

R00A99
Early Childhood Development
Maryland State Department of Education

Executive Summary

The Division of Early Childhood (DEC) within the Maryland State Department of Education administers programs related to child care and early education including, but not limited to, licensing and credentialing, the Prekindergarten Expansion Grant program, and the Child Care Subsidy (CCS) program.

Operating Budget Data

(\$ in Thousands)

	<u>FY 18</u> <u>Actual</u>	<u>FY 19</u> <u>Working</u>	<u>FY 20</u> <u>Allowance</u>	<u>FY 19-20</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$87,260	\$96,152	\$104,507	\$8,355	8.7%
Adjustments	0	38	144	106	
Adjusted General Fund	\$87,260	\$96,190	\$104,651	\$8,461	8.8%
Special Fund	831	1,320	15,000	13,680	1036.4%
Adjustments	0	0	0	0	
Adjusted Special Fund	\$831	\$1,320	\$15,000	\$13,680	1036.4%
Federal Fund	114,302	107,599	142,317	34,717	32.3%
Adjustments	0	18,068	249	-17,819	
Adjusted Federal Fund	\$114,302	\$125,667	\$142,565	\$16,898	13.4%
Adjusted Grand Total	\$202,393	\$223,177	\$262,216	\$39,040	17.5%

Note: The fiscal 2019 appropriation includes deficiencies, a one-time \$500 bonus, and general salary increases. The fiscal 2020 allowance includes general salary increases.

- The fiscal 2020 adjusted allowance increases by \$39.04 million, primarily due to a net increase of \$16.2 million in federal funds for the CCS program and \$15 million in new federal Preschool Development Grant Birth through Five funds.
- The allowance includes \$15 million in special funds from the Education Trust Fund to replace expired federal Preschool Expansion Grant funds to maintain prior fiscal year spending levels.

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

For further information contact: Anne P. Wagner

Phone: (410) 946-5530

Personnel Data

	<u>FY 18</u>	<u>FY 19</u>	<u>FY 20</u>	<u>FY 19-20</u>
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>
Regular Positions	170.00	166.00	166.00	0.00
Contractual FTEs	<u>34.00</u>	<u>40.00</u>	<u>40.00</u>	<u>0.00</u>
Total Personnel	204.00	206.00	206.00	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	12.46	7.60%
Positions and Percentage Vacant as of 12/31/18	10.00	6.02%

- The number of regular positions and contractual full-time equivalents in the fiscal 2020 allowance remains the same after accounting for 2 internal transfers in DEC.
- As of December 31, 2018, DEC has a vacancy rate of 6.02%, or 10 positions. The division has 2.46 fewer vacancies than needed to meet the turnover expectancy of 7.6%.

Key Observations

- ***CCS Program Expenditures Substantially Increase in Fiscal 2019 and 2020:*** Future CCS expenditures are projected to increase due to recent actions lifting the enrollment freeze, raising income eligibility, and increasing provider reimbursement rates. Although a combination of carried over federal funds and new Child Care Development Block Grant federal funds likely support expenditures in fiscal 2019 and 2020, general fund expenditures are expected to increase in future years.
- ***Commission on Innovation and Excellence in Education (Kirwan Commission) Early Childhood Education Recommendations, Fiscal Impact, and Fiscal 2020 Funding Priorities:*** In a draft interim report, the Kirwan Commission projected the fiscal impact of recommendations including expanding prekindergarten, capacity building for early childhood education, and expanding Judy Centers, Family Support Centers, and the Infants and Toddlers Program. The commission’s fiscal 2020 funding priorities include \$29 million to expand the full-day prekindergarten funding formula to all four-year-olds served in full-day settings by public school systems.

Operating Budget Recommended Actions

1. Adopt narrative to request quarterly reports on Child Care Subsidy expenditures.

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Early Childhood Development
Maryland State Department of Education

Operating Budget Analysis

Program Description

The State's early child care and education programs are coordinated and administered by the Division of Early Childhood (DEC) 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. DEC is composed of the Office of Child Care, the Early Learning Branch, and the Collaboration and Program Improvement Branch.

Office of Child Care

Chapter 585 of 2005 mandated the establishment of DEC and transferred functions of the Child Care Administration in the Department of Human Services (DHS) to MSDE. In February 2006, the Child Care Subsidy (CCS) program, formerly known as the Purchase of Care Program, was transferred from DHS to MSDE by executive order. In fiscal 2016, all functions of CCS were consolidated within MSDE, though eligibility determination for Temporary Cash Assistance cases was transferred back to DHS.

DEC includes the Office of Child Care, which has four branches: the Licensing Branch, the Child Care Subsidy Branch, the Maryland Excellence Counts in Early Learning and School Age Care (EXCELS) Branch, and the Credentialing Branch. 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 the CCS program. The Credentialing Branch administers the Maryland Child Care Credential Program; handles tiered reimbursement under the CCS program; and manages child care training approval, training vouchers and reimbursements, and accreditation support awards. The Maryland EXCELS Branch administers the accreditation program; handles accreditation support awards; and administers the State's quality rating and improvement program, known as Maryland EXCELS. The issuance of tiered reimbursement for the CCS program is tied directly to the quality rating established by Maryland EXCELS.

Early Learning Branch

The Early Learning Branch is responsible for publicly funded 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 Branch

DEC’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 Early Childhood Education Enhancement Program.

The Judith P. Hoyer Early Childhood Education Enhancement 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 that 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

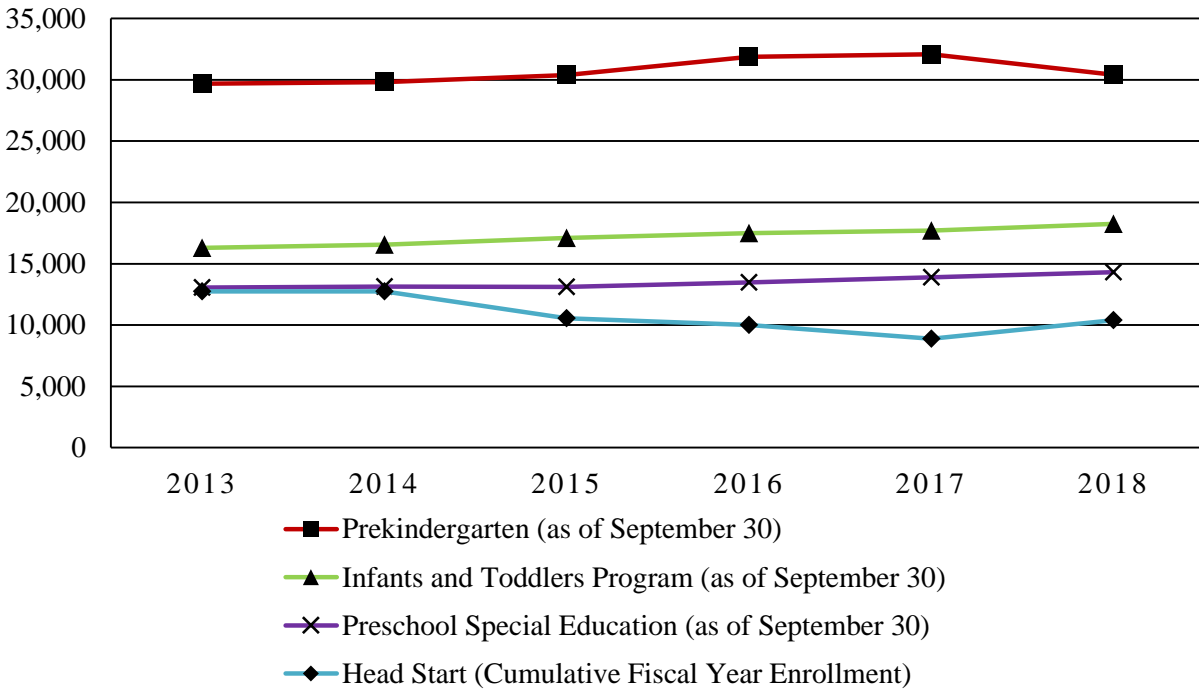
1. Early Childhood Development Program Enrollment

