

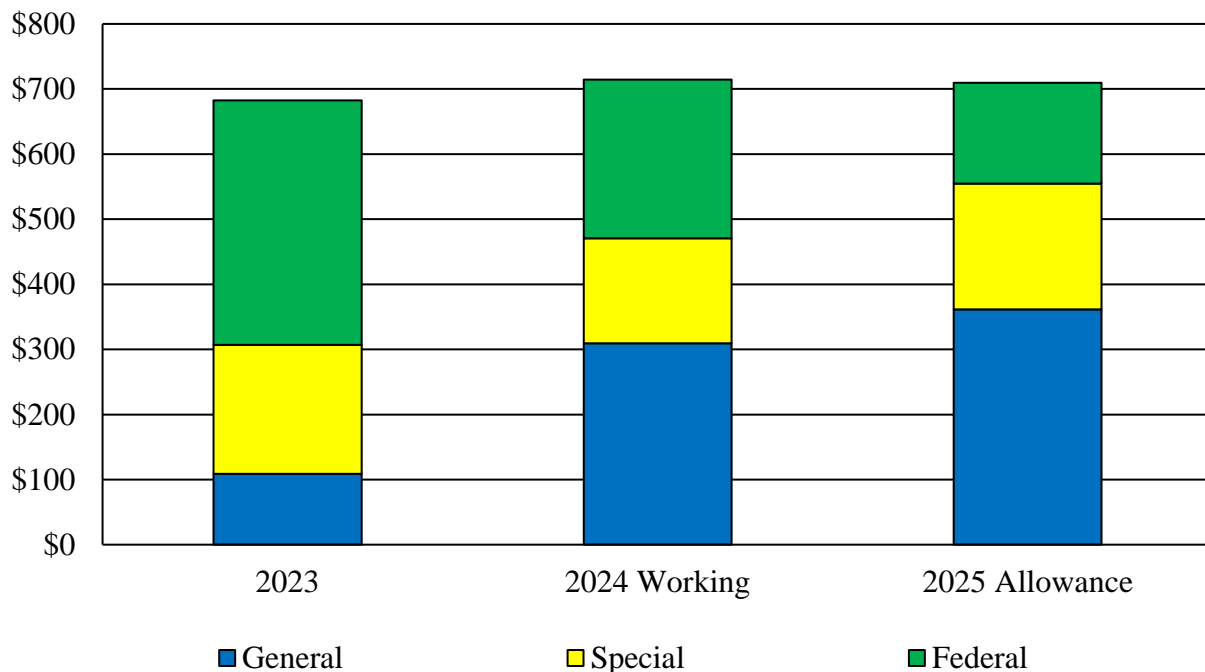
R00A99
Early Childhood Development
Maryland State Department of Education

Executive Summary

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

Operating Budget Summary

Fiscal 2025 Decreases \$5.0 Million, or 0.7%, to \$709.3 Million
(\$ in Millions)



Note: The fiscal 2024 working appropriation includes deficiencies. The fiscal 2024 impacts of statewide salary adjustments appear in the Statewide Account in the Department of Budget and Management (DBM), and adjustments are not reflected in this agency’s budget. The fiscal 2025 impacts of the fiscal 2024 statewide salary adjustments appear in this agency’s budget. The fiscal 2025 statewide salary adjustments are centrally budgeted in DBM and are not included in this agency’s budget.

For further information contact: Nathaly Andrade

Nathaly.Andrade@mlis.state.md.us

- The \$5.0 million reduction in the fiscal 2025 allowance compared to the fiscal 2024 working appropriation is primarily driven by a decrease of \$89.1 million in federal funds. Specifically, there is a reduction of \$83 million in supplemental Child Care and Development Block Grant (CCDBG) funds authorized in the American Rescue Plan Act (ARPA). This decrease is partially offset by an increase of \$52.1 million in general funds related to State fund support for the CCS program and \$31.8 million in special funds from the Blueprint for Maryland’s Future Fund for the Maryland State Prekindergarten Grant program, which distributes full-day prekindergarten formula funding.

