

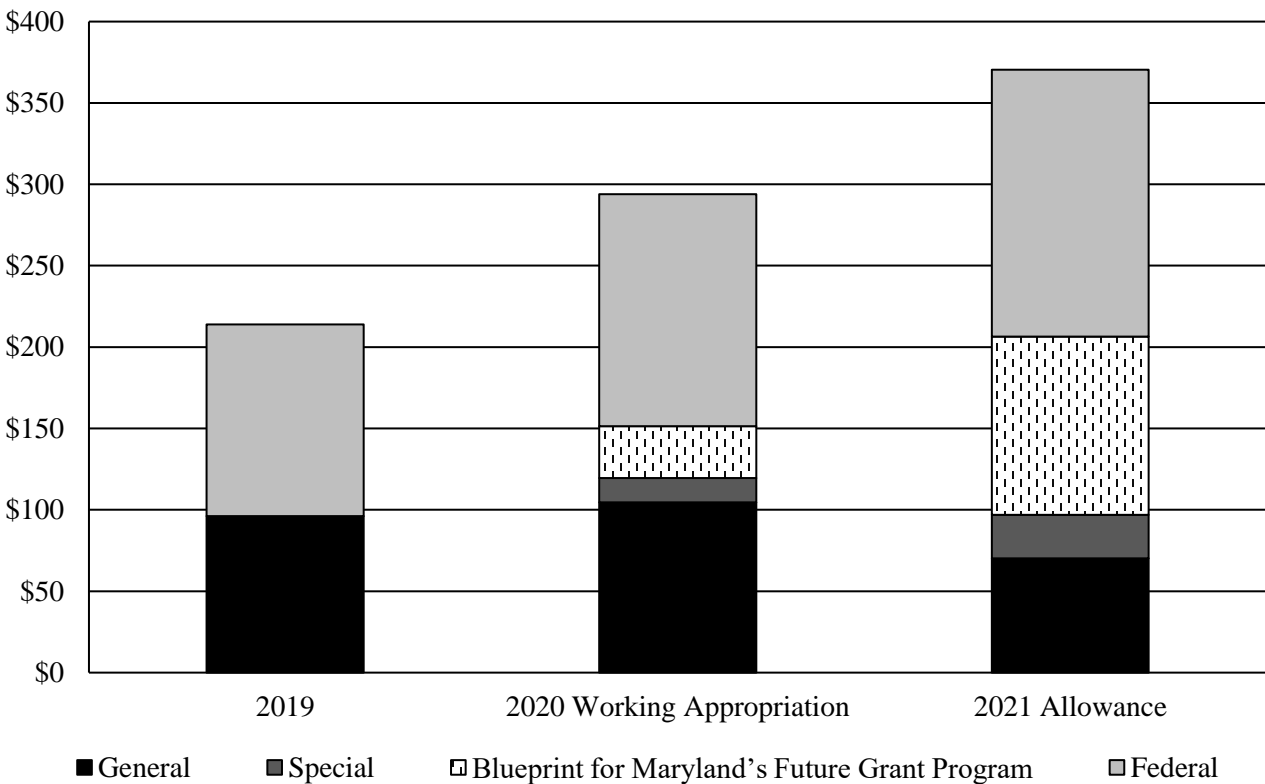
R00A99
Early Childhood Development
Maryland State Department of Education

Executive Summary

The Division of Early Childhood within the Maryland State Department of Education (MSDE) 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 Scholarship (CCS) program.

Operating Budget Summary

Fiscal 2021 Spending on Early Childhood Services Increases by \$76.5 Million or 26% over Fiscal 2020 to \$370.4 Million
(\$ in Millions)



Note: Numbers may not sum due to rounding. The fiscal 2020 appropriation includes deficiencies, planned reversions, and general salary increases. The fiscal 2021 allowance includes contingent reductions and general salary increases. Funding for early childhood services under the Blueprint for Maryland's Future Grant Program is assigned to the appropriate fiscal year.

- The fiscal 2021 adjusted allowance increases by \$76.5 million when accounting for early childhood spending in the Blueprint for Maryland’s Future Grant Program. Total funding decreases in MSDE’s dedicated programs for early childhood services by \$1.4 million, or 0.5%, when excluding funds under the Blueprint for Maryland’s Future Grant Program.

Key Observations

- ***MSDE Lacks Adequate Projections for Child Care Scholarship Program Participation and Expenditures:*** Recent actions lifting the enrollment freeze, raising income eligibility, and increasing reimbursement rates are all driving a substantial increase in CCS program participation. MSDE indicates that it has not contracted with any vendor to provide data analysis and research to forecast program participation or costs since the recent actions have taken effect, causing concern that the department does not have adequate forecasts for program costs in fiscal 2021 and beyond.
- ***State Investment in Grants for Publicly Funded Prekindergarten Increases in Fiscal 2020 and 2021:*** Chapter 771 of 2019, also referred to as the Blueprint for Maryland’s Future, expanded spending on supplemental grants for local school systems providing full-day prekindergarten in fiscal 2020 and 2021. The Administration also chose to increase total funding and backfill general funds for the Prekindergarten Expansion Grant program using special funds from the Blueprint for Maryland’s Future Fund (Blueprint Fund) in fiscal 2021.

Operating Budget Recommended Actions

1. Add language withholding funds until the department submits a report accounting for recent Child Care and Development Fund beginning and closing balances.
2. Adopt narrative to request a report regarding Blueprint for Maryland's Future Fund spending on early childhood expansion activities.
3. Adopt narrative to request quarterly reports on Child Care Scholarship expenditures.
4. Adopt narrative to request a report with projected Child Care Scholarship program participation.

R00A99
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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

The Office of Child Care has four branches: the Licensing Branch; the 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 Subsidy Branch regulates and administers the Child Care Scholarship (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. This program provides grants for local school systems to offer high-quality, full-day child care and education and family support services in “Judy Centers” in or near Title I schools that have high proportions of low-income students. The grants are also available to private providers of early child care and education to help them pursue accreditation and staff credentialing that result in improved care for children.

Performance Analysis: Managing for Results

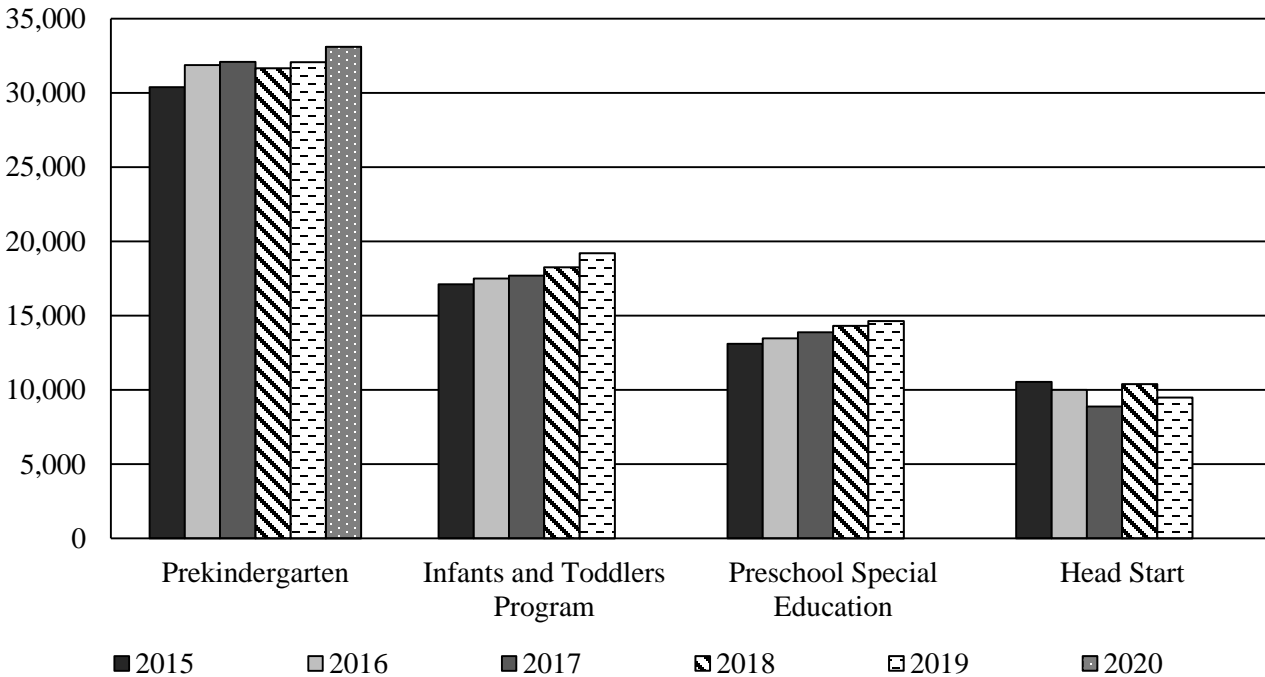
1. Early Childhood Program Enrollment

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 the federal poverty level (FPL). Jurisdictions also provide prekindergarten services for three- and five-year-old students. Between 2015 and 2020, total enrollment in publicly funded prekindergarten as of September 30 increased by 2,724 children, as shown in **Exhibit 1**.

