subsidy Costs:*** CCS assists eligible low-income families with child care costs. The program is funded primarily by federal Child Care Development Fund (CCDF) grants and State general funds. Funding for the program is projected to total \$100.8 million in fiscal 2018. Maryland's subsidies are only at the ninth percentile of market rate, much lower than the federally recommended seventy-fifth percentile. DECD maintains a waitlist for families at higher income levels not yet receiving CCS.

MSDE canceled \$12.8 million in federal funds for CCS in fiscal 2016, claiming that this amount was not sufficient to pay for all families within an income level if the waitlist were to be opened. MSDE continues to monitor if it will have a surplus in fiscal 2017 after implementing new federal CCS guidelines. **DECD should update the committees on the amount of unappropriated federal funds available in fiscal 2017 and 2018 and how it plans to use those funds.** The Child Care and Development Block Grant Act of 2014 re-authorized the CCDF for the first time since 1996. Of particular note under the re-authorization is the requirement for a 12-month eligibility period for families. **DECD should comment on progress made toward predicting the cost of the 12-month eligibility in Maryland and whether funding in the fiscal 2017 and 2018 budget is sufficient to cover such costs. MSDE should also comment on the cost to increase rates in the State to the seventy-fifth percentile of market rate.**

## **Recommended Actions**

	<u><b>Funds</b></u>
1. Reduce funding for the Child Care Subsidy Program for provider rate increases.	\$ 860,000
<b>Total Reductions</b>	<b>\$ 860,000</b>

## **Updates**

***Special Education Prekindergarten:*** Language in the fiscal 2017 budget required MSDE to deliver a report that specified all local, State, and federal funds spent for prekindergarten children with disabilities in fiscal 2015 and 2016, services for children with disabilities to learn alongside nondisabled peers and access meaningful curricula, and how these programs may lead to improved results for children with disabilities. MSDE has reported that in fiscal 2015, the breakdown of funds was 10% federal, 22% State, and 68% local. In fiscal 2016, the breakdown was 10% federal, 24% State, and 66% local.

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**Early Childhood Development**  
**Maryland State Department of Education**

## ***Operating Budget Analysis***

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### **Program Description**

The State's early childhood programs are administered by the Division of Early Childhood Development (DECD) within the Maryland State Department of Education (MSDE). The division has a strategic plan that aligns early childhood programs with K-12 education to ensure that children, including those with special needs, enter school ready to learn. The plan focuses on three areas: programs, regulations, and standards; career and professional development for caregivers; and public relations and outreach. DECD is composed of three parts: the Office of Child Care, the Early Learning Branch, and the Collaboration and Program Improvement Branch.

#### **Child Care**

Chapter 585 of 2005 transferred functions of the Child Care Administration in the Department of Human Resources (DHR) to MSDE and mandated the establishment of DECD. In February 2006, the Purchase of Care Program, which provides financial assistance to low-income families for child care, was transferred from DHR to MSDE by executive order. In fiscal 2016, all functions of the Child Care Subsidy Program (CCS) were consolidated within MSDE, though eligibility determination for Temporary Cash Assistance (TCA) cases was transferred back to DHR.

DECD includes the Office of Child Care, which has four branches within the office. The Licensing Branch licenses and monitors child care centers and family day care homes in the State. The Child Care Subsidy Branch regulates and administers CCS. The Credentialing Branch administers the Maryland Child Care Credential Program; handles tiered reimbursement under CCS; and manages child care training approval, training vouchers and reimbursements, and accreditation support awards. The Maryland EXCELS (Excellence Counts in Early Learning and School-Age Care) Branch administers the State's quality rating and improvement program, Maryland EXCELS, the accreditation program; and handles accreditation support awards. The issuance of tiered reimbursement for CCS is tied directly to the quality rating established by Maryland EXCELS. Training approval is directly overseen by the Director of the Office of Child Care.

#### **Early Learning**

The Early Learning Branch of DECD is responsible for public prekindergarten and kindergarten policies. It oversees the administration of Ready for Kindergarten: Maryland's Early Childhood Comprehensive System, early childhood curriculum guidance, developmental screening, and professional development.

## **Collaboration and Program Improvement**

DECD's Collaboration and Program Improvement Branch issues and administers early care grants and contracts, including the Family Child Care Provider Grant. This branch also manages collaboration for the federal Head Start program and administers the Judith P. Hoyer Program.

The Judith P. Hoyer Early Childhood Education Enchantment Program was established by Chapter 680 of 2000. The program provides grants for local school systems to offer high-quality, full-day child care and education and family support services in or near Title I schools, which have high proportions of low-income students. The sites are known as Judy Centers. Hoyer Grants are also available to private providers of early child care and education to help them pursue accreditation and staff credentialing, which result in improved care for children.