Key Observations

- ***Shortfalls in the CCS Program and Proposed Cost Containment Measures:*** The CCS program has faced financial challenges due to ongoing programmatic changes, enrollment growth, and the end of one-time COVID-19-related federal fund support. These factors have led CCS program expenses to outpace available federal fund sources, requiring additional State fund support to cover shortfalls starting in fiscal 2023. To address the projected fiscal 2025 shortfall, MSDE has proposed cost containment measures, including a copayment sliding scale effective July 1, 2024. Additionally, the Budget Reconciliation and Financing Act (BRFA) of 2024 includes a provision that would authorize MSDE to implement a CCS program enrollment freeze.
- ***Early Childhood Programs Funded under Blueprint for Maryland’s Future:*** Fiscal 2025 is the third year of implementation for provisions of Chapter 36 of 2021(as amended by Chapter 55 of 2021), also known as the Blueprint for Maryland’s Future. The fiscal 2025 allowance meets all mandated funding levels for early childhood programs expanded under the education reform effort. However, the Maryland Child Care Credential Program does not receive funds in the proposed budget as the mandate does not require a minimum funding level in fiscal 2025.
- ***Prekindergarten Sliding Scale:*** As part of the full-day prekindergarten formula established in the Blueprint for Maryland’s Future, by the beginning of the 2024-2025 school year, MSDE is mandated to introduce a sliding scale to subsidize prekindergarten services for families earning between 300% and 600% of the federal poverty guidelines (FPG). Specifically, MSDE must develop a sliding scale with gradual increases in the family share of the per pupil cost of prekindergarten services as household incomes approach 600% of FPG. Out of four proposed options, MSDE recommended the adoption of the option with the highest State contribution and least expensive family share of costs.

Operating Budget Recommended Actions

1. Adopt committee narrative requesting a report outlining the estimated savings associated with the implementation of cost containment measures in the Child Care Scholarship program.
2. Adopt committee narrative requesting quarterly reports on Child Care Scholarship program enrollment, expenditures, and programmatic changes.

R00A99
Early Childhood Development
Maryland State Department of Education

Operating Budget Analysis

Program Description

DEC coordinates the State’s child care and early childhood education system through its three branches: the Office of Child Care; the Early Learning Branch; and the Collaboration and Program Improvement Branch.

The Office of Child Care licenses and monitors child care centers and family child care programs in Maryland through regional licensing offices, administers the CCS program, manages child care workforce development programs, provides technical assistance to child care providers and parents, and administers Maryland EXCELS (the State’s quality rating and improvement program for child care and early childhood education programs).

The Early Learning Branch is responsible for publicly funded prekindergarten and kindergarten policies. It oversees the administration of the Ready for Kindergarten Early Childhood Comprehensive Assessment System, early childhood curriculum guidance, developmental screening for children, professional development, and the Judith P. Hoyer Early Childhood Education Enhancement program.

The Collaboration and Program Improvement Branch issues and administers early care grants and contracts, manages the State’s collaboration with the federal Head Start program and works with State and local early childhood advisory councils to support a comprehensive early childhood infrastructure.

DEC has a five-year strategic plan from calendar 2020 to 2025 that outlines the following six goals and strategies for enhancing and expanding the State’s mixed-delivery system for young children and families: (1) strengthening availability and access to services; (2) improving and supporting program quality; (3) deepening family engagement; (4) ensuring successful transition experiences into kindergarten; (5) expanding and enhancing workforce development; and (6) improving systems for infrastructure, data, and resource management.