Chapter 2 of 2015 established the Prekindergarten Expansion Grant program, which offers competitive grants to qualified public and private prekindergarten providers to serve four-year-olds from families with incomes at or below 300% FPL. The grants also allow programs to improve existing slots by converting half-day slots to full-day slots, limiting class sizes, and providing professional development among other efforts. Beginning in 2015, enrollment includes publicly funded slots in private programs. In 2020, 927 children were served in publicly funded slots in private programs, compared to 421 in 2015. Chapters 6 and 607 of 2017 further increased State funding for prekindergarten by providing supplemental grants to local school systems in which all prekindergarten students were provided full-day prekindergarten (Baltimore City and Garrett, Kent, and Somerset counties received these grants) for fiscal 2018 through 2020.

**Exhibit 1
Enrollment in Early Childhood Programs
School Year 2015-2020**



Note: Prekindergarten enrollment includes publicly funded slots in private programs.

Source: Maryland State Department of Education

Total enrollment as of September 30, 2019, in publicly funded prekindergarten increased by 1,047 children, or 3.3%, compared to enrollment in the 2018-2019 school year. In a response to the 2019 *Joint Chairmen’s Report (JCR)*, MSDE indicated that local school systems have recently been motivated to invest more in their prekindergarten programs as Chapter 771 of 2019 increased State funding for full-day slots. Chapter 771 expanded prekindergarten supplemental grants to local school systems for every four-year-old in a publicly funded full-day prekindergarten slot in fiscal 2020 and 2021. Although the transition from half-day to full-day slots caused prekindergarten enrollment to decrease slightly in the 2017-2018 school year, MSDE reports that Chapter 771 and continued prekindergarten expansion grants allowed local school systems to increase overall enrollment in the 2019-2020 school year.

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 shows that the number of federally funded slots in Head Start programs in the 2018-2019 school year decreased by 898 slots compared to the 2017-2018 school year. MSDE reports that multiple factors contribute to the overall decline in Head Start slots, including expanding programs from half-day to full-day and serving more three-year olds who require a higher staff to child ratio. Over the five-year period shown, Head Start slots have decreased by 10%, and projected Head Start slots are level as MSDE does not anticipate additional federal funding for the program. This trend speaks to the larger shift in Head Start's service model as a result of prekindergarten expansion efforts that causes more four-year-olds from low-income families to be served in publicly funded prekindergarten settings rather than in Head Start programs.

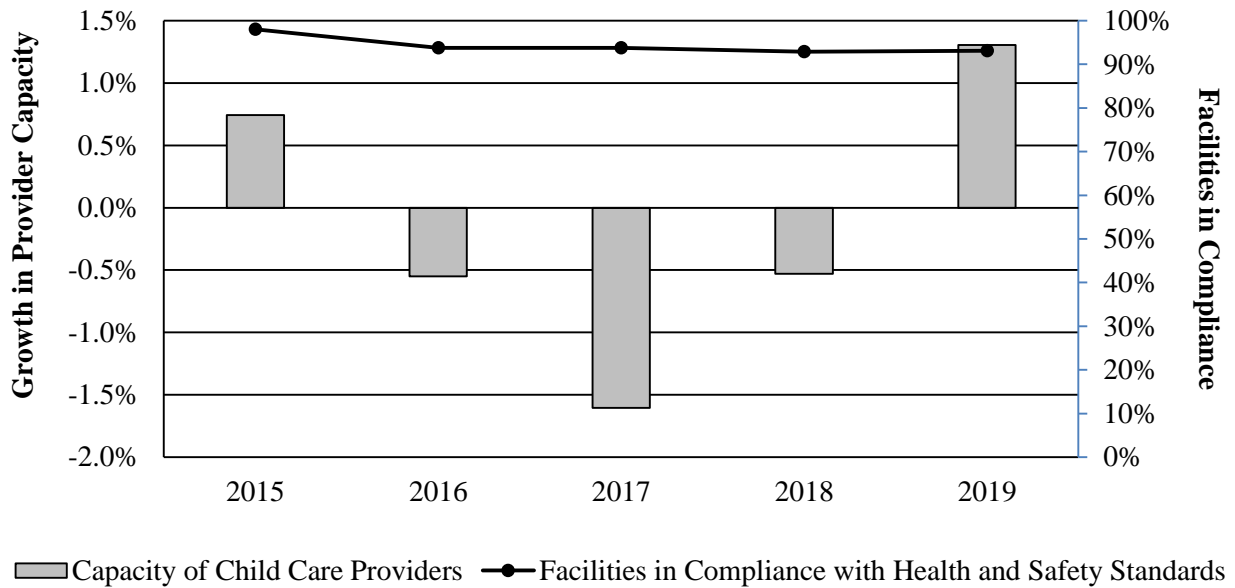
Preschool Special Education Services and the Infants and Toddlers Program

Under the Individuals with Disabilities Act, children with disabilities, aged three to five, receive instruction from Preschool Special Education Services through their local school system. This program experienced an increase of 341 children, or 2.4%, in enrollment as of September 30, 2018. Additionally, Maryland administers the Infants and Toddlers Program that provides early intervention services for young children with developmental delays and disabilities and their families. This program experienced an increase of 963 children, or 5.3%, in enrollment as of September 30, 2018.

2. Child Care Provider Trends

As part of the annual Managing for Results data submission, MSDE provides measures of statewide child care capacity by summing the maximum capacity of each program reported in June of each fiscal year. This count includes both family child care providers and child care centers. In Maryland, family child care providers can serve up to eight children, while child care centers can be licensed for as many children as the space and number of qualified staff allows (with certain required teacher to child ratios enforced). **Exhibit 2** shows that MSDE recorded less provider capacity each year from fiscal 2015 to 2018. Over the three years, MSDE reported a total loss of 5,867 slots. MSDE attributes this downward trend to declining numbers of family child care providers in the State. In fiscal 2019, total capacity of child care providers increased for the first time since fiscal 2015. Statewide capacity was reported as 217,187 slots in June 2019, an increase of 2,798 slots compared to June fiscal 2018. MSDE attributes this rise to 40 additional child care centers opening in Maryland between 2017 and 2019, although the statewide capacity has not returned to the high of 220,256 slots in fiscal 2015.

Exhibit 2
Statewide Child Care Provider Capacity and Compliance with State Standards
Fiscal 2015-2019



Source: Governor’s Fiscal 2021 Budget Books

MSDE also provides data related to child care provider compliance with State regulations, specifically health and safety standards. As shown in Exhibit 2, the percentage of providers found to be compliant during State inspections dropped by 4% from fiscal 2015 to 2016. The department indicates that this decline resulted from the Office of Child Care adopting new regulations. Although MSDE began offering training on the health and safety standards in March 2017, the share of child care providers in compliance has not improved significantly since fiscal 2015. New regulations adopted in January 2020 enforce mandatory standards training for all programs, and MSDE expects the percentage of compliant providers to increase as a result.

3. Kindergarten Readiness Assessment

Maryland began administering the Kindergarten Readiness Assessment (KRA) during the 2014-2015 school year, replacing the previously used Maryland Model for School Readiness. 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. MSDE implemented a new version of KRA, known as the KRA v2.0,

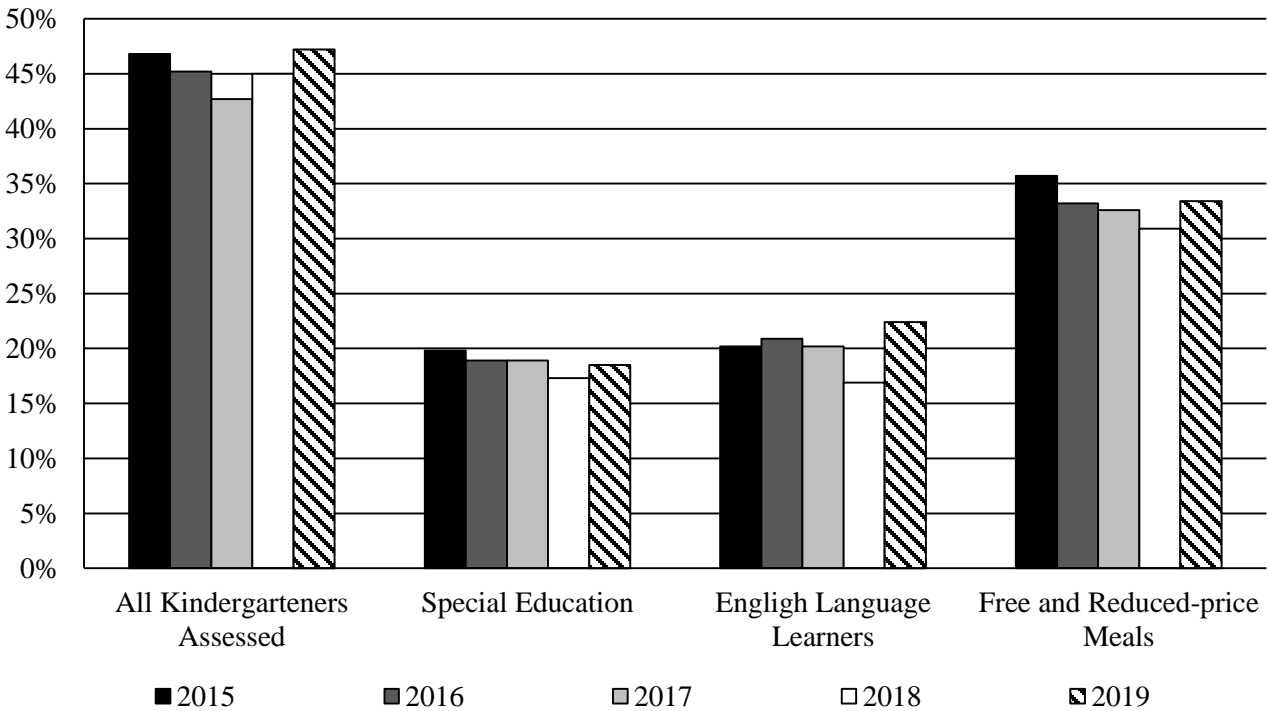
R00A99 – MSDE – Early Childhood Development