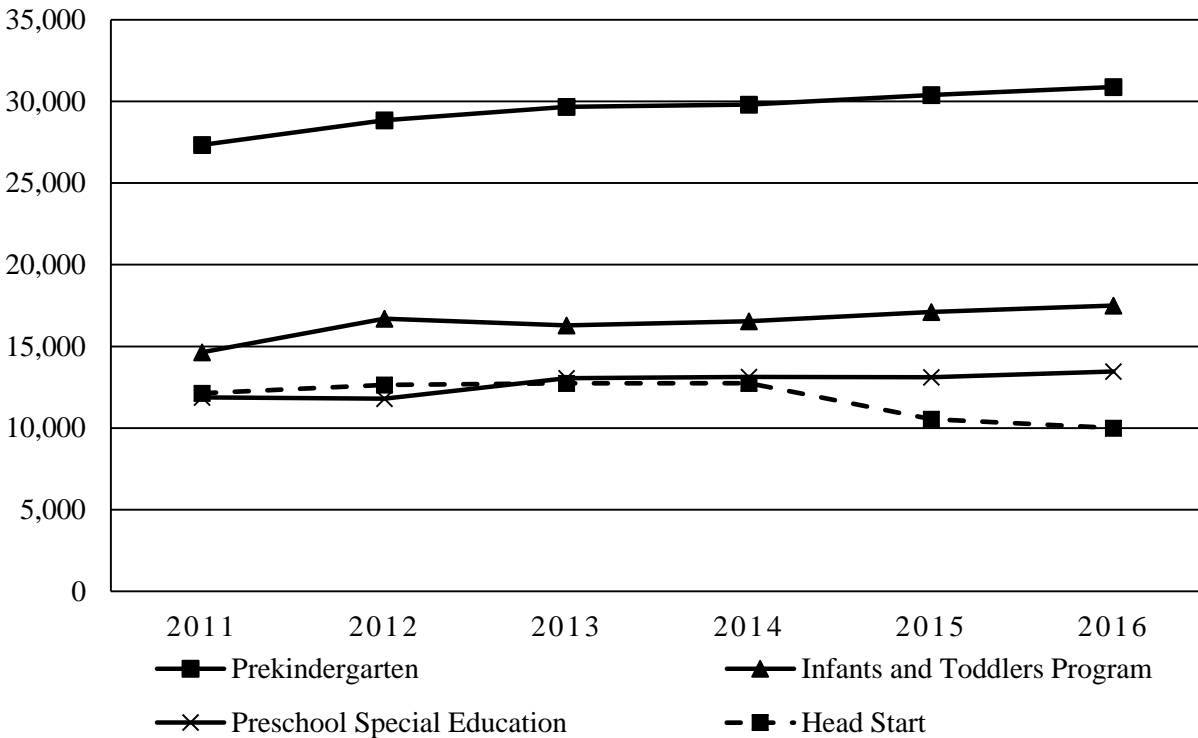
## **Performance Analysis: Managing for Results**

### **1. Growth for Prekindergarten, Infants and Toddlers, and Preschool Special Education; Decrease for Head Start**

Maryland provides publically funded prekindergarten statewide. Between academic 2011 and 2015, participation in State prekindergarten has had slow but steady growth, as detailed in **Exhibit 1**. Enrollment increased by 506 students between academic 2015 and 2016. Academic 2016 was the second year affected by Chapter 2 of 2014, the Prekindergarten Expansion Act. More discussion of prekindergarten expansion can be found in the Issues section of this analysis.

Under the Individuals with Disabilities Act (IDEA), children with disabilities in the State ages 3 through 5 may receive instruction from Preschool Special Education Services through their local school system. This program experiences an increase of 368 children in academic 2016. Additionally, Maryland administers the Infants and Toddlers program, which provides early intervention services for young children with developmental delays and disabilities and their families. This program experiences an increase of 398 students in academic 2016. Finally, the State manages the federal Head Start program, which enhances school readiness for children up to age five from low-income families. This program experienced a decline of 545 children in academic 2016.

**Exhibit 1**  
**Enrollment in Early Childhood Development Programs**  
**Academic 2011-2016**



Note: Academic year equates to the second year of the school year. For example, academic year 2016 is school year 2015-2016.

Source: Department of Budget and Management

## **2. Decrease in Participation for Maryland EXCELS and Child Care Credentialing**

Maryland EXCELS is a tiered quality rating and improvement system for licensed child care centers, family child care providers, and public prekindergarten programs. Since its statewide launch in July 2013, it has experienced increased participation in the number of programs every year until fiscal 2016, when participation declined from 5,249 programs in fiscal 2015 to 4,591 programs in fiscal 2016. However, Maryland EXCELS has experienced a significant increase in programs choosing to publish their Maryland EXCELS rating, from 748 in fiscal 2015 (the first year rating publishing was available under Maryland EXCELS) to 2,144 in fiscal 2016.

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Child care providers in the State are also participating in the State credentialing program at a decreased rate, from 18.0% in fiscal 2015 to 16.9% in fiscal 2016. This is the second year in a row that the State has experienced a decrease in credentialing, after hitting a high of 23.0% in fiscal 2014. It is worth noting that participation in the credentialing program is the basic criterion required for child care programs to advance through Maryland EXCELS. **DECD should comment on why participation in Maryland EXCELS and the State credentialing program has declined and what it is doing to market these programs to providers.**

## Proposed Budget

**Exhibit 2** provides detail on how the Governor’s fiscal 2018 allowance for Early Childhood Development grows by approximately \$5.3 million, or 2.8%, over the working appropriation.

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**Exhibit 2**  
**Proposed Budget**  
**MSDE – Early Childhood Development**  
**(\$ in Thousands)**

<b>How Much It Grows:</b>	<b><u>General Fund</u></b>	<b><u>Special Fund</u></b>	<b><u>Federal Fund</u></b>	<b><u>Total</u></b>
Fiscal 2016 Actual	\$66,491	\$1,708	\$103,675	\$171,875
Fiscal 2017 Working Appropriation	70,395	1,320	118,406	190,122
Fiscal 2018 Allowance	<u>76,560</u>	<u>1,320</u>	<u>117,541</u>	<u>195,421</u>
Fiscal 2017-2018 Amount Change	\$6,164	\$0	-\$865	\$5,299
Fiscal 2017-2018 Percent Change	8.8%		-0.7%	2.8%

### Where It Goes:

#### Personnel Expenses

Salaries and other compensation .....	-\$384
Employee and retiree health insurance .....	-207
Employee retirement system .....	-52
Workers’ compensation premium assessment .....	8
Turnover adjustments.....	-13
Other fringe benefit adjustments .....	-19



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**Where It Goes:**

**Child Care**

Child care subsidy (general funds).....	2,700
DECD child care operations and licensing (federal funds).....	1,485
Child care subsidy (federal funds) .....	614

**Prekindergarten Expansion**

Prekindergarten expansion State match (general funds).....	3,672
DECD prekindergarten program operations (federal funds).....	1,750
Preschool development (federal funds).....	650

**Other Changes**

DECD operating expenses (general funds) .....	-21
Enhanced Assessment Instruments (federal funds).....	-905
Race to the Top – Early Learning Challenge (federal funds) .....	-3,979

<b>Total</b>	<b>\$5,299</b>
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MSDE: Maryland State Department of Education

Note: Numbers may not sum to total due to rounding.