Performance Analysis: Managing for Results

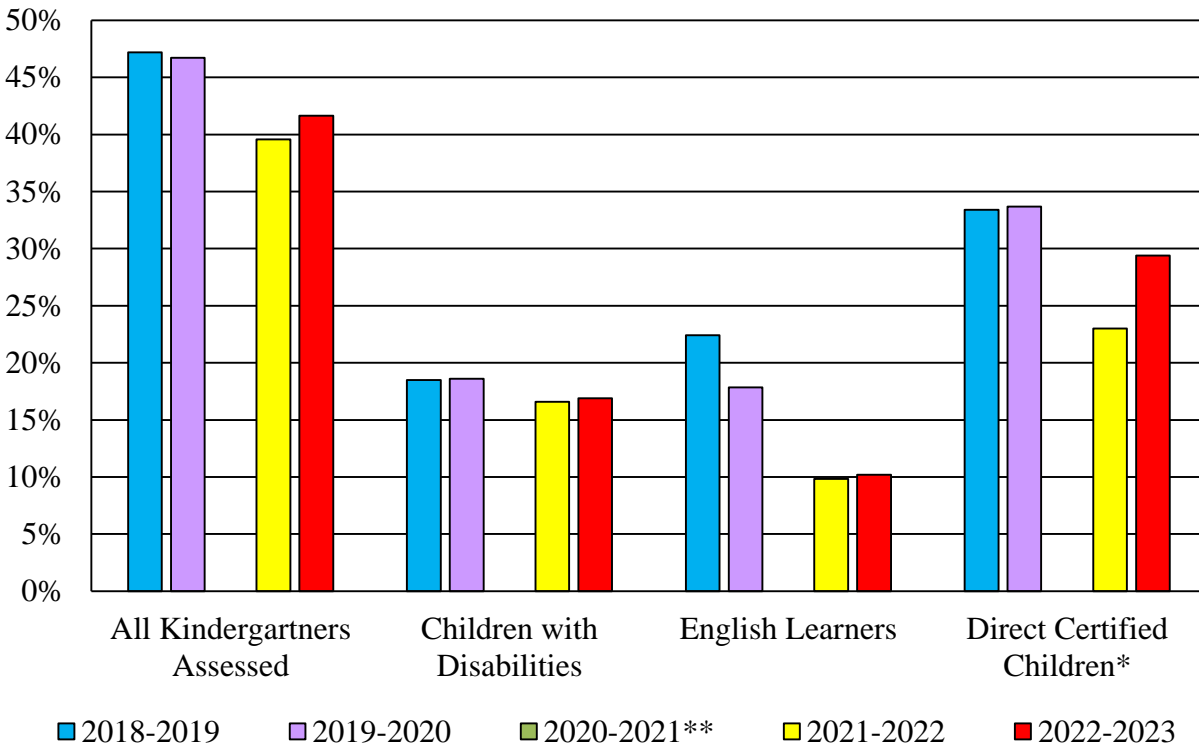
1. Kindergarten Readiness Assessment Results Improve Slightly Following Pandemic Decline

In the 2014-2015 school year, Maryland introduced the Kindergarten Readiness Assessment (KRA) as part of the Ready for Kindergarten Early Childhood Comprehensive Assessment System. KRA entails kindergarten teachers evaluating students based on a checklist

of indicators to determine their school readiness level. Students are categorized as demonstrating, emerging, or approaching readiness. Those demonstrating readiness display foundational skills and behaviors aligning with the kindergarten curriculum standards.

As shown in **Exhibit 1**, in the 2022-2023 school year, 41.6% of assessed kindergarteners demonstrated readiness for kindergarten, reflecting a 2.1 percentage point rise from the preceding 2021-2022 school year. Although this outcome is a slight improvement, it remains below the prepandemic level reported in the 2019-2020 school year when 46.7% of kindergarteners demonstrated readiness.

Exhibit 1
Maryland Kindergarteners Demonstrating Readiness
2018-2019 School Year to 2022-2023 School Year



*Direct certification is the process that the Maryland State Department of Education uses to identify children from low-income households by identifying the family’s use of other public benefits programs, such as Temporary Cash Assistance or the Supplemental Nutrition Assistance Program.

**Due to the COVID-19 public health emergency and related school closures, the Kindergarten Readiness Assessment was not conducted during the 2020-2021 school year.

Source: Department of Budget and Management; Maryland State Department of Education