in the 2018-2019 school year after developing the new assessment with a federal Enhanced Assessment Grant from the U.S. Department of Education. As part of this redesign, MSDE aligned the KRA v2.0 with the State’s early learning standards and end-of-prekindergarten 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, and local school systems that use a representative sample may still assess all students in specific schools, such as Title I schools. Of 24 jurisdictions, 14 administered a census of all incoming kindergarteners, and 9 conducted a representative sample while also assessing all students in certain schools in the 2018-2019 school year. Compared to the 2017-2018 school year, there was a net increase of 2 jurisdictions conducting a census. School systems assessed approximately 39% of all kindergarteners statewide in the 2018-2019 school year.

As shown in **Exhibit 3**, 47.2% of all kindergarteners assessed in the 2018-2019 school year demonstrated readiness, showing the highest statewide KRA performance since the assessment began. This result also achieves MSDE’s goal that the percentage of children entering kindergarten ready to learn will increase annually from the baseline of 47%. The scores for subgroups including special education (18.5%), English language learners (22.4%), and students receiving free and reduced-price meals (FRPM) (33.4%) increased compared to the prior school year while still falling behind the overall performance by at least 10 percentage points.

**Exhibit 3
Maryland Kindergarteners Demonstrating Readiness
School Year 2015-2019**

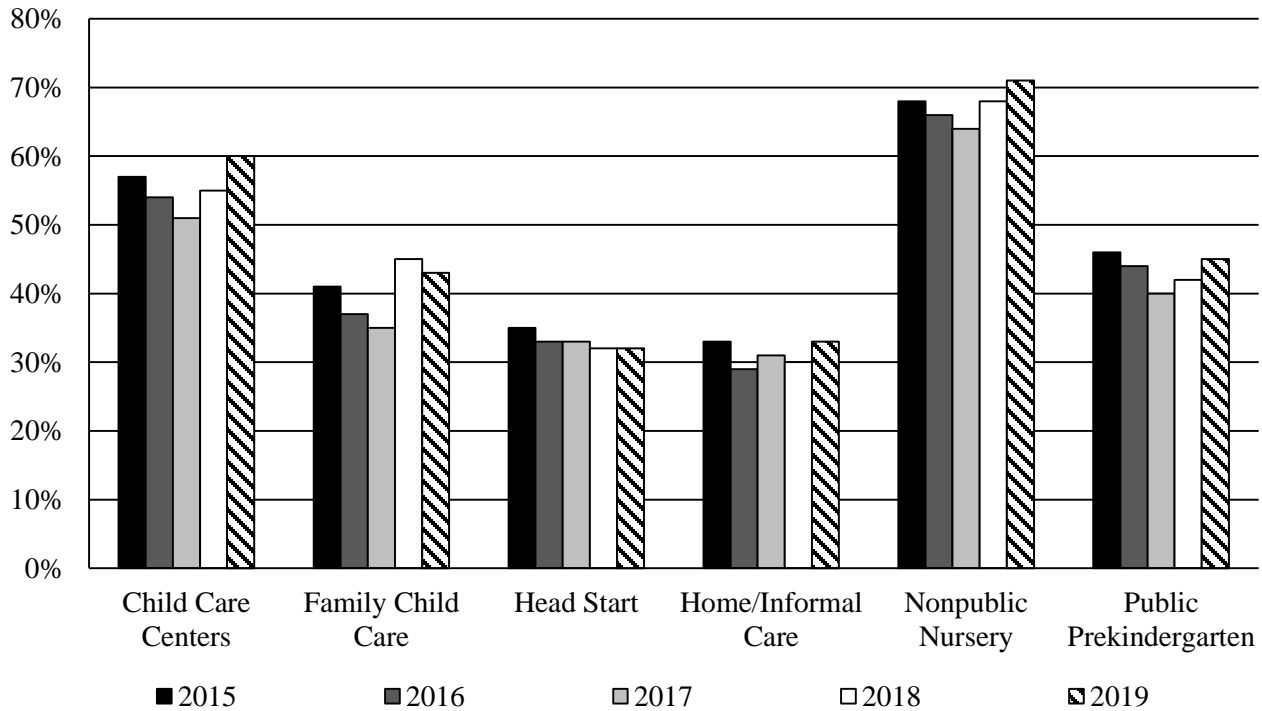


Source: Governor’s Fiscal 2021 Budget Books

Exhibit 4 displays the percentage of students demonstrating readiness based on their prior care arrangements as reported by their parents at kindergarten registration. Since KRA began, 50% or more students assessed who were in child care centers and nonpublic nursery schools demonstrated readiness. These results consistently outpace the students assessed from all other prior care arrangements, including public prekindergarten. Compared to the 2017-2018 school year, 5% more students in child care centers demonstrated readiness, and 3% more students in home/informal care, nonpublic nursery schools, and public prekindergarten demonstrated readiness. Family child care and Head Start programs showed no change or lower scores in the 2018-2019 school year.

MSDE should discuss any changes associated with implementing the KRA v2.0 and how this has impacted assessment results. The department should also describe steps that it is taking to improve the KRA scores among students in special education, English language learners, students receiving FRPM, and students transitioning from public prekindergarten.

Exhibit 4
Maryland Kindergarteners Demonstrating Readiness by Prior Care Arrangement
School Year 2015-2019

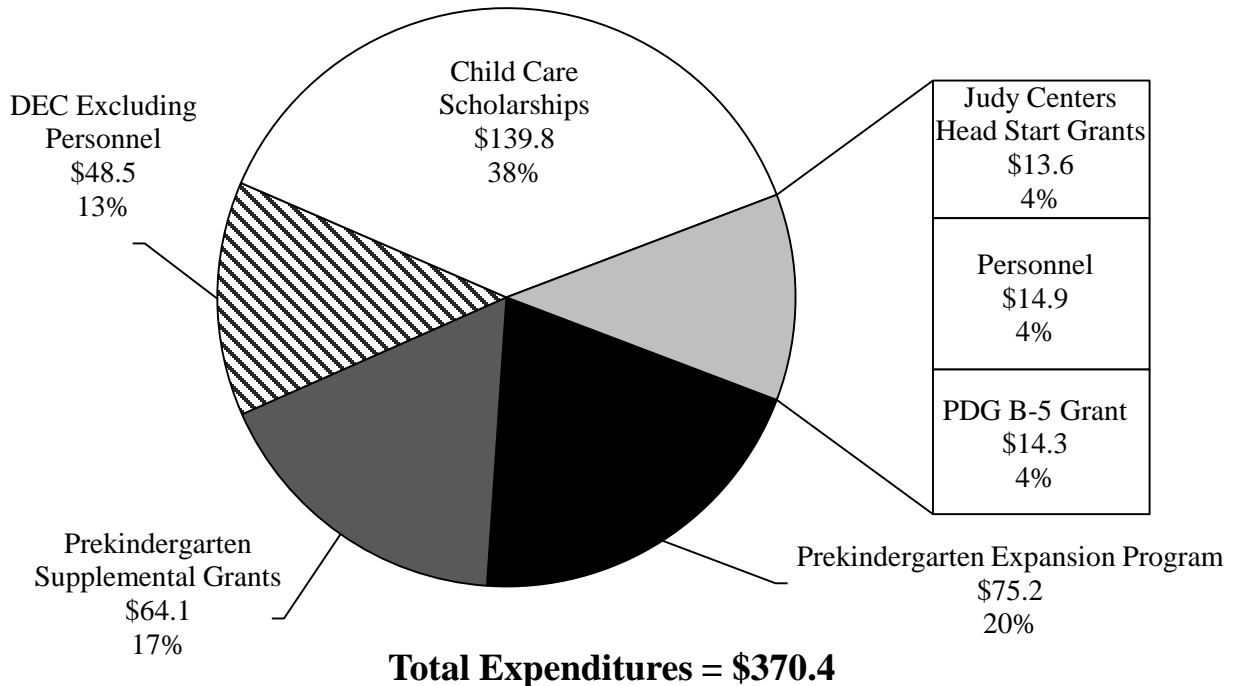


Source: Maryland State Department of Education

Fiscal 2021 Overview of Agency Spending

Funding in the fiscal 2021 allowance for early childhood services totals \$370.4 million, including general salary increases and prekindergarten spending from the Blueprint for Maryland’s Future Grant Program. **Exhibit 5** displays early childhood expenditures under MSDE by purpose. Spending on child care scholarships distributed to eligible families accounts for the largest share (38%) of spending. In addition to expenditures for the scholarships themselves, federal Child Care and Development Fund (CCDF) expenditures for child care quality improvement and administrative costs for the CCS program are budgeted under DEC. The next largest share of the allowance (37%) funds grants for publicly funded prekindergarten.