Publicly Funded Prekindergarten

In all jurisdictions, local school systems are required to provide publicly funded half-day prekindergarten to four-year-old children from families with incomes at or below 185% of federal poverty level (FPL). Some jurisdictions also provide prekindergarten services for three- and five-year-old students. Between 2013 and 2018, enrollment as of September 30 in publicly funded prekindergarten increased by 751 children, as detailed in **Exhibit 1**. In fiscal 2016, implementation of the Prekindergarten Expansion Grant program began, expanding prekindergarten services to four-year-olds from families with incomes at or below 300% FPL with State funds. Beginning in 2016, enrollment includes slots in private programs funded by prekindergarten expansion grants. Since then, the prekindergarten expansion program was funded by federal Preschool Development Grant funds, with Chapters 683 and 684 of 2016 mandating State matching funds to be allocated for fiscal 2018 and 2019.

Regarding outreach to eligible families, Chapter 67 of 2016 requires local departments of social services (LDSS) and local health departments to provide an oral and written notice to certain parents or guardians applying for assistance that their child may be eligible for publicly funded prekindergarten programs. DHS reports that MSDE provided LDSS with 16,000 flyers and local health departments with 14,450 flyers in June 2017. DHS found that 5,094 children whose parents or guardians received a notice from LDSS were ultimately enrolled in a publicly funded prekindergarten program. **MSDE should comment on its outreach efforts to increase enrollment in publicly funded prekindergarten and whether it collaborates with DHS or the Maryland Department of Health in any other ways to connect eligible families with programs.**

**Exhibit 1
Enrollment in Early Childhood Development Programs
2013-2018**



Source: Governor’s Fiscal 2020 Budget Books

Enrollment as of September 30, 2018, in publicly funded prekindergarten declined by 1,666 children, or 5.2%, compared to enrollment in 2017. MSDE attributes this decline to prekindergarten programs transitioning from half-day to full-day, resulting in fewer slots available. Transitioning from half-day to full-day services is a requirement for programs to receive prekindergarten expansion grants. Additional discussion of prekindergarten expansion can be found in Issue 2.

Head Start

The federal Head Start program enhances school readiness for children up to age five from low-income families, and the State coordinates Head Start providers with the other early learning activities administered by DEC. Exhibit 1 presents the number of slots in Head Start programs statewide from fiscal 2013 to 2018. In fiscal 2017, the total number of available slots decreased by 932 after Prince George’s County Public Schools (PGCPS) lost its Head Start grant for the 2016-2017 school year. PGCPS lost its grant following a federal investigation that revealed poor instructor training and instances of abuse in the program. PGCPS announced that it would continue services for its Head Start

participants with local funds and that stricter oversight would be provided for the program. In fiscal 2018, the Head Start grant for Prince George’s County was reinstated with a new provider, and available slots sharply increased back to fiscal 2016 levels.

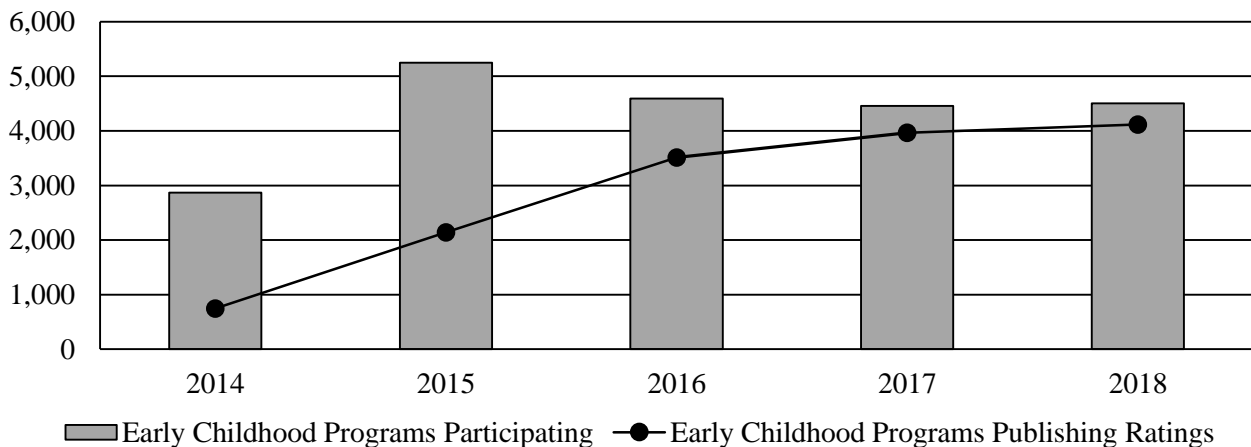
Preschool Special Education Services and Infants and Toddlers Program

Under the Individuals with Disabilities Act, children with disabilities, ages three to five, may receive instruction from Preschool Special Education Services through their local school system. This program experienced an increase of 419 children, or 3%, in enrollment as of September 30, 2018. 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 experienced an increase of 554 children, or 3.1%, in enrollment as of September 30, 2018.

2. EXCELS

Maryland EXCELS is a tiered quality rating and improvement system for licensed child care centers, family child care providers, and public prekindergarten programs. **Exhibit 2** shows EXCELS participation among early childhood programs between fiscal 2014 and 2018. For the first time since fiscal 2015, the number of programs participating in Maryland EXCELS increased in fiscal 2018, albeit very slightly with 48 additional programs. However, the number and percentage of programs choosing to publish EXCELS ratings have consistently increased every year since it launched in July 2013. In fiscal 2018, 4,116 programs published ratings, or 91.4% of all participating programs, versus 3,963 programs, or 88.9%, in fiscal 2017.