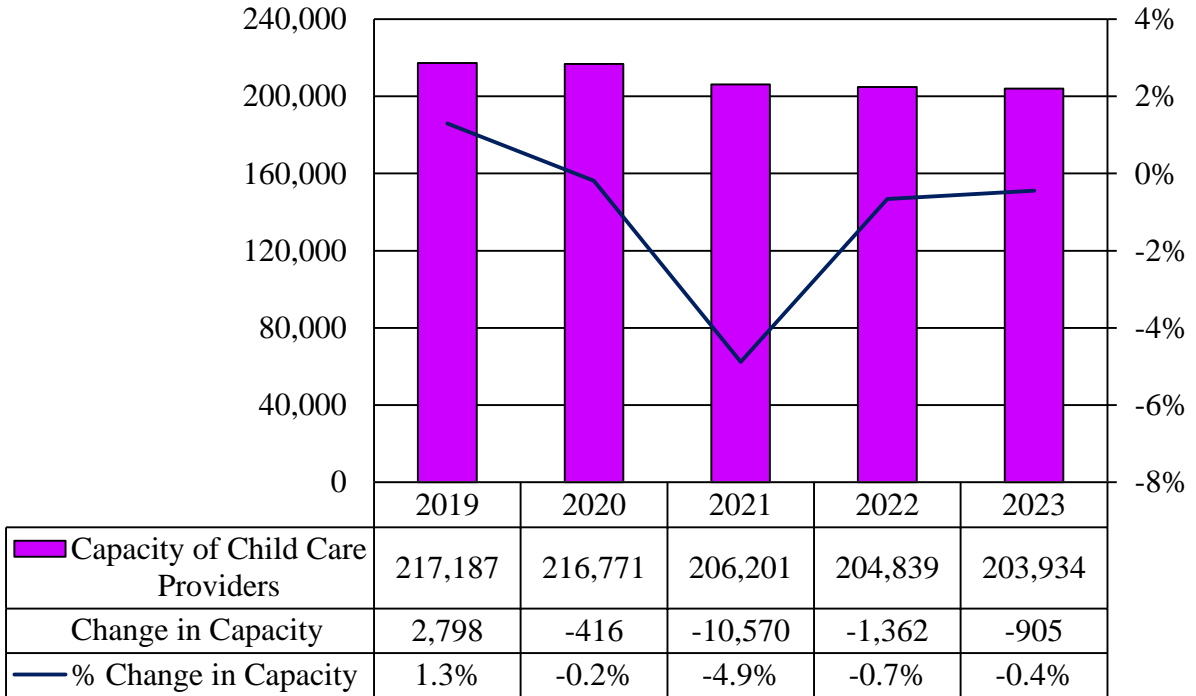
MSDE employs direct certification to identify children from low-income households. This method involves matching families participating in needs-tested public benefits programs, such as the Temporary Cash Assistance (TCA) program or the Supplemental Nutrition Assistance Program (SNAP), with K-12 enrollment. The subgroup of direct-certified children experienced the largest improvement in KRA results in the 2022-2023 school year, with a 6.4 percentage point increase from the previous school year. In contrast, among the assessed subgroups, children with disabilities and English learners have demonstrated minimal improvement compared to the previous school year, showing only slight percentage point increases of 0.3% and 0.4%, respectively. Additionally, these two subgroups exhibited the lowest readiness levels among all groups, with only 17% and 10% demonstrating readiness in the 2022-2023 school year, respectively.

KRA results serve as one of several performance metrics monitored by the Accountability and Implementation Board (AIB) to assess the long-term success of the early childhood program expansion outlined in the Blueprint for Maryland's Future. The *Blueprint for Maryland's Future Initial Comprehensive Implementation Plan*, released in December 2022 by AIB, outlined that the State's investment in high-quality early childhood education would be considered successful if, over time, overall KRA results improve, readiness gaps among subgroups of students decrease, and disparities in readiness among students served by public and private providers diminish. The *2023 Blueprint Comprehensive Implementation Plan* also requested that MSDE submit a report to AIB by December 1, 2023, evaluating KRA for any racial, cultural, or linguistic bias and for any potential bias in its administration. As of February 13, 2024, AIB reported that MSDE had not submitted the KRA report. **MSDE should provide an update on KRA evaluation activities requested by AIB and the timeline for submitting the requested report.**

2. Despite Slowing Decline, Child Care Capacity Remains Stagnant Post-pandemic

As shown in **Exhibit 2**, following the closure of 10,570 licensed child care slots statewide during the COVID-19 pandemic (from fiscal 2020 to 2021), the rate of decline in child care capacity is gradually approaching prepandemic levels. In fiscal 2022 and 2023, the change in capacity stood at -0.7% and -0.4%, respectively. According to MSDE, the decline in capacity is primarily attributed to the closure of family child care programs. Despite efforts to stabilize and support the child care sector, such as the Growing Opportunities in Family Child Care program, Maryland Rebuilds grants, and stabilization grants (further discussed in Issue 4), the overall capacity has not shown significant improvement and has not returned to prepandemic levels.