**Exhibit 5
MSDE Early Childhood Services
Fiscal 2021 Allowance
(\$ in Millions)**



DEC: Division of Early Childhood
 MSDE: Maryland State Department of Education
 PDG B-5 Grant: Federal Preschool Development Birth through Five Grant

Note: Includes general salary increases and funding for early childhood services under the Blueprint for Maryland’s Future Grant Program.

Source: Governor’s Fiscal 2021 Budget Books

Proposed Budget Change

As shown in **Exhibit 6**, the fiscal 2021 adjusted allowance decreases by \$1.4 million, or 0.5%, compared to the fiscal 2020 working appropriation. However, when accounting for special funds under the Blueprint for Maryland’s Future Grant Program for early childhood services, funding for these services increases by \$76.5 million, or 26%.

Exhibit 6
Proposed Budget
MSDE Early Childhood Development
(\$ in Thousands)

How Much It Grows:	General Fund	Special Fund	Federal Fund	Total
Fiscal 2019 Actual	\$96,147	\$0	\$117,834	\$213,982
Fiscal 2020 Working Appropriation	104,629	15,000	142,569	262,198
Fiscal 2021 Allowance	<u>70,225</u>	<u>26,644</u>	<u>163,888</u>	<u>260,757</u>
Fiscal 2020-2021 Amount Change	-\$34,404	\$11,644	\$21,320	-\$1,441
Fiscal 2020-2021 Percent Change	-32.9%	77.6%	15.0%	-0.5%
Where It Goes:				Change
Personnel Expenses				
Regular earnings associated with a net increase of 2 transferred positions				\$404
Employee and retiree health insurance				193
2% general salary increase effective January 1, 2021, and net increase from annualization of 1% general salary increase effective January 1, 2020.....				174
Retirement contribution				165
Other fringe benefit adjustments.....				30
Turnover adjustments.....				-223
Division of Early Childhood				
Enhancements for the early childhood data system				3,240
Salaries and fringe benefits associated with a net increase of 4 contractual positions.....				541
Division of Early Childhood workshops and conferences.....				100
Contractual training and staff development				63
Administrative Hearings				4
Grants for security measures at child care centers and schools at risk of hate crimes transferred to the Maryland Center for School Safety				-2,000
Prekindergarten				
Funds from the Blueprint for Maryland’s Future Fund to replace general funds used for the Prekindergarten Expansion Grant program.....				11,644
Legacy Preschool Development Grant (federal funds).....				2,000
Prekindergarten supplemental grant expenditures transferred to the Blueprint for Maryland’s Future Grant Program.....				-32,775
Child Care Scholarships				
Federal Child Care and Development Fund appropriation				15,000
Total				-\$1,441

MSDE: Maryland State Department of Education

Note: Numbers may not sum due to rounding. The fiscal 2020 appropriation includes general salary increases. The fiscal 2021 allowance includes general salary increases. Excludes funding for early childhood services under the Blueprint for Maryland’s Future Grant Program.

Preschool Development Grant Birth through Five Activities

In December 2018, the U.S. Department of Health and Human Services and the U.S. Department of Education awarded MSDE a one-year grant of \$10.6 million through the federal Preschool Development Birth through Five Grant (PDG B-5) program. MSDE used this grant, effective calendar 2019, to conduct a needs assessment on the availability and quality of early childhood programs and to develop a strategic plan. After completing town hall meetings, regional focus groups, a document review, and a stakeholder survey, MSDE published findings in seven domains: availability and access; quality; transitions; systems infrastructure and coordination; parent needs and family engagement; data system needs; and costs and funding.

MSDE was awarded an additional \$26.8 million in federal funds over three years through the PDG B-5 Renewal Grant program. The fiscal 2021 allowance includes \$14.25 million in federal funds from this grant award, showing no change from the PDG B-5 initial grant award appropriated in fiscal 2020. On January 10, 2020, MSDE announced that it would use the renewal grant to continue implementing the following activities:

- modernizing the State’s early childhood data system;
- training and coaching to support evidence-based curriculum for three- and four-year-olds;
- professional development engaging young multi-language learners through the World-class Instructional Design and Assessment Early Years Program, most commonly referred to as WIDA Early Years program;
- promoting and supporting inclusive settings for young children with disabilities;
- strengthening family engagement;
- training and coaching for high-quality care and learning experiences for infants, toddlers, and their families;
- increasing alignment and opportunities across the State’s higher education system to support the early childhood workforce; and
- providing grants to local Early Childhood Advisory Councils and libraries to improve local service capacity and quality.

Personnel Data

	<u>FY 19</u> <u>Actual</u>	<u>FY 20</u> <u>Working</u>	<u>FY 21</u> <u>Allowance</u>	<u>FY 20-21</u> <u>Change</u>
Regular Positions	166.00	166.00	168.00	2.00
Contractual FTEs	<u>47.82</u>	<u>40.00</u>	<u>44.00</u>	<u>4.00</u>
Total Personnel	213.82	206.00	212.00	6.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	14.95	8.90%
Positions and Percentage Vacant as of 12/31/19	19.50	11.75%
Vacancies Above Turnover	4.55	

- The fiscal 2021 allowance reflects a net increase of 2 regular positions transferred into DEC from other divisions of MSDE. There is also a net increase of 4 contractual positions, mainly to provide case management and other support for families in the CCS program.

Issues

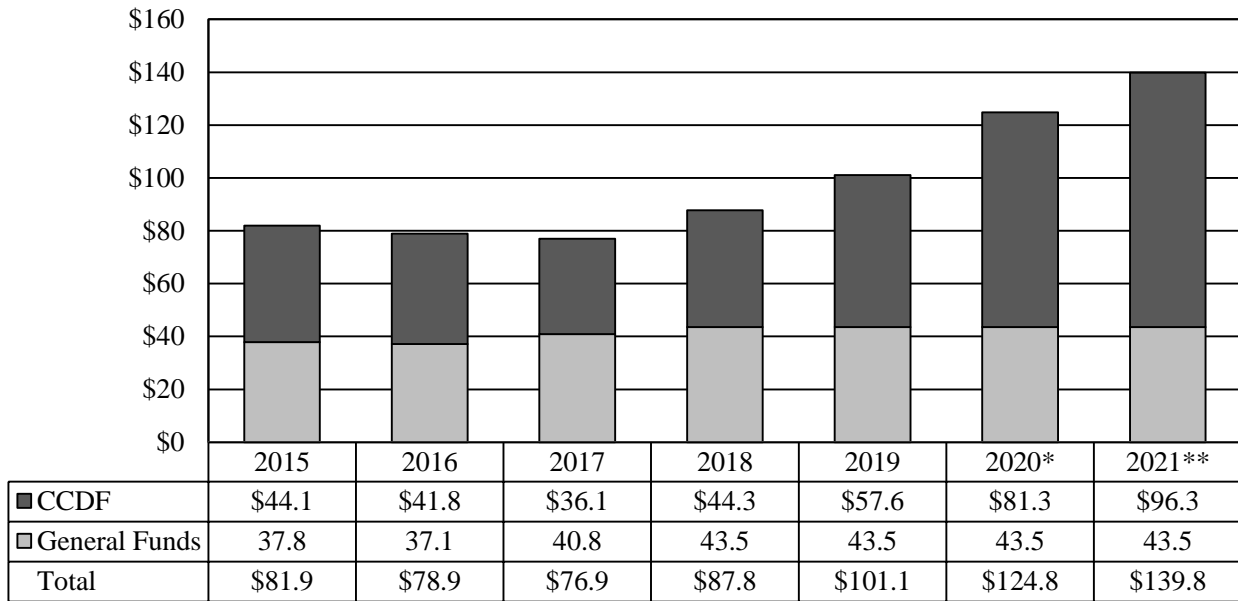
1. CCS Program

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 scholarship rate and the parents' assigned copayment. Families use vouchers to purchase child care directly from the provider of their choice. The State pays the scholarship amount 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. The income eligibility scale for a family of three and an example of weekly copayment rates by income and region are included in **Appendix 3**.

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. The CCDF serves as the State's primary source of federal funding to help provide child care assistance for low-income families.

Exhibit 7
Child Care Scholarships Expenditures by Funding Source
Fiscal 2015-2021
(\$ in Millions)



CCDF: Child Care and Development Fund

* Fiscal 2020 working appropriation

** Fiscal 2021 allowance

Note: Numbers may not sum to total due to rounding. Excludes nondirect CCDF spending budgeted under the Division of Early Childhood.