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**Across-the-board Reductions**

The fiscal 2018 budget includes a \$54.5 million (all funds) across-the-board contingent reduction for a supplemental pension payment. Annual payments are mandated for fiscal 2017 through 2020 if the Unassigned General Fund balance exceeds a certain amount at the close of the fiscal year. DECD's share of these reductions is \$19,473 in general funds and \$33,685 in federal funds. This action is tied to a provision in the Budget Reconciliation and Financing Act of 2017.

**Personnel**

Personnel expenses for DECD decrease by \$667,000 (all funds), primarily due to decreased salaries and funding for health insurance. This can largely be attributed to funding no longer necessary to fund 2.5 vacant positions eliminated in fiscal 2017 as part of Section 20 of the fiscal 2017 budget bill. DECD is budgeted for decreased savings for turnover (\$13,000), which includes costs for filling its vacant Assistant State Superintendent for Early Childhood Development position.

## **Other Major Changes**

Funding to expand public prekindergarten programs increases by nearly \$6.1 million in the fiscal 2018 allowance. Most of this is from \$3.7 million in mandated general funds and \$1.8 million in federal funds to be distributed as grants to local school systems, with \$650,000 in federal funds being provided for DECD nonpersonnel operating expenses to facilitate prekindergarten expansion. Further discussion on prekindergarten expansion can be found in the Issues section of this analysis.

Funding for child care is increased by \$4.8 million over the fiscal 2017. The fiscal 2018 allowance includes an increase of \$3.3 million to pay for vouchers used by low-income families to purchase care from child care providers, \$2.7 million of which is general funds, and \$614,000 is federal funding from the Child Care Development Fund (CCDF). Of the general fund increase, \$1.7 million is for a 2% rate increase for CCS providers. **The Department of Legislative Services recommends reducing funding for CCS so that providers instead receive a 1% increase.** DECD also receives an increase of \$1.5 million in federal funding from the CCDF to maintain high-quality child care in the State, including funds for CCS operations and provider licensing. Further discussion of the status of the CCS program is located in the Issues section of this analysis.

DECD experiences a decrease of \$4 million in nonpersonnel expenditures due to the end of federal funding for the Race to the Top – Early Learning Challenge (RTT – ELC). Maryland was required to expend all funds from the RTT – ELC grant by December 31, 2016, thus no funding is included in the fiscal 2018 allowance. DECD also receives a decrease of \$905,000 in federal grant funding for enhanced assessment instruments, which is funding that DECD uses for project management of the Kindergarten Readiness Assessment.

## ***Issues***

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### **1. Prekindergarten Expansion**

Pursuant to Chapter 288 of 2002, each local school system must make publicly funded prekindergarten available to economically disadvantaged four-year-old children in the State. To qualify as economically disadvantaged, a child must be from a family whose income is at or below 185% of the federal poverty guidelines (FPG). If vacancies remain after economically disadvantaged children have been enrolled, local school systems may make prekindergarten available to other children that exhibit a lack of readiness for school.

Chapter 2 of 2014 expanded prekindergarten services to additional eligible four-year-old children from families whose income is at or below 300% of the FPG by establishing a competitive grant program to provide funding to qualified public and private prekindergarten providers. Pursuant to Chapter 2, if funds are provided for the Prekindergarten Expansion Grant Program, including Judy Centers, in the State budget, then at least the same amount must be provided in subsequent years. The fiscal 2015 budget included \$4.3 million for the expansion program, thus, at least \$4.3 million was required to be provided annually. **Appendix 2** details the implementation of prekindergarten expansion general funds in fiscal 2017 by the type of program and county as provided by MSDE.

In 2014, Maryland was also awarded a federal grant that provides \$15.0 million annually in fiscal 2016 through 2019 to continue the expansion of publicly funded prekindergarten. **Appendix 3** details the implementation of federal funds for prekindergarten expansion in fiscal 2017. In its grant application, the State committed to matching funds of \$3,672,000 in fiscal 2018 and \$7,344,000 in fiscal 2019 to provide access to high-quality prekindergarten to families with incomes between 200% and 300% of the FPG. The application further indicated that the funds would serve approximately 500 four-year-olds in fiscal 2018 and approximately 1,000 four-year-olds in fiscal 2019. Chapters 683 and 684 of 2016 mandated that these matching funds be provided in the fiscal 2018 and 2019 budgets. The mandated funding has been provided in the fiscal 2018 allowance. The fiscal 2018 allowance also includes \$16.0 million in federal funding to be provided for expansion under the grant, approximately \$1.8 million more than what is provided in the fiscal 2017 working appropriation due to the availability of unexpended funds from the prior years. Allocation for fiscal 2018 prekindergarten expansion will not be known until grant applications have been received and reviewed. **DECD should comment on the impact for the State budget if federal grant funding for prekindergarten expansion is not received beyond fiscal 2019. DECD should also update the committees on how it will consolidate funding streams for prekindergarten expansion, given its various general and federal fund sources and their associated eligibility requirements.**