**Exhibit 2
Capacity of Child Care Providers
(Shown as Licensed Slots)
Fiscal 2019-2023**



Note: Child care capacity is presented as the total number of licensed slots in June of each fiscal year.

Source: Department of Budget and Management; Maryland State Department of Education

MSDE should comment on the specific factors contributing to the continued decrease in child care capacity. In addition, MSDE should discuss performance measures that it is collecting and monitoring to evaluate the effectiveness of initiatives like the Growing Opportunities in Family Child Care Program, Maryland Rebuilds grants, child care stabilization grants, and other support to improve child care providers’ business practices.

3. CCS Program Customer Service and Application Processing

MSDE has acknowledged delays and challenges for child care providers and families participating in the CCS program, specifically related to application processing times and the delivery of invoices and scholarships. Chapters 525 and 526 of 2022 required MSDE to establish a presumptive eligibility program and meet certain processing requirements, *i.e.*, notifying the

R00A99 – MSDE – Early Childhood Development

Comptroller within 10 days after receiving an invoice from a child care provider to initiate payment processing. Committee narrative in the 2023 *Joint Chairmen’s Report* (JCR) requested that MSDE include goals, objectives, and performance measures related to CCS program customer service and application processing in its annual Managing for Results (MFR) submission. The latest MFR submission included the following performance measures reported for fiscal 2023:

- on average, a fast-track CCS application (providing presumptive eligibility) was processed for a family applying for a child care scholarship within 3.2 business days;
- 68.4% of CCS applications received a determination for presumptive eligibility within 3 business days;
- on average, it took 2.5 days to transfer eligible payments processing files to the Comptroller’s Office after the completion of Advance Payment Processing; and
- 100% of the eligible payment processing files were transferred, bi-monthly, to the comptroller’s Office within 10 days.

The Department of Legislative Services (DLS) notes that these performance measures tend to focus on processing initial presumptive eligibility applications and payments, rather than the full application process to determine long-term eligibility or renewal. **MSDE should discuss the availability of customer service and application processing measures for the period after presumptive eligibility ends, such as the average length of time before an eligibility determination is made after receipt of a full or renewal CCS application.**