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

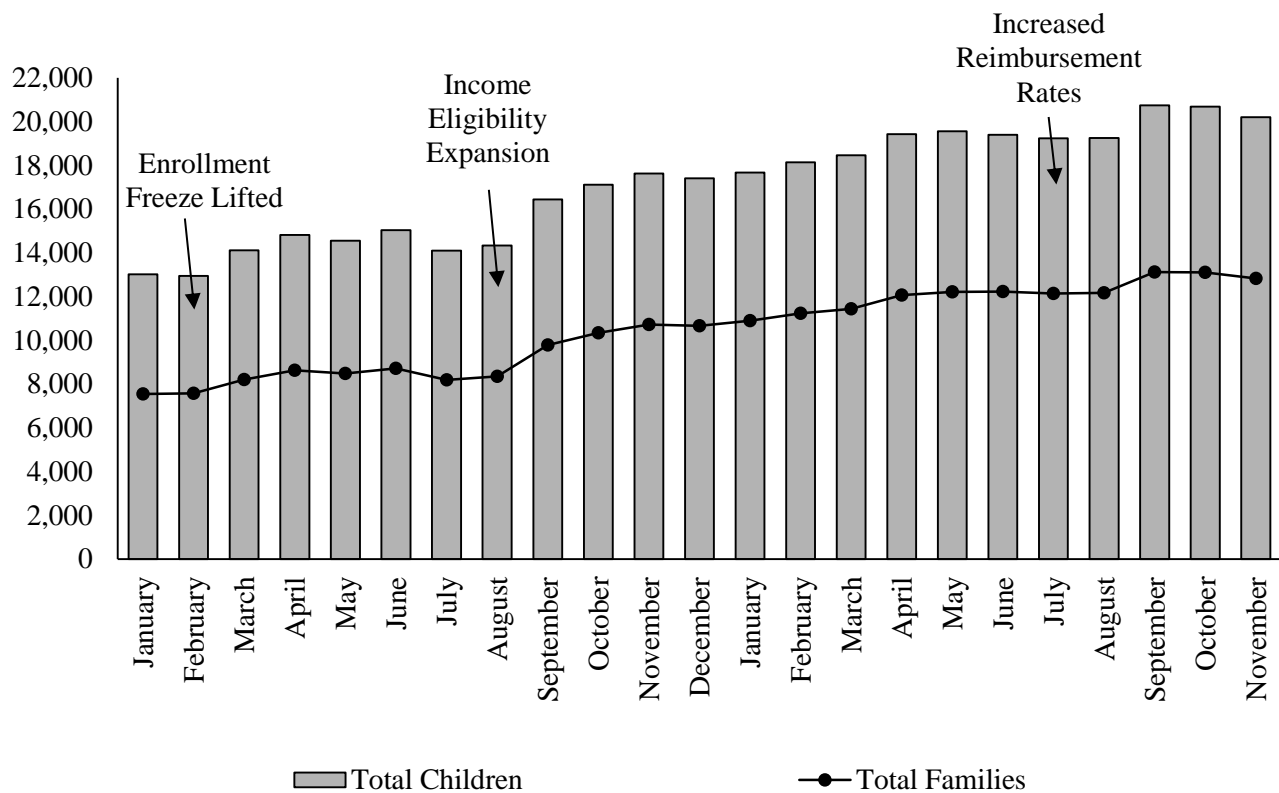
General fund spending on child care scholarships has remained relatively level compared to recent increases in federal CCDF spending. As part of the federal Consolidated Appropriations Act of 2018, funding for the CCDBG increased by \$2.4 billion in federal fiscal 2018. MSDE attributed \$28.8 million in additional federal funds to this change. National CCDBG appropriations in federal fiscal 2019 and 2020 grew more moderately with \$50 million and \$550 million, respectively in additional funds to be allocated across all States. With its submission of the fiscal 2021 allowance, MSDE reported a projected increase of \$1.8 million in CCDF revenue in fiscal 2021 compared to fiscal 2020 and a closing balance of \$10.7 million in fiscal 2021. However, when asked to submit budget detail accounting for the beginning and ending balances of CCDF funding from fiscal 2016 to 2019, MSDE was unable to provide accounting data that was consistent with the fiscal 2021 allowance submission.

The Department of Legislative Services (DLS) recommends restricting general funds appropriated for administration until MSDE submits a report accurately accounting for recent CCDF beginning and closing balances.

CCS Programmatic Changes

As Maryland’s CCDF allocation has increased, changes to the CCS program (specifically lifting enrollment freezes, expanding income eligibility, and increasing reimbursement rates) have driven a \$52 million increase in scholarship expenditures, or 59.2%, from fiscal 2018 to 2021. **Exhibit 8** presents the monthly number of children and families receiving scholarships in fiscal 2018 through the first quarter of fiscal 2020, showing the initial impact of the recent programmatic changes.

Exhibit 8
Unduplicated Count of Children and Families Receiving CCS Per Month
January 2018 to November 2019



CCS: Child Care Scholarship Program

Source: Maryland State Department of Education

Lifted Enrollment Freezes

From February 2011 to 2018, MSDE imposed an enrollment freeze and waitlist for the CCS program due to limited funding and anticipated increases in expenditures associated with the federal CCDBG Act of 2014. The freeze originally included all CCS income eligibility levels until MSDE opened all levels except I and J (the highest income tiers) in fiscal 2013. MSDE lifted the enrollment freeze altogether on February 1, 2018, opening levels I and J. As shown in Exhibit 8, the total number of children and families receiving scholarships increased slightly, increasing by 1,161 and 631, respectively from February to March 2018.

Expanded Income Eligibility

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 2018 State median income. Compared to lifting the remaining enrollment freeze on February 1, this change caused a sharper increase in the number of children and families receiving CCS, as shown in Exhibit 8. From August to September 2018, 2,114 more children and 1,436 more families received scholarships. In a response to the 2019 JCR, MSDE reported that a total of 5,730 children and 4,035 families with household incomes above the previous eligibility threshold received CCS in May 2019. Following the initial growth after the new eligibility levels took effect, monthly participation appears to be leveling off beginning in April 2019.

Increased Provider Reimbursement Rates

Federal 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. The 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 twenty-fourth percentile of the market rate in fiscal 2019. Chapters 563 and 564 of 2018 required the State to adjust reimbursement rates to meet increasing minimum percentiles, eventually reaching the sixtieth percentile. Chapters 595 and 596 of 2019 accelerated the provider reimbursement increases by one year so that the rate must be at least in the sixtieth percentile beginning in fiscal 2021. In a 2017 report submitted to the budget committees and the Joint Committee on Children, Youth, and Families, MSDE indicated that higher reimbursement rates could increase CCS participation as more providers would be incentivized to participate, and families would see their scholarship voucher amount increase. However, if reimbursement rate increases do not correspond with additional funding for the program, the number of families able to be served could decrease due to each voucher costing more for the State.

As required by Chapters 563 and 564, MSDE raised the statewide average reimbursement rate from the twenty-fourth percentile to the thirtieth percentile of current market rates at the start of fiscal 2020. Exhibit 8 shows that the monthly participation rate has not consistently increased in the first quarter of fiscal 2020, despite CCS funding increasing in fiscal 2020. Most recently, participation decreased to 20,192 children served in November 2019. Therefore, it is unclear how raising reimbursement rates from the thirtieth percentile to the sixtieth percentile in fiscal 2021 will impact program participation.

CCS Program Forecasting

While MSDE has implemented the above changes in short succession, the department has not contracted with any vendor or entity for an advanced research and data analysis contract for the CCS program. MSDE formerly used an interagency agreement with the Regional Economic Studies Institute (RESI) at Towson University for the purpose of projecting participation and associated costs in the CCS program. Following the enactment of the federal CCDBG Act, RESI was generally unable to produce accurate estimates. As a result, CCS expenditures were overstated in fiscal 2017 and 2018, and MSDE canceled over \$30 million in federal funds at the close of fiscal 2017 and 2018 combined. Language in the fiscal 2019 budget specified that funds for the CCS research contract could not be used on an interagency agreement and that MSDE was to procure services that were competitively bid.

The interagency agreement with RESI ended on June 30, 2018. MSDE brought a competitively bid contract proposal before the Board of Public Works (BPW) at the June 19, 2019 meeting, but that proposal was ultimately denied. As of January 2020, MSDE indicates that it anticipates bringing a new contract proposal before BPW for consideration in February 2020. **DLS recommends adopting committee narrative requesting that MSDE provide a report with initial CCS projections and data analysis conducted by the new vendor once a contract is approved.**

The emergency regulations expanding income eligibility took effect one month after the RESI contract ended, which causes concern that MSDE doubled the program's eligibility levels without adequately projecting the long-term impact on participation and expenditures. The fiscal 2021 allowance includes \$139.8 million in CCS expenditures, a flat \$15 million increase from fiscal 2020, to serve an estimated 21,979 children in the CCS program. In fiscal 2019, MSDE served a total of 19,468 children, a 39.1% increase over fiscal 2018. If this growth rate continues into fiscal 2021, MSDE is likely underestimating the number of children it will serve in fiscal 2021. However, as seen in Exhibit 8, the monthly unduplicated counts of children in the CCS program appeared to be leveling off slightly even with the slightly increased reimbursement rates effective July 2019. Actual program expenditures could vary dramatically depending on the number of children served in each income category, as the reimbursement rates and family copayments vary across household incomes. At the time of writing this analysis, MSDE was unable to provide the budgetary impact in fiscal 2021 for the increase in provider reimbursement rates and expanded income eligibility.