If passed, SB 581 and HB 516 of the 2017 session would establish a Workgroup to Study the Implementation of Universal Access to Prekindergarten for Four Year Olds. This workgroup would be required to estimate the number and proportion of eligible children who are four years old currently being served by publicly funded kindergarten programs using the free and reduced-price meal eligibility data for kindergarten through second grade as a proxy. It would also be required to make recommendations regarding an implementation plan to make quality, full-day prekindergarten

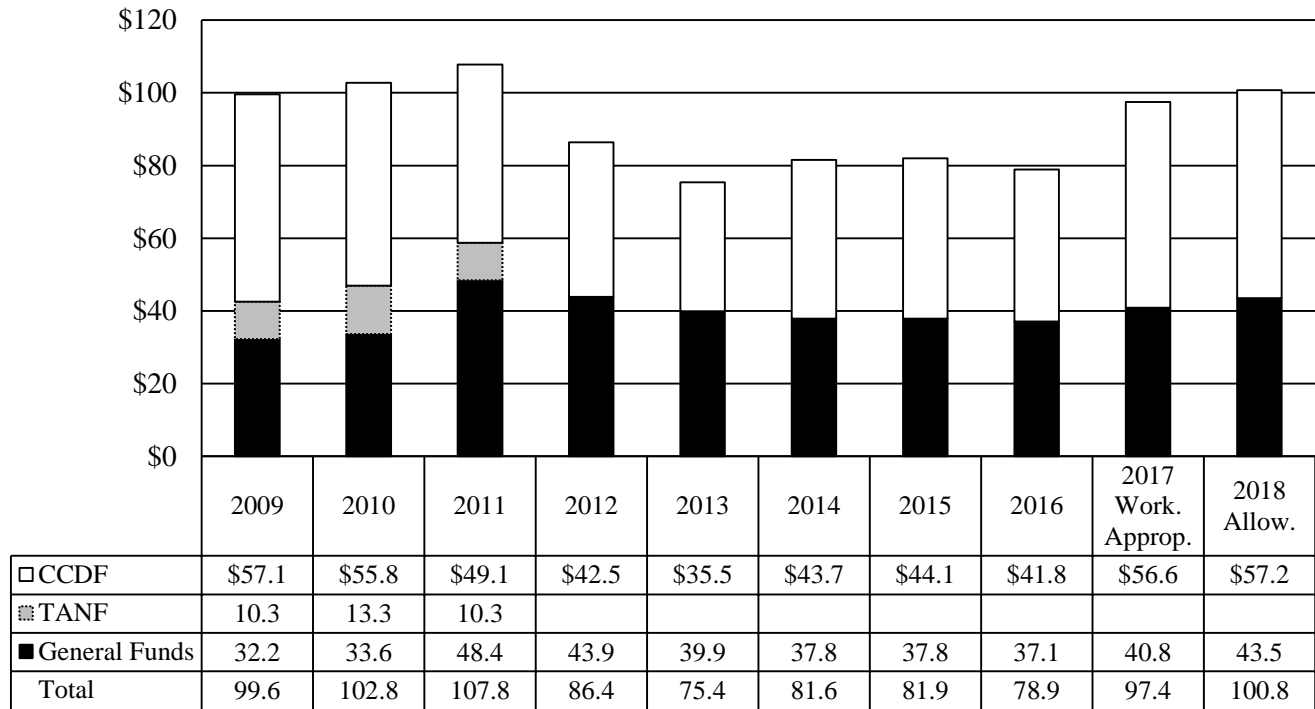
universally available to children who are four years old in Maryland, as recommended by Augenblick, Palaich, and Associates in the final report that was submitted to the General Assembly on November 30, 2015 (later revised in January 2016). The workgroup would be required to report its findings and recommendations to the Commission on Innovation and Excellence in Education by September 1, 2017.

## **2. Child Care Subsidy Costs**

CCS assists eligible low-income families with child care costs. For each child needing care, the family receives a voucher that indicates the subsidy rate and the parent's assigned copayment. The family uses the voucher to purchase child care directly from the provider of their choice. The State pays the subsidy to providers, while the parent pays the required copayment and any remaining balance between the market rate and the amount the voucher pays.

The program is funded by federal CCDF grants and State general funds. In prior years, a small amount of federal Temporary Assistance for Needy Families funds were also used for the program; however, these funds have not been available since fiscal 2011. As shown in **Exhibit 3**, funding for the program peaked at \$107.8 million in fiscal 2011 and is projected to be \$100.8 million in fiscal 2018.

**Exhibit 3**  
**Child Care Subsidy Expenditures**  
**Fiscal 2009-2018**  
**(\$ in Millions)**



CCDF: Child Care Development Fund  
 TANF: Temporary Assistance for Needy Families

Note: Numbers may not sum to total due to rounding.

Source: Department of Legislative Services

## Enrollment Freezes and Waitlists

Eligibility for CCS is largely based on where a family's income falls on the income eligibility scale. Income is also a prime determinate of the copayment level required of families. Income eligibility categories are often referred to by categories A through J. **Appendix 4** provides the income eligibility scale and copayment level by family size and gross income.