Fiscal 2024

Proposed Deficiency

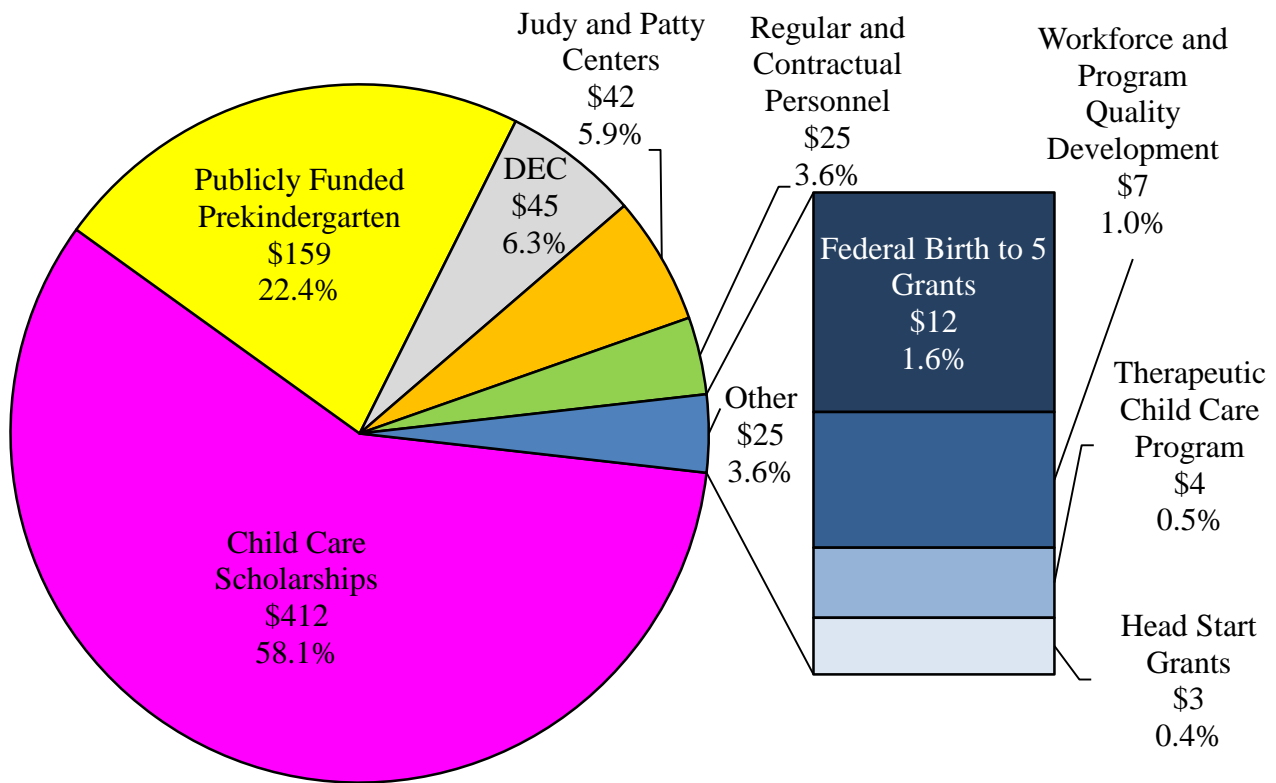
The fiscal 2025 budget includes one proposed deficiency appropriation for DEC. The proposed deficiency of \$217.9 million in general funds supports prior year shortfalls and anticipated current year shortfalls in the CCS program (approximately \$42.9 million to address the shortfall in fiscal 2023 and \$175 million for fiscal 2024). Recent shortfalls and other CCS program spending trends are discussed in Issue 2 of this analysis.

Fiscal 2025 Overview of Agency Spending

Exhibit 3 shows the distribution of \$709.3 million in planned spending in the fiscal 2025 allowance for early childhood services and programs under MSDE. A significant portion of the budget (80%) is allocated to directly support low-income children and families in accessing early childhood programs. This includes \$412.4 million (58%) designated for financial assistance for child care distributed through CCS payments and \$159.2 million (22%) in special funds for

publicly funded prekindergarten. The spending on publicly funded prekindergarten includes full-day slots funded through the Maryland State Prekindergarten Grant program and Prekindergarten Expansion Grant program. Additionally, MSDE allocates funding for wraparound and supportive services, with a total of \$42 million (6%) budgeted for Judith P. Hoyer Center Early Learning Hubs (Judy Centers) and Patty Centers (also known as Family Support Centers).

**Exhibit 3
Overview of Agency Spending
Fiscal 2025 Allowance
(\$ in Millions)**



DEC: Division of Early Childhood
 Judy Center: Judith P. Hoyer Center Early Learning Hub
 Patty Center: Family Support Center

Note: The fiscal 2025 statewide salary adjustments are centrally budgeted in the Department of Budget and Management and are not included in this agency’s budget.

Source: Department of Budget and Management

Proposed Budget Change

Compared to the fiscal 2024 working appropriation, the fiscal 2025 allowance decreases by \$5.04 million, or 0.7%. As shown in **Exhibit 4**, the primary contributing factors to this change include a reduction of \$83.9 million in supplemental CCDBG funds authorized in the ARPA to support the CCS program and \$11.2 million to support prekindergarten capacity building grant. This decrease is partially offset by increases in various initiatives, including State fund support for the CCS program \$52.1 million, prekindergarten formula funding \$33 million, and other federal grants, as well as funding for new initiatives.