Exhibit 2
Maryland EXCELS Program Participation
Fiscal 2014-2018



Source: Governor’s Fiscal 2020 Budget Books

Child care providers in Maryland also participated in the State credentialing program at a higher rate, up from 19.6% in fiscal 2017 to 23.6% in fiscal 2018. MSDE reports that its expanded marketing efforts and a national effort, known as Power to the Profession, contributed to this increase. It is worth noting that participation in the credentialing program is the basic criterion required for child care programs to advance tiers in Maryland EXCELS.

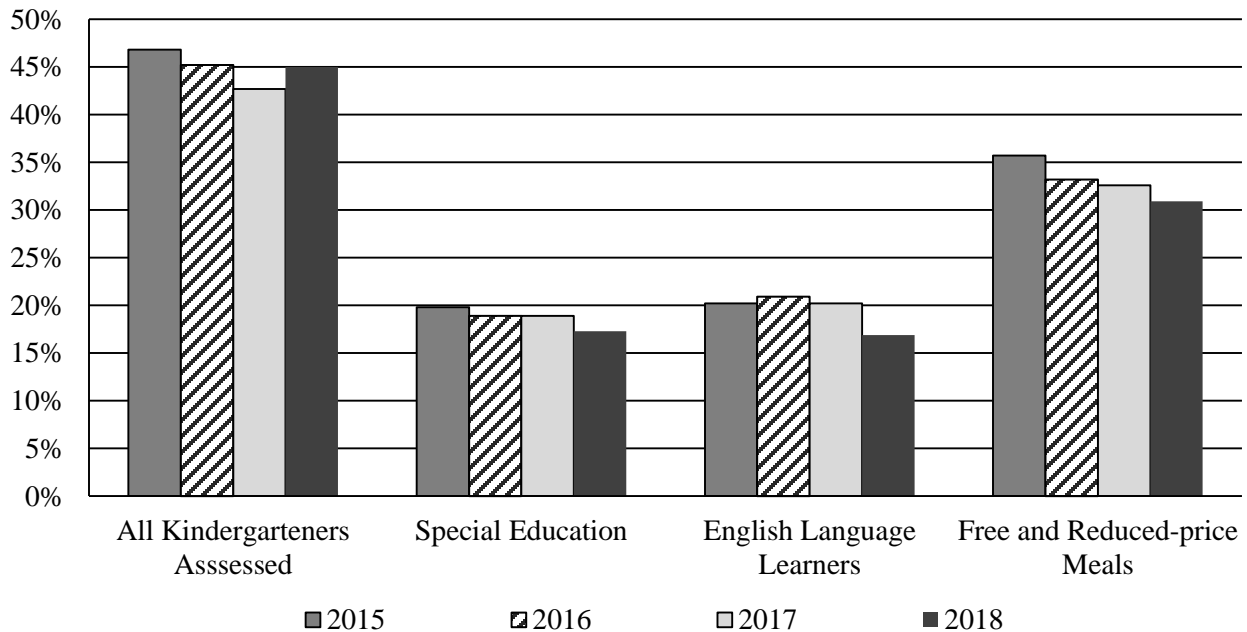
3. Ready for Kindergarten

Maryland began administering the Kindergarten Readiness Assessment (KRA) during the 2014-2015 school year, replacing the previously used Maryland Model for School Readiness (MMSR). While MMSR annually indicated readiness for children entering kindergarten at rates above 80%, KRA is more rigorous and has produced lower scores. As part of KRA, kindergarten teachers assess students according to a checklist of indicators and identify the students' school readiness level as demonstrating, emerging, or approaching readiness. Students demonstrating readiness display the foundational skills and behaviors that prepare them for curriculum based on kindergarten standards.

Chapter 273 of 2016 changed the administration of KRA from a census of all kindergarteners to a representative sample of kindergarteners from within each local school system. However, KRA can still be conducted as a census in certain circumstances. Of 24 jurisdictions, 8 administered KRA as a census in the 2016-2017 school year and 12 administered a census in the 2017-2018 school year. School systems assessed approximately 35% of all kindergarteners statewide in both years.

As shown in **Exhibit 3**, the percentage of all incoming kindergarteners demonstrating readiness increased to 45% in the 2017-2018 school year, the first increase in scores since KRA began. However, the scores for subgroups including special education (17.3%), English language learners (16.9%), and students receiving free and reduced-price meals (30.9%) continued to decline. **MSDE should explain the steps being taken to improve KRA administration and scores among these subgroups of students.**

Exhibit 3
Incoming Kindergarteners Demonstrating Readiness
School Year 2015-2018



Source: Governor’s Fiscal 2020 Budget Books

Fiscal 2019 Actions

Proposed Deficiency

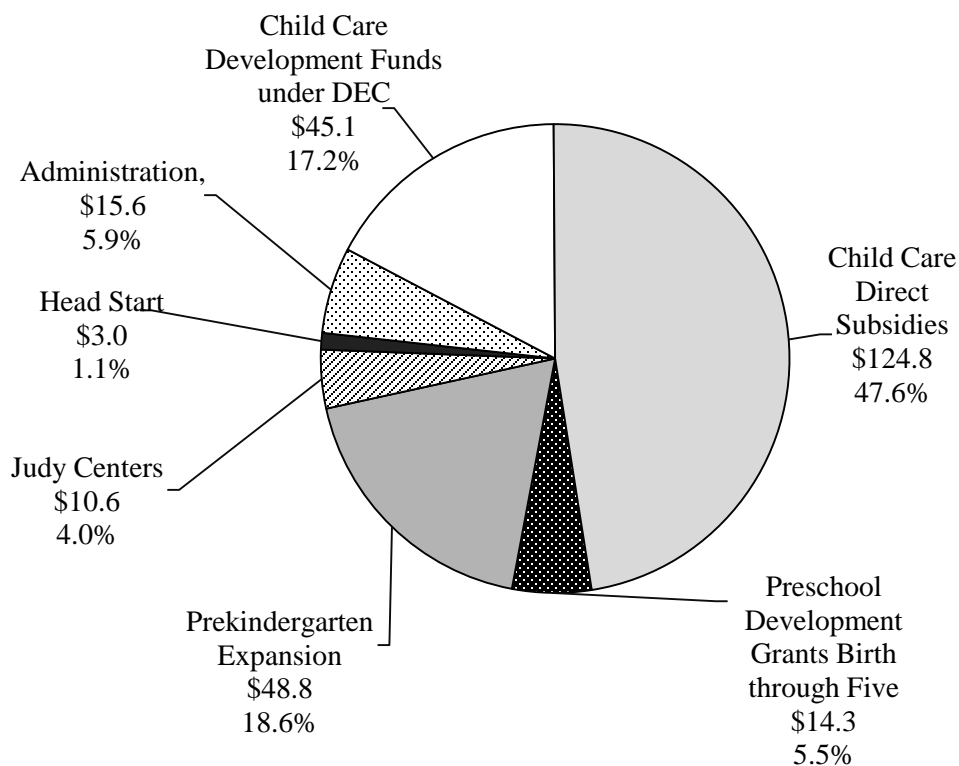
The allowance includes a deficiency appropriation of \$18 million in federal funds from the Child Care Development Fund (CCDF) to cover projected CCS program expenditures. Personnel costs in DEC also increase by \$15,064 for a 0.5% general salary increase and \$90,306 for a one-time bonus.