Without any entity performing research and data analysis to project program costs, it is not clear that the allowance includes enough funding to fully implement the CCS program with expanded income eligibility and increased provider reimbursement rates in fiscal 2021. This is especially concerning as MSDE has enforced enrollment freezes in the past due to limited funding. **MSDE should comment on whether it believes the fiscal 2020 and 2021 appropriations are adequate to fully implement the recent CCS program changes. The department should also discuss its plan for administering the program if scholarship costs in fiscal 2020 or 2021 outpace budgeted expenditures. DLS recommends adopting committee narrative requesting that MSDE submit quarterly reports on CCS expenditures.**

2. Expanding and Improving Prekindergarten

As discussed in the Performance Analysis section, local school systems in all jurisdictions are required to provide publicly funded half-day prekindergarten at a minimum to four-year-old children from families with incomes at or below 185% of FPL. MSDE has distributed additional grants to local school systems and private prekindergarten providers through the Prekindergarten Expansion Grant program and supplemental grants to increase the supply, and improve the quality of, publicly funded prekindergarten. The fiscal 2021 budget plan reflects \$52.8 million in fiscal 2020 and \$64.1 million in fiscal 2021 for supplemental grants. Under the Prekindergarten Expansion Grant program, the budget includes a total of \$26.6 million in fiscal 2020 and \$49.6 million in fiscal 2021.

Chapter 771, also known as the Blueprint for Maryland’s Future, outlined the use of \$255 million in fiscal 2020 and mandated \$356 million in fiscal 2021 consistent with funding priorities and recommendations identified by the Commission on Innovation and Excellence in Education, commonly referred to as the Kirwan Commission. Of this appropriation, \$31.7 million in fiscal 2020 and \$64.1 million are budgeted for prekindergarten supplemental grants. Chapter 771 also required the Governor to appropriate \$58.0 million to the Blueprint Fund to begin implementing the commission’s recommendations in fiscal 2021. The fiscal 2021 allowance budgets this for concentration of poverty expansion and for early childhood education, which differs from the commission’s recommended uses, as shown in **Exhibit 9**.

Exhibit 9
Blueprint Fund Spending of Unallocated \$58.0 Million Required by
Chapter 771 of 2019
(\$ in Millions)

	<u>Commission</u>	<u>Fiscal 2021 Allowance</u>
College and Career Readiness (CCR)	\$32.0	
Post-CCR Pathways	20.1	
Teacher Supplies and Technology	5.2	
Concentration of Poverty Expansion (75%)		\$12.4
Early Childhood Expansion		45.6
Total	\$57.4	\$58.0

Source: Governor’s Fiscal 2021 Budget Books; Department of Legislative Services

Exhibit 10 demonstrates how the Administration has appropriated \$45.6 million in unallocated special funds from the Blueprint Fund for early childhood expansion (excluding the \$64.1 million in expenditures for supplemental grants) and how this differs from the commission’s recommended fiscal 2021 phase-in and full implementation in fiscal 2030.

Exhibit 10
Early Childhood Expansion Spending
 (\$ in Millions)

	<u>Allowance</u> <u>Fiscal 2021</u>	<u>Commission</u> <u>Phase-in</u> <u>Fiscal 2021</u>	<u>Commission</u> <u>Year 10</u> <u>Fiscal 2030</u>
Prekindergarten Expansion Grant Program Capacity Building	\$20.0		
<i>Existing Programs¹</i>	9.0	\$0.8	\$12.0
<i>Tuition Assistance</i>	5.0	1.5	7.0
Judy Centers (New)	2.5	3.0	44.6
Judy Centers (Existing)	4.0		
Family Support Centers (New)	2.0	1.0	9.9
Family Support Centers (Existing)	1.0		
Maryland Infants and Toddlers Program	2.0	1.3	12.3
Total	\$45.6	\$7.6	\$85.8

¹ Existing programs include Maryland Excellence Counts in Early Learning and School Age Care and the Maryland Child Care Credential Program.

Note: Numbers may not sum to total due to rounding. Excludes special funds appropriated for prekindergarten supplemental grants in fiscal 2021.

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

An action in the Budget Reconciliation and Financing Act of 2020 amends statute to expressly permit the Blueprint Fund to be used on prekindergarten expansion grants. The allowance includes \$20.0 million of unallocated Blueprint funds to be used on prekindergarten expansion grants. Chapter 361 of 2018 mandated minimum funding levels 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. Fiscal 2020 general fund support for expansion grants is replaced with special funds from the Blueprint Fund and remaining federal funds from the Legacy Preschool Development Grant in the fiscal 2021 allowance, allowing \$32.8 million general funds to be used for other purposes.

MSDE should explain how it plans to spend the additional \$20 million budgeted for prekindergarten expansion grants and discuss whether there are any planned changes in how the program will be implemented in fiscal 2021.

Remaining fiscal 2021 expenditures for early childhood expansion generally correspond with the commission’s recommendations to offer capacity building for new and current early childhood programs and to expand Judy Centers, Family Support Centers, and the Maryland Infants and Toddlers program. One exception is that the allowance includes \$5 million to support existing Judy Centers and

R00A99 – MSDE – Early Childhood Development

Family Support Centers rather than spending all additional funding on new centers. The Administration allocated more funds for capacity building and supportive services for families in fiscal 2021 than the commission recommended in its initial phase-in plan that gradually increases State spending over 10 years. At full implementation in fiscal 2030, the commission recommended that the State:

- provide increased technical assistance through the Maryland EXCELS program;
- provide tuition assistance for early childhood personnel pursuing Child Development Associate certificates, associate’s degrees, or bachelor’s degrees;
- expand Judy Centers to match the number of Title I elementary schools;
- expand Family Support Centers to provide supportive services for families; and
- increase funding for the Maryland Infants and Toddlers program, among other recommendations.

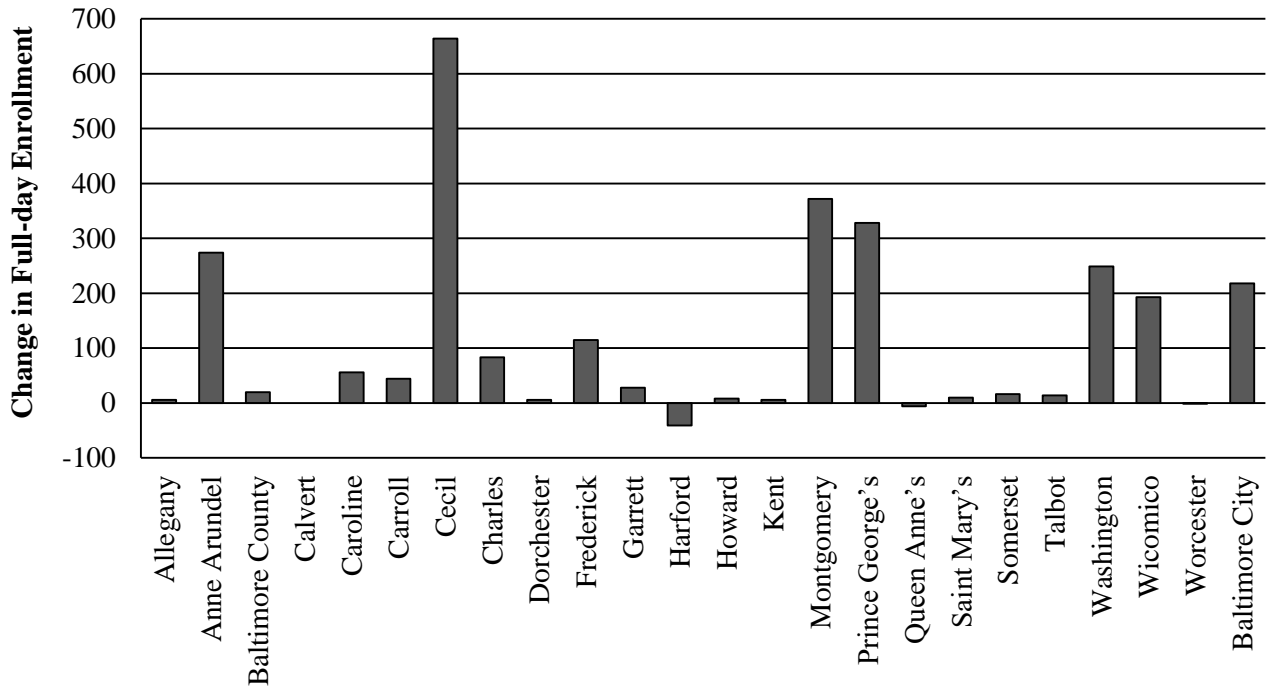
DLS recommends adopting committee narrative requesting that MSDE submit a report regarding year-to-date spending and outcomes related to the \$45.6 million special fund appropriation for early childhood expansion in fiscal 2021.