CCS enrollment freezes and waitlists have been imposed multiple times based on funding shortfalls, including January 1993 through July 1996, January 2003 through November 2005, and February 2011 through the present. The most recent enrollment freeze initially applied to all applicants except TCA cases but has slowly been lifted to accept new applicants. In November 2012, with a waitlist of nearly 23,000 children, MSDE opened eligibility levels A through C (the lowest income eligibility categories). In March 2013, eligibility levels D through H were opened. As of January 31, 2016, the waitlist contains 4,015 children, all with family incomes in eligibility levels I and J. MSDE reported over the 2016 interim that the cost of fully eliminating the enrollment freeze by reopening the eligibility levels I and J would be \$5.2 million, in fiscal 2017. However, MSDE canceled \$12.8 million in federal funds for CCS in fiscal 2016 claiming that this amount was not sufficient to pay for all families within an income level if the waitlist were to be opened and, therefore, could not be used at all. MSDE states that it will use carryover funds from prior years to cover costs from new federal CCS requirements. **DECD should update the committees on the amount of unappropriated federal funds available in fiscal 2017 and 2018 and how it plans to use those funds.**

### **Re-authorization of the CCDF**

The CCDF serves as the primary source of federal funding to states to help provide child care assistance for low-income families. The Child Care and Development Block Grant Act of 2014 re-authorized the program for the first time since 1996. The re-authorizing legislation shifts the focus from one largely dedicated to enabling low-income parents to work to one with an increased emphasis on promoting positive child development and wellness through greater child care quality, safety, and access requirements, including professional development standards for child care workers and more rigorous health and safety standards. Final rules for the re-authorization were issued in September 2016 and require states to be in compliance by the end of the fiscal 2016 to 2018 plan period. **Exhibit 4** details the old and new benchmarks and requirements for CCFD funds, as well as how Maryland compares to those benchmarks and requirements. As shown, Maryland's provider rates are at the ninth percentile of market share, well below the federally recommended seventy-fifth percentile of market share.

Of particular note is the requirement for a 12-month eligibility period. Under the former practice, the State issued vouchers for *up to* 12 months based on the work activity of the parent. This generally translated into issuing vouchers for either 30 days, 6 months, or 12 months. Families receiving TCA were typically issued vouchers for shorter durations so that the length of the voucher could be adjusted with the assigned activity of the parent, and subsidy support could end if the parent was not in compliance. Most long-term vouchers were issued to those parents who had part-time or full-time employment but with low wages that met eligibility guidelines.

**Exhibit 4**  
**Key Federal Benchmarks and New Requirements under**  
**Federal Re-authorization of the Child Care Development Fund**

	<b><u>Old Benchmark/ Requirement</u></b>	<b><u>New Benchmark/ Requirement</u></b>	<b><u>Maryland</u></b>
Subsidy Rates	Provider rates should ideally be set at the seventy-fifth percentile of market rates	Rates should allow for equal access and parental choice; rates should ideally be set at the seventy-fifth percentile of market rates	Provider rates are set at the ninth percentile of market rates
Copayments	Parent copayments should not exceed 10% of family income	Parent copayments should not exceed 7% of family income	Copayments are capped at 12% of family income
Income Eligibility	Must be less than 85% of State median income (SMI)	Must be less than 85% SMI for initial eligibility, with a higher, exit-level income	Maximum eligibility level for a family of three is 41% SMI (35% under current enrollment freeze); no higher, exit-level income level
Eligibility Period	n/a	Minimum 12-month eligibility period for families receiving subsidies	Current practice has been 30-day, 6-month, and 12-month eligibility periods
Quality Spending	States must spend at least 4% of Child Care Development Fund (CCDF) funds on quality	Must spend at least 9% of CCDF funds on quality by 2020	Maryland currently spends 12% of CCDF funds on quality

Source: Department of Legislative Services

According to the U.S. Department of Health and Human Services' Administration for Children and Families, nationally, many families receive subsidies sporadically over time and often return to the program after exiting due to a temporary period of ineligibility. In addition to being inefficient for the administering state agencies, this "churning" process is often detrimental for the family as it places additional stress on parents and diminishes opportunities for children to benefit from continuous care.

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Therefore, the re-authorization establishes a minimum 12-month eligibility period for families, regardless of changes in income or *temporary* changes in participation in work, training, or education activities. Even if a family has an increase in income that exceeds the state's established income eligibility threshold (but not the federal threshold of 85% of state median income (SMI)), the state cannot terminate assistance during the 12-month period. States have the option to terminate assistance prior to 12 months only if the state provides parents at least 3 months to engage in job searching, resume work, or attend an education or training program.

MSDE indicated in its CCDF State Plan that it plans to ask families to report within 10 days any changes that would (1) cause the family to exceed 85% of SMI; (2) indicate a nontemporary change in activity; or (3) positively benefit the family (for example, adding an additional child or going into a lower copayment level) so that these changes may be processed. CCDF regulations clarify that states cannot increase family copayment amounts within the eligibility period. The new requirement of issuing only 12-month vouchers for all clients will have a significant fiscal impact on Maryland's CCS program. **DECD should comment on progress made toward predicting the cost of the 12-month eligibility in Maryland and whether funding in the fiscal 2017 and 2018 budget is sufficient to cover such costs. If adequate funding is not available, MSDE should discuss its plan for aligning program costs with available dollars. MSDE should also comment on the cost to increase rates in the State to the seventy-fifth percentile of market rate.**



## ***Recommended Actions***

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	<b><u>Amount Reduction</u></b>	
1. Reduce funding for the Child Care Subsidy Program to fund provider rate increases at a 1% increase.	\$ 860,000	GF
<b>Total General Fund Reductions</b>	<b>\$ 860,000</b>	

## *Updates*

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### 1. Special Education Prekindergarten

Language in the fiscal 2017 budget required MSDE to deliver a report that specified all local, State, and federal funds spent for prekindergarten children with disabilities in fiscal 2015 and 2016, services for children with disabilities to learn alongside nondisabled peers and access meaningful curricula, and how these programs may lead to improved results for children with disabilities.

For the report, local education agencies (LEA), the Maryland School for the Blind (MSB), and the Maryland School for the Deaf (MSD) provided funding information for the following categories:

- IDEA, Part B Section 619 Passthrough (ages 3 to 5);
- IDEA, Part B 611 Passthrough (ages 3 to 21);
- other federal funds, (*e.g.*, Title I);
- medical assistance (with billing representing an equal share (50/50) of State and federal money);
- State funds; and
- local funds.