Fiscal 2020 Allowance

Overview of Agency Spending

As shown in **Exhibit 4**, the fiscal 2020 allowance for MSDE – Early Childhood Development totals \$262.2 million, including statewide general salary increases in DEC. Almost half (47.6%) of fiscal 2020 expenditures are budgeted for child care subsidies distributed to eligible families. In addition, \$45.1 million in federal funds from the CCDF are budgeted in DEC to support child care quality. Therefore, total spending on the CCS program equals approximately \$170 million, or 64.8% of the fiscal 2020 allowance.

Exhibit 4
Maryland State Department of Education – Early Childhood Development
Fiscal 2020 Allowance
(\$ in Millions)



Total Expenditures = \$262.2

DEC: Division of Early Childhood

Source: Governor's Fiscal 2020 Budget Books

Proposed Budget Change

As shown in **Exhibit 5**, the fiscal 2020 adjusted allowance increases by \$39.0 million, or 17.5%, compared to the fiscal 2019 working appropriation. This change is mainly driven by a net increase of \$16.2 million in federal funds for the CCS program and \$15 million in federal Preschool Development Grant Birth through Five (PDG B-5) funds.

**Exhibit 5
Proposed Budget
MSDE – Early Childhood Development
(\$ in Thousands)**

How Much It Grows:	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Total</u>
Fiscal 2018 Actual	\$87,260	\$831	\$114,302	\$202,393
Fiscal 2019 Working Appropriation	96,190	1,320	125,667	223,177
Fiscal 2020 Allowance	<u>104,651</u>	<u>15,000</u>	<u>142,565</u>	<u>262,216</u>
Fiscal 2019-2020 Amount Change	\$8,461	\$13,680	\$16,898	\$39,040
Fiscal 2019-2020 Percent Change	8.8%	1036.4%	13.4%	17.5%

Where It Goes:

Personnel Expenses

Fiscal 2020 general salary increase and annualization of fiscal 2019 0.5% general salary increase, partially offset by fiscal 2019 spending on a 0.5% general salary increase	\$377
Employee and retiree health insurance	52
Retirement contributions.....	28
Turnover adjustments.....	21
Other fringe benefit adjustments.....	-12
One-time fiscal 2019 \$500 bonus	-90
Regular earnings largely due to reclassifying vacant positions at base	-292

Division of Early Childhood

Grants for security measures at child care centers and schools at risk of hate crimes	2,000
Cloud data storage costs to align with fiscal 2018 actual expenses	1,812
Expenses for 6 contractual full-time equivalents overseeing preschool expansion	380
Other	-668
Software licenses and rent expenses to align with recent experience	-705

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Where It Goes:

Prekindergarten

Federal Preschool Development Grant Birth through Five funds.....	15,000
Fund swap from the Education Trust Fund – Lock Box to replace federal Preschool Expansion Grant funds and maintain fiscal 2019 spending levels (Chapter 361 of 2018) .	15,000
Preschool supplemental grants for local school systems that provide full-day prekindergarten programs (Chapters 6 and 607 of 2017).....	5,092
Federal Preschool Expansion Grant funds that expired in fiscal 2019	-15,000

Judy Centers and Head Start

State grants for Head Start programs to expand the hours of service (Chapters 555 and 556 of 2018).....	1,200
Loss of special funds from Baltimore Community Foundation for Judy Centers	-1,320

Child Care Subsidies

Projected expenditures for expanded income eligibility, effective August 1, 2018.....	9,000
Provider reimbursement rate increases in fiscal 2019 and 2020 (Chapters 563 and 564 of 2018).....	6,000
Base funding for the Child Care Development Fund.....	1,165

Total **\$39,040**

MSDE: Maryland State Department of Education

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

Prekindergarten

The fiscal 2020 allowance increases by \$5.1 million in general funds due to mandates from Chapters 6 and 607 of 2017, which make local education agencies (LEA) eligible for a prekindergarten supplemental grant if they offer full-day programs for all four-year-old children who are enrolled in prekindergarten. These grants are equal to the number of full-time equivalent eligible children enrolled, multiplied by the State share of the per pupil foundation amount, phased in over three years (50% in fiscal 2018, 75% in fiscal 2019, and 100% in fiscal 2020). These grants sunset after fiscal 2020.

Expenditures for prekindergarten programs further increase by \$15 million in federal funds from the new PDG B-5 program. MSDE indicates that they will use the funds to:

- hold regional town halls as part of a prenatal to age five needs assessment for the delivery of childcare services;
- provide funding for local Early Childhood Advisory Councils;

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- train and coach early childhood educators on a new curriculum for four-year-olds;
- modernize the early childhood data system and connect it to K-12 systems;
- expand the EXCELS program;
- develop an inventory of early childhood education programs at higher education institutions in Maryland; and
- provide grants for libraries to support children without access to early childhood programs.