Prekindergarten Supplemental Grant Spending

Chapter 771 extended prekindergarten supplemental grants so that local school systems receive additional State funding for every prekindergarten student served in a full-day publicly funded program in fiscal 2020 and 2021. Supplemental grants are equal to the number of full-time equivalent eligible children enrolled multiplied by the State share of the per pupil foundation amount. Supplemental grants were formerly provided only to jurisdictions in which all four-year-olds in the public prekindergarten program received full-day services.

Results from the first September 30 enrollment count following the program expansion showed that 20 of 24 jurisdictions had higher full-day enrollment of four-year-olds in the 2019-2020 school year compared to the 2018-2019 school year, as seen in **Exhibit 11**. Statewide full-day enrollment in local school systems’ prekindergarten programs showed a net increase of 2,662 students in the 2019-2020 school year. While the fiscal impact of expanding prekindergarten supplemental grants to all four-year-olds in full-day programs was originally estimated at approximately \$52.9 million additional special funds, the fiscal 2021 allowance includes \$64.1 million for this purpose as full-day enrollment has increased faster than expected.

Exhibit 11
Change in Full-day Publicly Funded Prekindergarten Enrollment
School Year 2019-2020

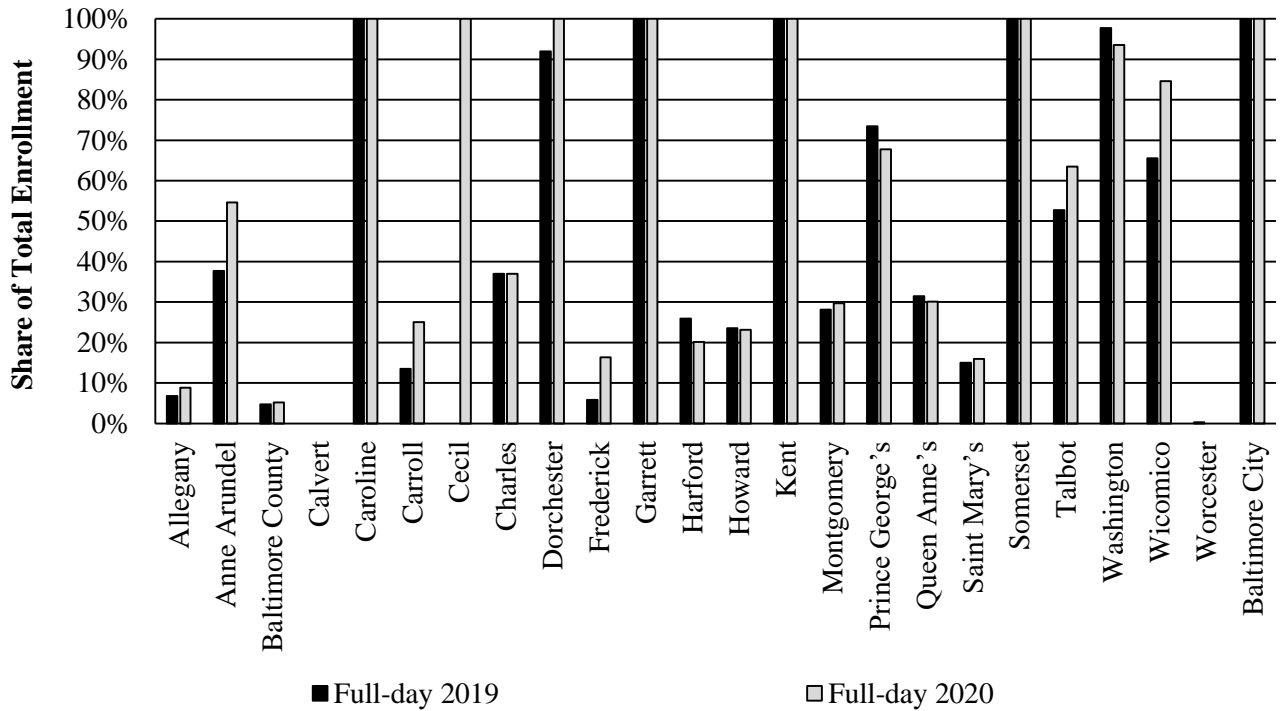


Note: Only includes enrollment of four-year-olds in publicly funded prekindergarten. Excludes publicly funded four-year-olds in private programs.

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

Exhibit 12 displays the share of each local school systems' total prekindergarten enrollment served in full-day programs. In response to a survey from DLS, 12 local school systems reported converting half-day slots into full-day slots in fiscal 2020 for a total of 1,051 converted slots statewide. Compared to the September 30, 2018 enrollment count, 11 of 24 jurisdictions showed higher shares of their total prekindergarten enrollment being served in full-day programs on September 30, 2019. Cecil and Dorchester counties reached 100% full-day enrollment in their prekindergarten programs for the 2019-2020 school year, with Cecil County notably converting all of its half-day enrollment to full-day in one year. The 4 jurisdictions (Baltimore City and Garrett, Kent, and Somerset counties) that received supplemental grants in fiscal 2019 for serving all four-year-olds in full-day programs continued to show 100% full-day prekindergarten enrollment.

Exhibit 12
Share of Total Prekindergarten Enrollment in Full-day Programs
School Year 2019-2020



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

Operating Budget Recommended Actions

1. Add the following language to the general fund appropriation:

, provided that \$100,000 of this appropriation made for the purpose of administration may not be expended until the Maryland State Department of Education submits a report to the budget committees accounting for federal funds awarded through the Child Care and Development Block Grant and Child Care Mandatory and Matching Funds of the Child Care and Development Fund. The report shall detail beginning balances, gross income, expenditures, and ending balances from fiscal 2016 to 2020 in a format specified by the Department of Legislative Services. The report shall be submitted by November 1, 2020, and the budget committees shall have 45 days to review and comment. Funds restricted pending the receipt of a report may not be transferred by budget amendment or otherwise to any other purpose and shall revert to the General Fund if the report is not submitted to the budget committees.

Explanation: Due to recent federal actions, Maryland has received increased federal funds through the Child Care and Development Fund (CCDF) to provide child care financial assistance to low-income families and to improve the quality of child care services. The Maryland State Department of Education (MSDE) has simultaneously implemented programmatic changes to the Child Care Scholarship program that rapidly increase projected CCDF expenditures, yet it has not been able to submit consistent accounting of available CCDF funding. This language withholds funds until MSDE submits a report accounting for recent CCDF beginning and closing balances.

Information Request	Author	Due Date
Report accounting for CCDF balances by fiscal year	MSDE	November 1, 2020

2. Adopt the following narrative:

Early Childhood Expansion Funding: The fiscal 2021 allowance allocates \$45.6 million in special funds from the Blueprint for Maryland’s Future Fund to expand early childhood services through prekindergarten expansion grants, capacity building efforts, the Maryland Infants and Toddlers program, and supportive services offered at Judy Centers and Family Support Centers. By December 1, 2020, the Maryland State Department of Education (MSDE) should submit a report to the budget committees that provides year-to-date spending of these special funds by purpose and the number of Judy Centers and Family Support Centers created in fiscal 2021. The report should also provide the fiscal 2021 prekindergarten expansion grant awards by jurisdiction and the number of prekindergarten slots created or improved with the additional special funds.

R00A99 – MSDE – Early Childhood Development

Information Request	Author	Due Date
Report on early childhood expansion spending	MSDE	December 1, 2020

3. Adopt the following narrative:

Child Care Scholarship Program: Recent changes to the Child Care Scholarship (CCS) program, specifically lifting enrollment freezes, expanding income eligibility, and increasing provider reimbursement rates, are expected to substantially increase program participation and expenditures. General fund expenditures for the CCS program are expected to increase in future years as federal funds from the Child Care and Development Fund (CCDF) become insufficient to support the full impact of these programmatic changes. The rapid increase in program expenditures is especially concerning as the Maryland State Department of Education (MSDE) has implemented enrollment freezes in the past due to limited funding availability.

MSDE should report quarterly on CCS expenditures, including the amount of CCDF funds being spent that were carried over from prior fiscal years, the amount of newly authorized federal funds, and the amount of general funds. These reports should disaggregate CCDF funding used directly for scholarships and funding used by MSDE Headquarters in support of the CCS program specified by purpose. In its August 1, 2020 report, MSDE should provide actual data as it relates to the CCS program in the final quarter of fiscal 2020 and fiscal 2020 overall. MSDE should also report quarterly on the provider reimbursement rate as a percentile of the market rate, statewide and by region. The reports should 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 provide quarterly updates on whether it is maintaining a CCS waiting list and, if so, which income categories are impacted and how many children are on the waiting list.