Federal, State, and local funding for special education prekindergarten in fiscal 2015 and 2016 is shown in **Exhibit 5**. The breakdown of funds by category, as well as by LEA, MSB, and MSD is provided in the report. The report also includes information about State and local initiatives to serve special education prekindergarten students.

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#### **Exhibit 5** **Funding For Special Education Prekindergarten** **Fiscal 2015-2016**

	<u><b>2015</b></u>	<u><b>Percent of Total</b></u>	<u><b>2016</b></u>	<u><b>Percent of Total</b></u>
Federal Funds	\$19,491,119	10%	\$20,641,167	10%
State Funds	41,662,898	22%	49,014,402	24%
Local Funds	127,062,305	68%	132,542,658	66%
<b>Total</b>	<b>\$188,216,321</b>	<b>100%</b>	<b>\$202,198,226</b>	<b>100%</b>

Note: Numbers may not sum to total due to rounding.

Source: Maryland State Department of Education

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**Appendix 1**  
**Current and Prior Year Budgets**  
**MSDE – Early Childhood Development**  
**(\$ in Thousands)**

	<b><u>General Fund</u></b>	<b><u>Special Fund</u></b>	<b><u>Federal Fund</u></b>	<b><u>Reimb. Fund</u></b>	<b><u>Total</u></b>
<b>Fiscal 2016</b>					
Legislative Appropriation	\$66,854	\$495	\$109,052	\$0	\$176,401
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	-156	1,302	8,959	0	10,105
Reversions and Cancellations	-207	-89	-14,335	0	-14,631
<b>Actual Expenditures</b>	<b>\$66,491</b>	<b>\$1,708</b>	<b>\$103,675</b>	<b>\$0</b>	<b>\$171,875</b>
<b>Fiscal 2017</b>					
Legislative Appropriation	\$70,311	\$1,320	\$118,267	\$0	\$189,898
Cost Containment	0	0	0	0	0
Budget Amendments	84	0	139	0	223
<b>Working Appropriation</b>	<b>\$70,395</b>	<b>\$1,320</b>	<b>\$118,406</b>	<b>\$0</b>	<b>\$190,122</b>

MSDE: Maryland State Department of Education

Note: Does not include targeted reversions, deficiencies, and contingent reductions. Numbers may not sum to total due to rounding.

## **Fiscal 2016**

General fund expenditures totaled nearly \$66.5 million in fiscal 2016, reflecting a decrease of nearly \$363,000 when compared to the legislative appropriation.

- Budget amendments resulted in decreases of nearly \$156,000 in general funds. This is the result of a \$544,000 decrease due to realignment for the 2% cost containment reduction in Section 19 of the fiscal 2016 budget bill. This was offset by an increase of nearly \$203,000 to cover costs in the Division of Early Childhood Development (DECD), including fringe benefits and telecommunications costs, and an \$186,000 increase for the 2% State salary adjustment, which restored the funding reduced in Section 20 of the fiscal 2016 budget bill.
- General fund reversions of nearly \$207,000 resulted from lower than expected spending on conferences, workshops, and operating expenses such as travel and supplies.

Special fund expenditures totaled approximately \$1.7 million in fiscal 2016. This reflects an increase of \$1.2 million above the legislative appropriation. Budget amendments increase the appropriation by \$1.3 million, including \$825,000 from the Baltimore Community Foundation in support of Judy Centers and nearly \$477,000 from the Kellogg Foundation for DECD. These increases were offset by the nearly \$89,000 that was canceled due to lower than expected spending on contractual staff and operating expenses such as computer services and supplies.

Federal fund expenditures totaled nearly \$103.7 million in fiscal 2016, reflecting a decrease of nearly \$5.4 million when compared to the legislative appropriation. This reflects increases totaling nearly \$9.0 million for DECD due to budget amendments, including \$5.7 million through the Child Care Development Block Grant to support eligibility determination for Child Care Subsidy (CCS) and credentialing bonuses for child care providers, \$2.3 million through Race to the Top – Early Learning Challenge to support Maryland EXCELS and the Making Access Happen program, \$716,000 available from Preschool Development Grants to support the Prekindergarten Expansion Program, \$145,000 due to the 2% salary adjustment, and \$83,000 due to transfer funds to the Early Childhood Development budget as part of an agencywide reorganization. However, these increases are offset by \$14.3 million in federal fund cancellations. Approximately \$12.8 million was canceled due to projections leading to budgeting higher for CCS than what was deemed necessary. The majority of the remaining cancellations are due to vacancies and surplus funds for contracts.

## **Fiscal 2017**

The fiscal 2017 working appropriation is \$190.1 million, reflecting an increase of approximately \$223,000 over the legislative appropriation due to funding for salary increments.

**Appendix 2**  
**Prekindergarten Expansion Funding Allocations by Priority**  
**General Funds**  
**Fiscal 2017**

**Community-based Child Care Programs**

<u>County/City</u>	<u>Program Name</u>	<u>Award</u>
Anne Arundel	Anne Arundel Community College Child Development Center	\$36,720
Anne Arundel	Edinboro Early School	73,400
Anne Arundel	Wee Lad And Lassie Early Learning Center	36,720
Baltimore City	Kennedy Krieger Achievements Program	289,730
Baltimore County	Excellent Start Infant and Child Care Center	220,320
Baltimore County	White Marsh Child Care I	146,880
Carroll	Catholic Charities Head Start	143,208
Carroll	New Beginnings Christian Learning Center	146,880
Frederick	Children's Center Of Walkersville	69,768
Montgomery	Academy Child Development Center at Galway	146,880
Montgomery	Academy Child Development Center at Academy Hills	146,880
Montgomery	Crossway Community Montessori School	146,880
Montgomery	Optimal Learning Center at Sally K. Ride Elementary School	73,440
Montgomery	The Arc Of Montgomery County Karasik and Family Infant and Child Care Center	124,900
Prince George's	Kiddie Academy Of Oxon Hill	73,440
Prince George's	Greenbelt Children's Center	117,504
Prince George's	Themba Creative Learning Center	146,880
Queen Anne's	Kiddie Academy Of Kent Island	73,440
Washington	Bright Horizon's Citi Family Center	139,536
<b>Total Community-based Child Care Programs</b>		<b>\$2,353,406</b>