Issues

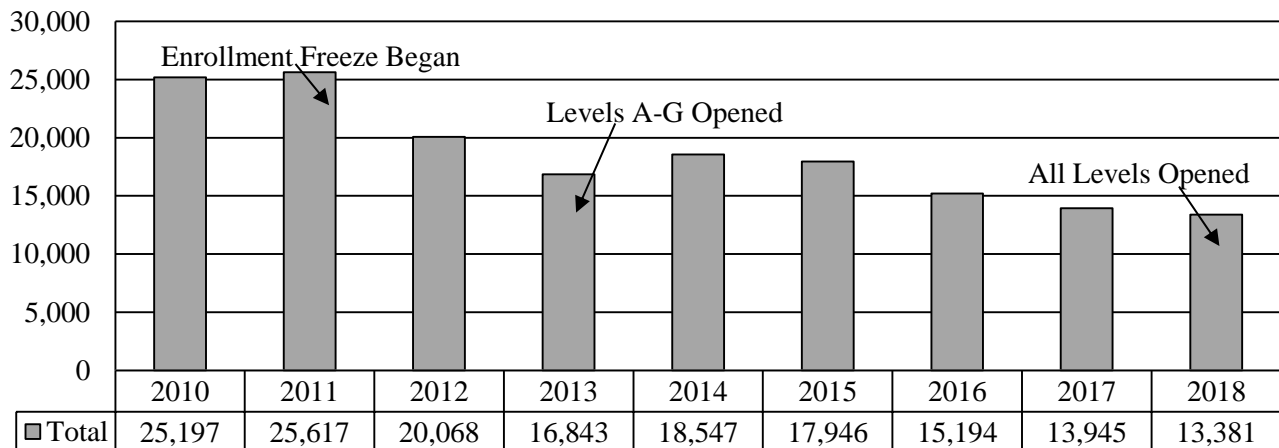
1. Child Care Subsidy Program

The CCS program provides financial assistance with child care costs to eligible low-income families. For each child needing care, the family receives a voucher that indicates the subsidy rate and the parents' assigned copayment. Families use vouchers to purchase child care directly from the provider of their choice. The State pays the subsidy to providers, while parents pay the required copayment and any remaining balance between the provider's rate and the amount the voucher covers. Eligibility for the program and the size of a family's copayment are primarily determined by family income, which places the family in an income eligibility scale in categories A through J. **Appendix 2** displays the income eligibility scale for a family of three and an example of weekly copayment rates by income and region.

Enrollment Freeze Status

Due to limited funding and anticipated increases in expenditures, MSDE imposed an enrollment freeze and waitlist for the CCS program between February 2011 and 2018. The freeze originally included all CCS income eligibility levels, but in fiscal 2013, MSDE opened all levels except I and J. MSDE lifted the enrollment freeze altogether on February 1, 2018, opening levels I and J (the highest income tiers). **Exhibit 6** presents the average number of children receiving CCS per month, as well as indicators of the enrollment freezes over time.

Exhibit 6
Average Number of Children Receiving CCS per Month
Fiscal 2010-2018



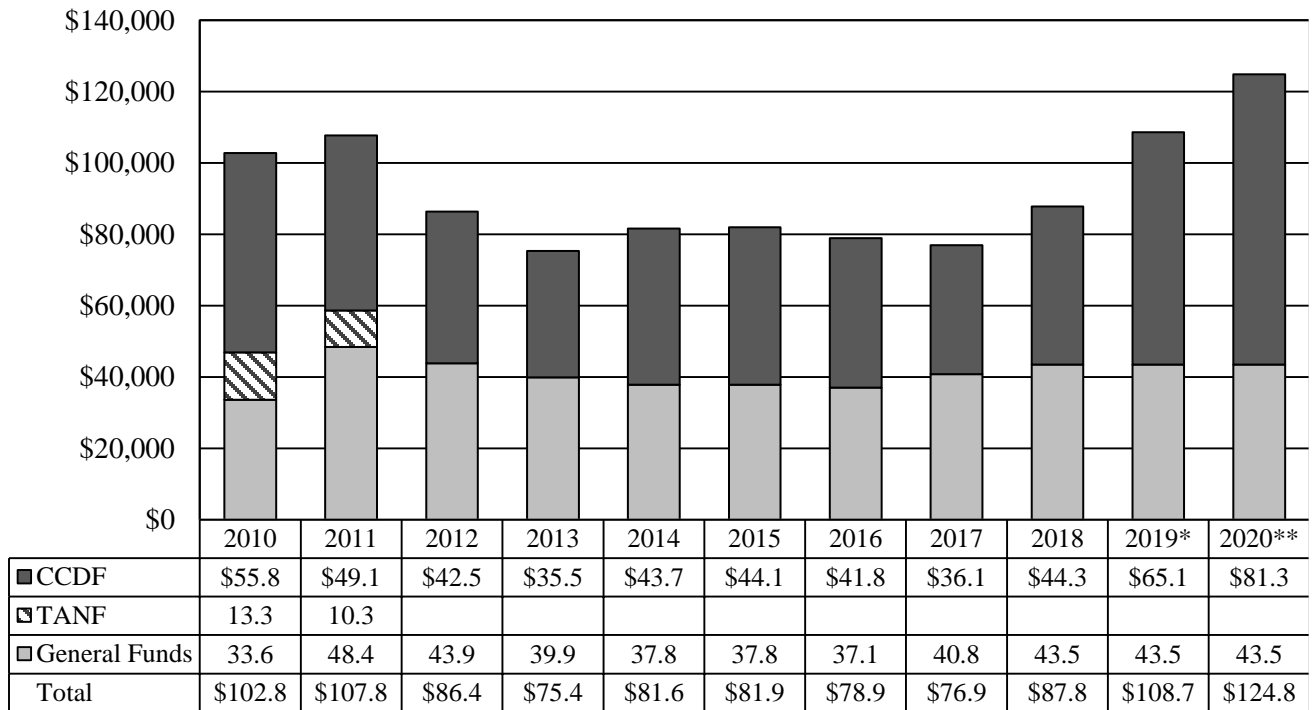
Note: All enrollment levels were opened as of February 1, 2018.

Source: Maryland State Department of Education; Department of Legislative Services

Child Care Development Fund

As shown in **Exhibit 7**, the CCS program is funded through general funds and the federal Child Care and Development Block Grant (CCDBG), referred to as the CCDF. In prior years, a small amount of funds from federal Temporary Assistance for Needy Families were also used for the program. However, these funds have not been available since fiscal 2011.

Exhibit 7
Child Care Subsidy Expenditures
Fiscal 2010-2020
(\$ in Millions)



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

* Fiscal 2019 working appropriation.

** Fiscal 2020 allowance.

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

Source: Maryland State Department of Education; Department of Legislative Services

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The CCDBG serves as the primary source of federal funding to states to help provide child care assistance for low-income families. The CCDBG Act of 2014 reauthorized the program for the first time since 1996. The reauthorizing legislation shifted 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. Effective fiscal 2017, the reauthorization also enforced a 12-month eligibility period in which the State cannot terminate assistance, regardless of parents' change in income or temporary changes in work participation.

Expenditures in fiscal 2017 were actually lower than in fiscal 2016, primarily driven by the program serving an average of 1,249 fewer children per month. This occurred despite the implementation of the 12-month eligibility period. CCS expenditures were also overstated in fiscal 2018, and MSDE canceled \$13 million in federal funds at the close of fiscal 2018. **MSDE should provide an update on how much of the unused federal funds from prior fiscal years have been spent since the close of fiscal 2018 and how much fund balance is expected to be available at the close of fiscal 2019.**

The CCDF further increased as part of the federal fiscal 2018 omnibus spending bill, which increased federal funding for the CCDBG by \$2.4 billion. MSDE attributes \$28.8 million additional federal funds in federal fiscal 2018 to this change. The budget includes a fiscal 2019 deficiency of \$18 million to authorize the use of additional CCDBG funds. The two-year federal budget deal reached in February 2018 also increased CCDBG funds by \$2.9 billion in federal fiscal 2019. If fully funded, this increases federal funds to Maryland by an estimated \$36 million in fiscal 2020.