Information Request	Author	Due Date
CCS quarterly expenditure reports	MSDE	August 1, 2020 November 1, 2020 February 1, 2021 May 1, 2021

4. Adopt the following narrative:

Child Care Scholarship Program Data Analysis: Since June 2018, the Maryland State Department of Education (MSDE) has not contracted with any entity for the purpose of

R00A99 – MSDE – Early Childhood Development

projecting Child Care Scholarship (CCS) program participation. Subsequent programmatic changes, including expanding income eligibility, have already caused program utilization to increase and rising reimbursement rates are likely to further increase participation. MSDE indicates that it anticipates proposing an advanced research and data analysis contract for the CCS program to the Board of Public Works in February 2020. The committees request that MSDE submit a report by December 1, 2020 with the new vendors' program participation forecast by income category and an analysis of the fiscal impact of increasing income eligibility and reimbursement rates.

Information Request	Author	Due Date
Report on CCS program data analysis	MSDE	December 1, 2020

Appendix 1
2019 Joint Chairmen’s Report Responses from Agency

The 2019 *Joint Chairmen’s Report* (JCR) requested that the Maryland State Department of Education (MSDE) prepare three reports regarding early childhood programs specifically. Electronic copies of the full JCR responses can be found on the Department of Legislative Services Library website.

- ***Report on Publicly Funded Prekindergarten Enrollment and Outreach:*** MSDE submitted a record of September 30 publicly funded prekindergarten enrollment counts from fiscal 2017 to 2020. The JCR response also described MSDE’s efforts to aid prekindergarten expansion grantees with recruitment by mailing flyers and partnering with local agencies and community-based programs and providing technical assistance to grantees experiencing enrollment challenges. Further discussion of recent trends in publicly funded prekindergarten enrollment and the transition to full-day programs can be found in Issue 2 of this analysis.

- ***Report on Dedicated Early Childhood Development Funding for Children with Disabilities:*** In its JCR response, MSDE outlined many of the programs and strategies that it undertakes to serve young children with developmental delays and disabilities through Maryland’s birth to kindergarten system of services. The response also discussed federal resources for special education, such as Individuals with Disabilities Education Act funding, in addition to State programs (the Maryland Infants and Toddlers Program, preschool special education services, and other early interventions) that aim to increase the number of eligible children receiving services.

- ***Quarterly Reports on Child Care Subsidy Program Expenditures:*** As of the writing of this analysis, MSDE has submitted two of four quarterly reports. In its most recent report submitted on November 1, 2019, MSDE confirmed that it has increased child care provider reimbursement rates to the thirtieth percentile of regional market rates in the first quarter of fiscal 2020. MSDE also reported that 5,730 children and 4,035 families who were newly eligible under the expanded income eligibility received subsidies in May 2019.

**Appendix 2
Audit Findings**

Audit Period for Last Audit:	July 1, 2014 – December 31, 2017
Issue Date:	September 2019
Number of Findings:	4
Number of Repeat Findings:	1
% of Repeat Findings:	25%
Rating: (if applicable)	n/a

Finding 1: **The Division of Early Childhood (DEC) did not provide sufficient oversight to ensure that regional offices were effectively monitoring child care facility compliance with criminal background check requirements.**

Finding 2: DEC did not ensure that regional offices conducted comprehensive annual inspections of child care facilities, followed up with facilities regarding the correction of deficiencies, and took appropriate administrative action when facilities did not correct deficiencies.

Finding 3: DEC lacked sufficient procedures to effectively monitor subsidy program eligibility determinations and the related payments made by its vendor, certain of which could not be supported.

Finding 4: DEC lacked assurance that its Child Care Administration Tracking System was sufficiently protected against operational and security risks.

*Bold denotes item repeated in full or part from preceding audit report.

Appendix 3
Child Care Scholarship Program Income Eligibility and Copayment Rates

Regional Weekly Copayment for One Child
Age 24 Months or Older in Family Child Care or Center Care

	Income Eligibility Before <u>August 1, 2018</u>	Income Eligibility After <u>August 1, 2018</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	\$10,981-\$13,725	\$21,999-\$27,496	7.29	6.45	8.95	11.55	8.77	6.59	8.24
C	\$13,726-\$15,098	\$27,497-\$30,247	11.85	10.49	14.55	18.77	14.31	10.71	13.40
D	\$15,099-\$16,470	\$30,248-\$32,995	17.32	15.33	21.26	27.44	21.00	15.65	19.58
E	\$16,471-\$17,842	\$32,996-\$35,745	22.79	20.17	27.98	36.10	27.69	20.59	25.76
F	\$17,843-\$19,215	\$35,746-\$38,495	29.18	25.82	35.81	46.21	35.31	26.36	32.98
G	\$19,216-\$20,588	\$38,496-\$41,245	35.56	31.47	43.64	56.32	43.15	32.12	40.19
H	\$20,589-\$23,676	\$41,246-\$47,431	41.03	36.31	50.36	64.99	49.85	37.06	46.37
I	\$23,677-\$26,764	\$47,432-\$53,617	43.77	38.73	53.54	69.32	53.08	39.54	49.46
J	\$26,765-\$29,990	\$53,618-\$60,081	45.59	40.34	55.61	72.21	55.38	41.18	51.52

Appendix 4
Fiscal Summary
MSDE – Early Childhood Development

<u>Program/Unit</u>	<u>FY 19</u> <u>Actual</u>	<u>FY 20</u> <u>Wrk Approp</u>	<u>FY 21</u> <u>Allowance</u>	<u>Change</u>	<u>FY 20 - FY 21</u> <u>% Change</u>
10 Division of Early Childhood Development	\$ 57,126,691	\$ 60,712,001	\$ 63,228,910	\$ 2,516,909	4.1%
06 Prekindergarten Expansion	43,377,950	48,775,425	29,644,000	-19,131,425	-39.2%
57 Transitional Education Funding Program	10,575,000	24,825,000	24,825,000	0	0%
58 Head Start	1,800,000	3,000,000	3,000,000	0	0%
59 Child Care Subsidy Program	101,102,032	124,832,208	139,832,208	15,000,000	12.0%
Total Expenditures	\$ 213,981,673	\$ 262,144,634	\$ 260,530,118	-\$ 1,614,516	-0.6%
General Fund	\$ 96,147,424	\$ 104,609,014	\$ 70,139,872	-\$ 34,469,142	-33.0%
Special Fund	0	15,000,000	26,644,000	11,644,000	77.6%
Federal Fund	117,834,249	142,535,620	163,746,246	21,210,626	14.9%
Total Appropriations	\$ 213,981,673	\$ 262,144,634	\$ 260,530,118	-\$ 1,614,516	-0.6%

Note: The fiscal 2020 appropriation does not include deficiencies, planned reversions, or general salary increases. The fiscal 2021 allowance does not include contingent reductions or general salary increases.

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

<u>Object/Fund</u>	<u>FY 19</u> <u>Actual</u>	<u>FY 20</u> <u>Working</u> <u>Appropriation</u>	<u>FY 21</u> <u>Allowance</u>	<u>FY 20 - FY 21</u> <u>Amount Change</u>	<u>Percent</u> <u>Change</u>
Positions					
01 Regular	166.00	166.00	168.00	2.00	1.2%
02 Contractual	47.82	40.00	44.00	4.00	10.0%
Total Positions	213.82	206.00	212.00	6.00	2.9%
Objects					
01 Salaries and Wages	\$ 14,627,022	\$ 14,131,638	\$ 14,700,293	\$ 568,655	4.0%
02 Technical and Spec. Fees	3,580,316	3,074,559	3,779,288	704,729	22.9%
03 Communication	265,057	440,515	440,515	0	0%
04 Travel	231,993	221,828	221,828	0	0%
06 Fuel and Utilities	46,278	42,511	42,511	0	0%
07 Motor Vehicles	238,045	35,714	35,714	0	0%
08 Contractual Services	13,677,143	16,485,953	19,729,478	3,243,525	19.7%
09 Supplies and Materials	59,052	95,038	95,038	0	0%
10 Equipment – Replacement	25,657	0	0	0	0.0%
11 Equipment – Additional	27,052	180,125	180,125	0	0%
12 Grants, Subsidies, and Contributions	180,056,547	226,346,984	220,215,559	-6,131,425	-2.7%
13 Fixed Charges	1,144,946	1,089,769	1,089,769	0	0%
14 Land and Structures	2,565	0	0	0	0.0%
Total Objects	\$ 213,981,673	\$ 262,144,634	\$ 260,530,118	-\$ 1,614,516	-0.6%
Funds					
01 General Fund	\$ 96,147,424	\$ 104,609,014	\$ 70,139,872	-\$ 34,469,142	-33.0%
03 Special Fund	0	15,000,000	26,644,000	11,644,000	77.6%
05 Federal Fund	117,834,249	142,535,620	163,746,246	21,210,626	14.9%
Total Funds	\$ 213,981,673	\$ 262,144,634	\$ 260,530,118	-\$ 1,614,516	-0.6%

Note: The fiscal 2020 appropriation does not include deficiencies, planned reversions, or general salary increases. The fiscal 2021 allowance does not include contingent reductions or general salary increases.