*R00A99 – MSDE – Early Childhood Development*

**Local Boards of Education**

<b><u>System Name</u></b>	<b><u>Award</u></b>
Charles County Public Schools	\$30,000
Prince George’s County Public Schools	473,688
Washington County Public Schools	293,760
Wicomico County Board of Education	146,880
<b>Total Local Education Agencies</b>	<b>\$944,328</b>

**Judy Centers**

<b><u>System Name</u></b>	<b><u>Award</u></b>
Caroline County Public Schools	\$330,000
Garrett County Public Schools	330,000
Somerset County Public Schools	330,000
<b>Total Judy Centers</b>	<b>\$990,000</b>

Source: Maryland State Department of Education

**Appendix 3**  
**Prekindergarten Expansion Funding Allocations by Priority**  
**Federal Funds**  
**Fiscal 2017**

**Community-based Child Care Programs**

<b><u>County/City</u></b>	<b><u>Program Name</u></b>	<b><u>Award</u></b>
Allegany	Allegany County HRDC Head Start	\$293,760
Anne Arundel	Wee Lad and Lassie Early Learning Center	36,720
Baltimore City	Baltimore Montessori Public Charter School	113,832
Baltimore City	Episcopal Community Services	132,192
Baltimore City	Koinonia Baptist Day Care	146,880
Baltimore City	Union Baptist Harvey Johnson Head Start	183,600
Baltimore City	Y Baltimore City Head Start	587,520
Baltimore County	White Marsh Child Care I	146,880
Baltimore County	Y Baltimore County Head Start	367,200
Garrett	Garrett County Community Action	146,880
Montgomery	Academy Child Development Center at Dufief	73,440
Montgomery	Centronia	220,320
Montgomery	Easter Seals	73,440
Montgomery	Reginald S. Lourie Center For Infants and Young Children	386,136
Montgomery	Saint Francis International School	132,192
Washington	Bright Horizons Citi Family Center	73,440
<b>Total Community-based Programs</b>		<b>\$3,115,152</b>

**Local Boards of Education**

<b><u>System Name</u></b>	<b><u>Award</u></b>
Allegany County Public Schools	\$73,440
Baltimore City Public Schools	1,175,040
Baltimore County Public Schools	660,960
Caroline County Public Schools	550,800
Carroll County Public Schools	146,880
Charles County Public Schools	116,880

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<b><u>System Name</u></b>	<b><u>Award</u></b>
Dorchester County Public Schools	583,848
Garrett County Public Schools	235,008
Hartford County Public Schools	734,400
Howard County Public Schools	293,760
Montgomery County Public Schools	734,400
Prince George's County Public Schools	1,336,608
Somerset County Public Schools	220,320
Washington County Public Schools	658,332
Wicomico County Board of Education	587,520
<b>Total Local Education Agencies</b>	<b>\$8,108,196</b>

**Judy Centers**

<b><u>System Name</u></b>	<b><u>Award</u></b>
Allegany County Public Schools	\$165,000
Anne Arundel County Public Schools	165,000
Baltimore City Public Schools	1,495,000
Baltimore County Public Schools	165,000
Carroll County Public Schools	330,000
Charles County Public Schools	165,000
Somerset County Public Schools	165,000
St. Mary's County Public Schools	165,000
Wicomico County Public Schools	165,000
<b>Total Judy Center</b>	<b>\$2,980,000</b>

Source: Maryland State Department of Education



## Appendix 4

### Child Care Subsidy Program Income Eligibility Scale and Copayment Level

**Child Care Subsidy - Income Eligibility Scale**

Family Size	Gross Income	Copayment Level
1	\$ 0—6,797	A
	6,797—8,496	B
	8,496—9,346	C
	9,346—10,195	D
	10,195—11,045	E
	11,045—11,895	F
	11,895—12,745	G
	12,745—14,656	H
	14,656—16,568	I
	16,568—18,565	J
2	\$ 0—8,889	A
	8,889—11,111	B
	11,111—12,222	C
	12,222—13,332	D
	13,332—14,444	E
	14,444—15,555	F
	15,555—16,666	G
	16,666—19,166	H
	19,166—21,666	I
	21,666—24,277	J
3	\$ 0—10,980	A
	10,980—13,725	B
	13,725—15,098	C
	15,098—16,470	D
	16,470—17,842	E
	17,842—19,215	F
	19,215—20,588	G
	20,588—23,676	H
	23,676—26,764	I
	26,764—29,990	J
4	\$ 0—13,072	A
	13,072—16,339	B
	16,339—17,974	C
	17,974—19,607	D
	19,607—21,241	E
	21,241—22,875	F
	22,875—24,509	G
	24,509—28,185	H
	28,185—31,861	I
	31,861—35,702	J
5	\$ 0—15,163	A
	15,163—18,954	B
	18,954—20,849	C
	20,849—22,744	D
	22,744—24,639	E
	24,639—26,535	F
	26,535—28,431	G
	28,431—32,695	H
	32,695—36,959	I
	36,959—41,414	J
6	\$ 0—17,255	A
	17,255—21,568	B
	21,568—23,725	C
	23,725—25,881	D
	25,881—28,038	E
	28,038—30,195	F
	30,195—32,352	G
	32,352—37,205	H
	37,205—42,057	I
	42,057—47,127	J
7	\$ 0—17,647	A
	17,647—22,058	B
	22,058—24,264	C
	24,264—26,469	D
	26,469—28,675	E
	28,675—30,881	F
	30,881—33,088	G
	33,088—38,050	H
	38,050—43,013	I
	43,013—48,198	J
8	\$ 0—18,039	A
	18,039—22,548	B
	22,548—24,803	C
	24,803—27,057	D
	27,057—29,312	E
	29,312—31,568	F
	31,568—33,823	G
	33,823—38,896	H
	38,896—43,969	I
	43,969—49,269	J
9	\$ 0—18,431	A
	18,431—23,038	B
	23,038—25,343	C
	25,343—27,645	D
	27,645—29,950	E
	29,950—32,254	F
	32,254—34,558	G
	34,558—39,741	H
	39,741—44,924	I
	44,924—50,340	J
10	\$ 0—18,823	A
	18,823—23,528	B
	23,528—25,882	C
	25,882—28,234	D
	28,234—30,587	E
	30,587—32,940	F
	32,940—35,294	G
	35,294—40,587	H
	40,587—45,880	I
	45,880—51,411	J