As shown in **Exhibit 8**, the fiscal 2019 working appropriation and fiscal 2020 allowance reflect increased expenditures related to recent programmatic changes, discussed in further detail below.

Exhibit 8
Projected Child Care Subsidy Expenditure Changes
Fiscal 2019-2020
(\$ in Millions)

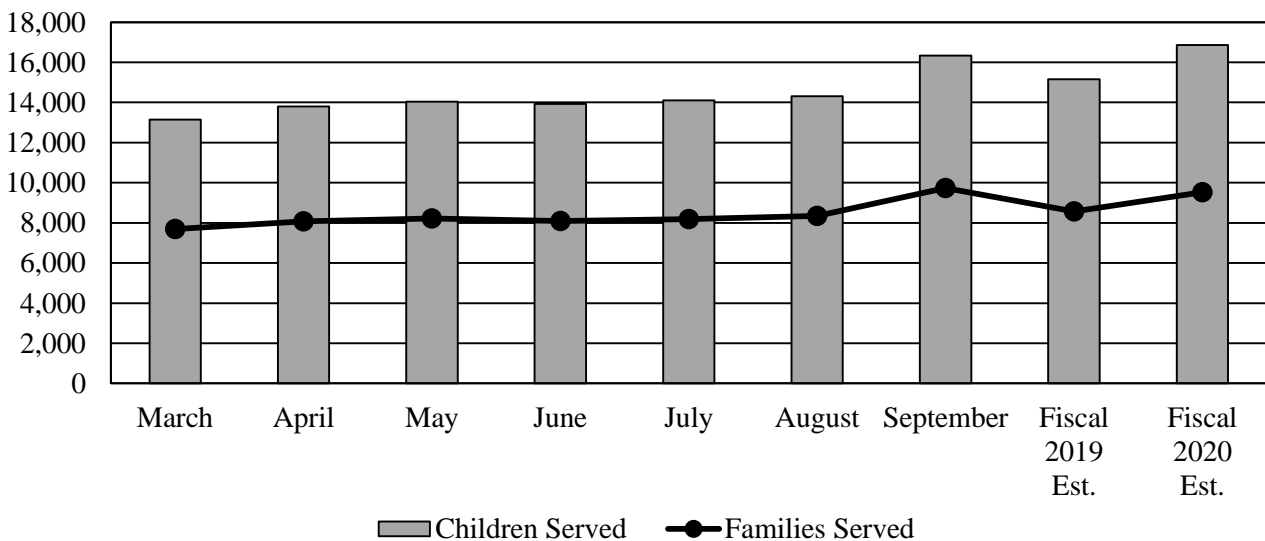
	<u>2019 Working Appropriation</u>	<u>2020 Allowance</u>
Expanded Eligibility	\$12.0	\$21.0
Provider Rate Increase	6.3	13.0
Unfreezing Waitlist	5.2	5.2
Total	\$23.5	\$39.2

Source: Maryland State Department of Education

Income Eligibility and Reimbursement Rate Changes

An emergency regulation that took effect August 1, 2018, substantially increased the income eligibility levels for all household sizes from approximately 32% to 65% of the State median income. **Exhibit 9** displays the initial enrollment trends leading up to and following this change. In September 2018, 2,241 more children and 1,539 more families received CCS compared to July 2018. DEC estimates that the average number of children served will increase to 15,161 children per month in fiscal 2019, and 16,864 children per month in fiscal 2020. In the first three months of fiscal 2019 alone, an average of 14,917 children received CCS per month. Due to the sharp increase in enrollment early in fiscal 2019, it is possible that DEC’s estimate for average enrollment in fiscal 2019 is understated.

Exhibit 9
Children and Families Receiving CCS Per Month
March 2018 to Fiscal 2020 Est.



CCS: Child Care Subsidy

Source: Maryland State Department of Education

CCDF regulations require a market rate survey or alternative methodology at least every three years and for subsidy rates to be set based on the results. CCDF regulations also recommend, but do not require, that the rates be set at the seventy-fifth percentile of current market rates. On average, the reimbursement rate was in the eleventh percentile of the market rate in fiscal 2018. In the most recent CCS expenditure quarterly report, submitted in response to the 2018 *Joint Chairmen’s Report*, MSDE reports that the average reimbursement rate was in the twenty-fourth percentile in the first quarter of fiscal 2019.

Chapters 563 and 564 of 2018 require the State to adjust reimbursement rates to meet increasing minimum percentiles, eventually reaching the sixtieth percentile in fiscal 2022. In fiscal 2020, the reimbursement rate will be set at the thirtieth percentile of the market rate at a minimum. SB 181/HB 248 of 2019 would accelerate the provider reimbursement rate increases by one year so that the rate must be at least in the sixtieth percentile beginning in fiscal 2021.

Due to recent changes to the CCS program, specifically lifting enrollment freezes, expanding income eligibility, and increasing provider reimbursement rates, CCS expenditures are expected to increase. Although some carryover federal funds and additional CCDBG funds are available, general fund expenditures are expected to increase in future years. The Department of Legislative Services recommends committee narrative requesting that MSDE submit quarterly reports on CCS expenditures.

2. Expanding and Improving Prekindergarten

One of the major charges of the Commission on Innovation and Excellence in Education, established by Chapters 701 and 702 of 2016, is to make recommendations on the preferred approach to expanding publicly funded prekindergarten in Maryland. In January 2018, the commission issued a report with preliminary policy recommendations in the context of a gap analysis between Maryland’s education system and systems in top-performing countries and states. The report also discussed a legislative policy proposal for the 2018 legislative session.

The resulting legislation, Chapter 361 of 2018, increases funding for prekindergarten expansion beginning in fiscal 2020 by requiring that the Governor appropriate an amount equal to all revenues received by the Prekindergarten Expansion Fund in the prior fiscal year. The fiscal 2020 allowance includes \$15 million in special funds from the Education Trust Fund – Lock Box to replace \$15 million in federal funds for prekindergarten expansion that terminated in fiscal 2019. Fiscal 2020 grants for prekindergarten programs further increase by \$5.1 million in general funds for LEAs that offer full-day programs to all eligible four-year olds, as required by Chapters 6 and 607 of 2017.

Early Childhood Education Recommendations and Fiscal Impact

Beginning in April 2018, the commission divided into four working groups with Working Group One (working group) tasked with detailing the recommendations for early childhood education. The members of the working group met with staff, consultants, and other experts to develop further specificity into the assumptions, policy decisions, and implementation considerations necessary to cost out the fiscal impact of the preliminary recommendations. The commission’s draft interim report presents the working group’s findings and 10-year phase-in decisions regarding four elements, outlined below.

Expanding Full-day Prekindergarten

The working group built on the recommendation that high quality, full-day prekindergarten should be expanded through a mixed-delivery system at no cost for four-year-olds and three-year-olds

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from families with incomes up to 300% of the FPL. For four-year-olds from families with incomes between 300% and 600% of the FPL, there would be some public funding for prekindergarten programs based on a sliding scale. Families with incomes above 600% of the FPL would pay the full cost to attend a public prekindergarten program. Under the mixed-delivery system, a certain percentage of children would be served in nonpublic community-based settings, beginning at 30% based on the current balance. Additionally, all prekindergarten programs receiving full-day public funding would be required to participate in the Maryland EXCELS rating system and meet certain quality requirements. These recommendations would be phased in gradually as half-day slots are converted to full-day slots, prekindergarten programs reach required EXCELS ratings, and LEAs expand prekindergarten capacity.

After taking into account cost of quality, projected capacity and enrollment, and other phase-in specifications, estimated additional expenditures for these recommendations equal \$154.9 million in year 1 (fiscal 2021), \$391 million in year 5, and \$728.7 million in year 10 to be distributed between State and local governments. The working group expects that additional administrative costs will be necessary to execute the recommendations, but at this time, these costs cannot be estimated.

Capacity Building

The working group recommended that the State provide capacity building for new and current early child care and education programs. Additional capacity building would include initiatives developed under MSDE's *Master Plan on Professional Development for Early Childhood Education*, targets for the percentage of teachers certified in early childhood education, inclusion of public prekindergarten teachers in the K-12 teacher career ladder, and tuition assistance programs for students in early childhood development programs among other strategies. Projected new expenditures for capacity building are \$2.3 million in year 1, \$9.7 million in year 5, and \$19 million in year 10.

School Readiness Assessment

The working group specified that all students entering kindergarten should be assessed for school readiness. This would require one assessment, either KRA or a successor assessment, to be administered as a census statewide. Teachers would use the assessment results for diagnostic purposes, curriculum development, and early detection of learning challenges. Local expenditures will increase in jurisdictions that decide to administer part of the assessment during the summer months to compensate teachers for these working days.

Expanding Services for At-risk Children and Families

The working group recommends that the State increase funding for Judy Centers, Family Support Centers, and the Maryland Infants and Toddlers Program to provide and coordinate access to education and support services for at-risk children from birth to age five and their families. Over the 10-year timeline, grant funds would increase for 135 new Judy Centers and 30 additional Family Support Centers, and funding for the Infants and Toddlers Program would increase to the statutory level. Estimated total expenditures for these recommendations equal \$5.2 million in year 1, \$25.9 million in year 5, and \$66.7 million in year 10.

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The commission has extended its work into calendar 2019 to further finalize its recommendations, such as the distribution of costs and additional funding between the State and local jurisdictions. In the draft interim report, the commission presented fiscal 2020 funding priorities including \$29 million of additional funding for the full-day prekindergarten formula, established by Chapters 6 and 607 of 2017, to include all four-year-old children served in full-day programs by public school systems. The fiscal 2020 allowance currently includes approximately \$35.8 million in Education Trust Fund – Lock Box funds for new educational programming (not necessarily for prekindergarten) recommended by the commission.

Operating Budget Recommended Actions

1. Adopt the following narrative:

Child Care Subsidy Program: Recent changes to the Child Care Subsidy (CCS) program, specifically lifting enrollment freezes, expanding income eligibility, and increasing provider reimbursement rates, are expected to increase program participation and overall expenditures beginning in fiscal 2019. Following considerable overestimates of Child Care and Development Fund spending related to new requirements under the Child Care Development Block Grant (CCDBG) reauthorization, the Maryland State Department of Education (MSDE) carried over some federal funds for future expenditures. These carried over federal funds, in addition to an increase in the CCDBG appropriation in federal fiscal 2018 and 2019, are expected to support increased CCS expenditures in fiscal 2019 and 2020. However, general fund expenditures are expected to increase in future years as federal funds become insufficient to support the full impact of the changes to the CCS program. Therefore, MSDE should report quarterly on CCS expenditures including the amount of CCDBG funds being spent from previously reserved funds, the amount of newly authorized funds, and the amount from general funds. The reports should include the current balance of unexpended federal funds from prior year CCDBG awards. In its August 1, 2019 report, MSDE should provide data as it relates to the CCS program in fiscal 2019. These reports should disaggregate CCDBG funding used directly for subsidies and funding used by MSDE Headquarters in support of the overall CCS program specified by purpose. MSDE should also report quarterly on the percentile of market rate for subsidies statewide and by region. The quarterly reports should also include the total number of children and families receiving CCS per month and the number of children and families receiving CCS who are newly eligible as a result of the emergency regulation effective August 1, 2018. Finally, MSDE should include in its reports whether it is maintaining a CCS waiting list, and if so, how many children are on the waiting list.

Information Request	Author	Due Date
CCS expenditure reports	MSDE	August 1, 2019 November 1, 2019 February 1, 2020 May 1, 2020

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

	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Fund</u>	<u>Federal</u> <u>Fund</u>	<u>Reimb.</u> <u>Fund</u>	<u>Total</u>
Fiscal 2018					
Legislative Appropriation	\$87,506	\$1,320	\$117,515	\$0	\$206,340
Deficiency/Withdrawn Appropriation	-78	0	-138	0	-216
Cost Containment	0	0	0	0	0
Budget Amendments	200	0	10,000	0	10,200
Reversions and Cancellations	-368	-489	-13,075	0	-13,931
Actual Expenditures	\$87,260	\$831	\$114,302	\$0	\$202,393
Fiscal 2019					
Legislative Appropriation	\$96,110	\$1,320	\$107,527	\$0	\$204,957
Budget Amendments	42	0	72	0	114
Working Appropriation	\$96,152	\$1,320	\$107,599	\$0	\$205,071

MSDE: Maryland State Department of Education

Note: The fiscal 2019 appropriation does not include deficiencies, a one-time \$500 bonus, or general salary increases. Numbers may not sum to total due to rounding.

Fiscal 2018

Actual expenditures in fiscal 2018 were \$202.4 million, a net decrease of \$3.9 million from the legislative appropriation.

A withdrawn appropriation in Section 19 of the fiscal 2019 Budget Bill reduced the appropriation by \$78,365 in general funds and \$137,996 in federal funds due to a surplus in the health insurance account. This action was offset by a budget amendment increasing the Division of Early Childhood appropriation by \$200,000 in general funds for contractual personnel and services and \$10 million in federal funds from the Child Care and Development Block Grant.

Reversions and cancellations reduced the appropriation by \$13.9 million. A majority of the cancellations, approximately \$13 million in federal funds, was a result of lower than projected Child Care Subsidy program expenditures. The Maryland State Department of Education (MSDE) reverted \$367,552 in general funds and canceled \$120,852 in federal funds, primarily due to lower than anticipated salary, fringe benefits, and communications expenditures. MSDE raised lower than anticipated revenue from the Baltimore Community Foundation, resulting in a \$489,000 special fund cancellation.