Note: A family size of one may result for a child receiving Temporary Cash Assistance or Social Security Income who is in the household of a caretaker.

Source: Maryland State Department of Education

**Appendix 5**  
**Object/Fund Difference Report**  
**MSDE – Early Childhood Development**

<u>Object/Fund</u>	<u>FY 16 Actual</u>	<u>FY 17 Working Appropriation</u>	<u>FY 18 Allowance</u>	<u>FY 17 - FY 18 Amount Change</u>	<u>Percent Change</u>
<b>Positions</b>					
01 Regular	168.50	166.00	166.00	0.00	0%
02 Contractual	40.00	42.00	41.00	-1.00	-2.4%
<b>Total Positions</b>	<b>208.50</b>	<b>208.00</b>	<b>207.00</b>	<b>-1.00</b>	<b>-0.5%</b>
<b>Objects</b>					
01 Salaries and Wages	\$ 14,171,404	\$ 14,833,603	\$ 14,219,905	-\$ 613,698	-4.1%
02 Technical and Spec. Fees	2,118,108	3,198,966	3,029,111	-169,855	-5.3%
03 Communication	479,362	671,133	643,002	-28,131	-4.2%
04 Travel	207,828	300,377	295,813	-4,564	-1.5%
06 Fuel and Utilities	28,599	24,371	43,467	19,096	78.4%
07 Motor Vehicles	50,291	58,766	39,771	-18,995	-32.3%
08 Contractual Services	15,904,297	13,459,884	14,437,684	977,800	7.3%
09 Supplies and Materials	65,652	65,211	107,976	42,765	65.6%
10 Equipment – Replacement	14,922	0	371	371	N/A
11 Equipment – Additional	150,235	477,844	986,465	508,621	106.4%
12 Grants, Subsidies, and Contributions	137,756,606	155,910,130	160,464,216	4,554,086	2.9%
13 Fixed Charges	927,210	1,121,238	1,206,368	85,130	7.6%
<b>Total Objects</b>	<b>\$ 171,874,514</b>	<b>\$ 190,121,523</b>	<b>\$ 195,474,149</b>	<b>\$ 5,352,626</b>	<b>2.8%</b>
<b>Funds</b>					
01 General Fund	\$ 66,491,116	\$ 70,395,427	\$ 76,579,235	\$ 6,183,808	8.8%
03 Special Fund	1,708,021	1,320,000	1,320,000	0	0%
05 Federal Fund	103,675,377	118,406,096	117,574,914	-831,182	-0.7%
<b>Total Funds</b>	<b>\$ 171,874,514</b>	<b>\$ 190,121,523</b>	<b>\$ 195,474,149</b>	<b>\$ 5,352,626</b>	<b>2.8%</b>

MSDE: Maryland State Department of Education

Note: Does not include targeted reversions, deficiencies, and contingent reductions.

**Appendix 6**  
**Fiscal Summary**  
**MSDE – Early Childhood Development**

<b><u>Program/Unit</u></b>	<b><u>FY 16 Actual</u></b>	<b><u>FY 17 Wrk Approp</u></b>	<b><u>FY 18 Allowance</u></b>	<b><u>Change</u></b>	<b><u>FY 17 - FY 18 % Change</u></b>
10 Division of Early Childhood Development	\$ 60,769,264	\$ 60,426,561	\$ 57,043,076	-\$ 3,383,485	-5.6%
06 Prekindergarten Expansion	18,505,058	18,550,000	23,972,000	5,422,000	29.2%
57 Transitional Education Funding Program	11,894,932	11,895,000	11,895,000	0	0%
58 Head Start	1,800,000	1,800,000	1,800,000	0	0%
59 Child Care Subsidy Program	78,905,260	97,449,962	100,764,073	3,314,111	3.4%
<b>Total Expenditures</b>	<b>\$ 171,874,514</b>	<b>\$ 190,121,523</b>	<b>\$ 195,474,149</b>	<b>\$ 5,352,626</b>	<b>2.8%</b>
General Fund	\$ 66,491,116	\$ 70,395,427	\$ 76,579,235	\$ 6,183,808	8.8%
Special Fund	1,708,021	1,320,000	1,320,000	0	0%
Federal Fund	103,675,377	118,406,096	117,574,914	-831,182	-0.7%
<b>Total Appropriations</b>	<b>\$ 171,874,514</b>	<b>\$ 190,121,523</b>	<b>\$ 195,474,149</b>	<b>\$ 5,352,626</b>	<b>2.8%</b>

MSDE: Maryland State Department of Education

Note: Does not include targeted reversions, deficiencies, and contingent reductions.