Fiscal 2019

To date, the fiscal 2019 budget has increased by \$42,214 in general funds and \$72,038 in federal funds for a 2% general salary increase for State employees, effective January 1, 2019, that was centrally budgeted.

Appendix 2
Child Care Subsidy Program Income Eligibility and Copayment Rates

	Income Eligibility Before <u>August 1, 2018⁽¹⁾</u>	Income Eligibility After <u>August 1, 2018⁽¹⁾</u>	Regional Weekly Copayment for One Child <u>Age 24 Months or Older in Family Child Care or Center Care</u>						
			<u>Region U</u>	<u>Region V</u>	<u>Region W</u>	<u>Region X</u>	<u>Region Y</u>	<u>Region Z</u>	<u>Region BC</u>
A	\$0-\$10,980	\$0-\$21,998	\$4.56	\$4.03	\$5.60	\$7.22	\$5.54	\$4.12	\$5.15
B	\$10,980-\$13,725	\$21,999-\$27,496	7.29	6.45	8.95	11.55	8.77	6.59	8.24
C	\$13,725-\$15,098	\$27,497-\$30,247	11.85	10.49	14.55	18.77	14.31	10.71	13.40
D	\$15,098-\$16,470	\$30,248-\$32,995	17.32	15.33	21.26	27.44	21.00	15.65	19.58
E	\$16,470-\$17,842	\$32,996-\$35,745	22.79	20.17	27.98	36.10	27.69	20.59	25.76
F	\$17,842-\$19,215	\$35,746-\$38,495	29.18	25.82	35.81	46.21	35.31	26.36	32.98
G	\$19,215-\$20,588	\$38,496-\$41,245	35.56	31.47	43.64	56.32	43.15	32.12	40.19
H	\$20,588-\$23,676	\$41,246-\$47,431	41.03	36.31	50.36	64.99	49.85	37.06	46.37
I	\$23,676-\$26,764	\$47,432-\$53,617	43.77	38.73	53.54	69.32	53.08	39.54	49.46
J	\$26,764-\$29,990	\$53,618-\$60,081	45.59	40.34	55.61	72.21	55.38	41.18	51.52

⁽¹⁾ Income eligibility depicts categories for a family of three.

Note: Region U – Cecil, Queen Anne’s, St. Mary’s, Talbot, and Washington counties
Region V – Caroline, Dorchester, Kent, Somerset, and Wicomico counties
Region W – Anne Arundel, Calvert, Carroll, Charles, and Prince George’s counties
Region X – Howard and Montgomery counties
Region Y – Baltimore, Frederick, and Harford counties
Region Z – Allegany, Garrett, and Worcester counties
Region BC – Baltimore City

Appendix 3
Object/Fund Difference Report
Maryland State Department of Education – Early Childhood Development

<u>Object/Fund</u>	<u>FY 18</u> <u>Actual</u>	<u>FY 19</u> <u>Working</u> <u>Appropriation</u>	<u>FY 20</u> <u>Allowance</u>	<u>FY 19 - FY 20</u> <u>Amount Change</u>	<u>Percent</u> <u>Change</u>
Positions					
01 Regular	170.00	166.00	166.00	0.00	0%
02 Contractual	34.00	40.00	40.00	0.00	0%
Total Positions	204.00	206.00	206.00	0.00	0%
Objects					
01 Salaries and Wages	\$ 13,746,545	\$ 13,997,618	\$ 13,776,018	-\$ 221,600	-1.6%
02 Technical and Special Fees	2,631,887	2,864,912	3,074,559	209,647	7.3%
03 Communication	403,910	715,885	440,515	-275,370	-38.5%
04 Travel	150,886	195,189	223,585	28,396	14.5%
06 Fuel and Utilities	26,680	42,511	42,511	0	0%
07 Motor Vehicles	59,112	161,338	68,914	-92,424	-57.3%
08 Contractual Services	16,952,488	13,796,577	16,485,953	2,689,376	19.5%
09 Supplies and Materials	74,811	82,772	95,038	12,266	14.8%
10 Equipment – Replacement	279	0	0	0	0.0%
11 Equipment – Additional	407,679	600,558	180,125	-420,433	-70.0%
12 Grants, Subsidies, and Contributions	167,007,340	171,097,806	226,346,984	55,249,178	32.3%
13 Fixed Charges	931,219	1,516,079	1,089,769	-426,310	-28.1%
Total Objects	\$ 202,392,836	\$ 205,071,245	\$ 261,823,971	\$ 56,752,726	27.7%
Funds					
01 General Fund	\$ 87,260,056	\$ 96,152,136	\$ 104,507,412	\$ 8,355,276	8.7%
03 Special Fund	831,000	1,320,000	15,000,000	13,680,000	1036.4%
05 Federal Fund	114,301,780	107,599,109	142,316,559	34,717,450	32.3%
Total Funds	\$ 202,392,836	\$ 205,071,245	\$ 261,823,971	\$ 56,752,726	27.7%

Note: The fiscal 2019 appropriation does not include deficiencies, a one-time \$500 bonus, or general salary increases. The fiscal 2020 allowance does not include general salary increases.

Appendix 4
Fiscal Summary
Maryland State Department of Education – Early Childhood Development

<u>Program/Unit</u>	<u>FY 18 Actual</u>	<u>FY 19 Wrk Approp</u>	<u>FY 20 Allowance</u>	<u>Change</u>	<u>FY 19 - FY 20 % Change</u>
10 Division of Early Childhood Development	\$ 66,499,869	\$ 57,025,403	\$ 60,391,338	\$ 3,365,935	5.9%
06 Prekindergarten Expansion	34,876,790	43,683,177	48,775,425	5,092,248	11.7%
57 Transitional Education Funding Program	11,406,000	11,895,000	24,825,000	12,930,000	108.7%
58 Head Start	1,800,000	1,800,000	3,000,000	1,200,000	66.7%
59 Child Care Subsidy Program	87,810,177	90,667,665	124,832,208	34,164,543	37.7%
Total Expenditures	\$ 202,392,836	\$ 205,071,245	\$ 261,823,971	\$ 56,752,726	27.7%
General Fund	\$ 87,260,056	\$ 96,152,136	\$ 104,507,412	\$ 8,355,276	8.7%
Special Fund	831,000	1,320,000	15,000,000	13,680,000	1036.4%
Federal Fund	114,301,780	107,599,109	142,316,559	34,717,450	32.3%
Total Appropriations	\$ 202,392,836	\$ 205,071,245	\$ 261,823,971	\$ 56,752,726	27.7%

Note: The fiscal 2019 appropriation does not include deficiencies, a one-time \$500 bonus, or general salary increases. The fiscal 2020 allowance does not include general salary increases.