Exhibit 4
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 2023 Actual	\$108,690	\$198,356	\$375,642	\$682,688
Fiscal 2024 Working Appropriation	309,331	161,492	243,563	714,385
Fiscal 2025 Allowance	<u>361,582</u>	<u>193,254</u>	<u>154,511</u>	<u>709,346</u>
Fiscal 2024-2025 Amount Change	\$52,251	\$31,762	-\$89,052	-\$5,039
Fiscal 2024-2025 Percent Change	16.9%	19.7%	-36.6%	-0.7%

Where It Goes:	<u>Change</u>
Personnel Expenses	
Salary increases and associated fringe benefits including fiscal 2024 COLA and increments.....	\$2,423
Salary and fringe benefits for 37 new positions, partially offset by 2 position transfers out of DEC.....	3,677
Workers’ Compensation.....	-56
Reclassification.....	-421
Turnover rate increase from 4.33% to 7.54%.....	-576
Child Care Scholarship Program	
General fund support for the CCS program, after accounting for a proposed fiscal 2024 deficiency covering fiscal 2023 and 2024 shortfalls.....	52,100
Change in annual CCDBG federal fund support for the CCS program	-2,487
Discretionary CCDBG funds authorized in the ARPA supporting the CCS program.....	-83,856

R00A99 – MSDE – Early Childhood Development

Where It Goes:	<u>Change</u>
Blueprint Initiatives	
Maryland State Prekindergarten Grant program to distribute full day prekindergarten formula funding.....	33,029
Judy Center expansion (9 additional centers).....	2,970
Patty Center expansion (3 additional centers).....	990
Maryland EXCELS Participation Bonuses	550
Child Care Incentive Grant Program.....	12
End of mandate for funding increases in the Maryland Child Care Credential Program	-5,687
Other Changes	
Promoting Positive Opportunities for Infants and Toddlers Program (transferred from Aid to Education budget)	2,700
Increase to support the maintenance of the Portal and facilitate CCATS enhancement project.....	2,500
DoIT staff costs to ensure the sustained progress of the ongoing CCATS enhancement project.....	1,350
Contractual personnel (35 contractual conversions in DEC)	-3,289
Discretionary CCDBG funds authorized in ARPA supporting Prekindergarten Capacity Building Grants	-11,200
Other expenses.....	233
Total	-\$5,039

ARPA: American Rescue Plan Act
 CCATS: Child Care Administration Tracking System
 CCDBG: Child Care and Development Block Grant
 CCS: Child Care Scholarship
 COLA: cost-of-living adjustments
 DEC: Division of Early Childhood
 DoIT: Department of Information Technology
 Judy Center: Judith P. Hoyer Center Early Learning Hub
 Patty Center: Family Support Center

Note: Numbers may not sum to total due to rounding. The fiscal 2024 working appropriation includes deficiencies. The fiscal 2024 impacts of statewide salary adjustments appear in the Statewide Account in the Department of Budget and Management (DBM), and adjustments are not reflected in this agency’s budget. The fiscal 2025 impacts of the fiscal 2024 statewide salary adjustments appear in this agency’s budget. The fiscal 2025 statewide salary adjustments are centrally budgeted in DBM and are not included in this agency’s budget.

Personnel Data

	<u>FY 23 Actual</u>	<u>FY 24 Working</u>	<u>FY 25 Allowance</u>	<u>FY 24-25 Change</u>
Regular Positions	158.00	174.00	209.00	35.00
Contractual FTEs	<u>30.50</u>	<u>48.50</u>	<u>12.50</u>	<u>-36.00</u>
Total Personnel	188.50	222.50	221.50	-1.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	12.97	7.54%
Positions and Percentage Vacant as of 12/31/23	4.00	2.30%
Vacancies Below Turnover	8.97	

- The fiscal 2025 allowance provides 37 new positions under DEC to convert existing contractual full-time equivalent positions to regular positions. These positions include 20 child care specialists, 12 administrative staff, and 5 education program specialists. Contractual conversions are partially offset by 2 position transfers out of DEC that have been allocated to the Office of the State Superintendent and the Office of the Deputy for Organizational Effectiveness under MSDE.
- DEC reported 4 vacant positions as of December 31, 2023, less than half of the vacancies to meet the fiscal 2025 budgeted turnover of 7.54%. Of these vacancies, 2 positions have been vacant for more than one year and the remaining 2 have been vacant for less than nine months. The agency indicates that if the vacancy rate remains below the budgeted turnover rate during fiscal 2025, DEC would utilize multiple measures to cover salary costs, including tapping indirect cost recoveries for eligible costs and realigning savings in other areas of the budget.

Issues

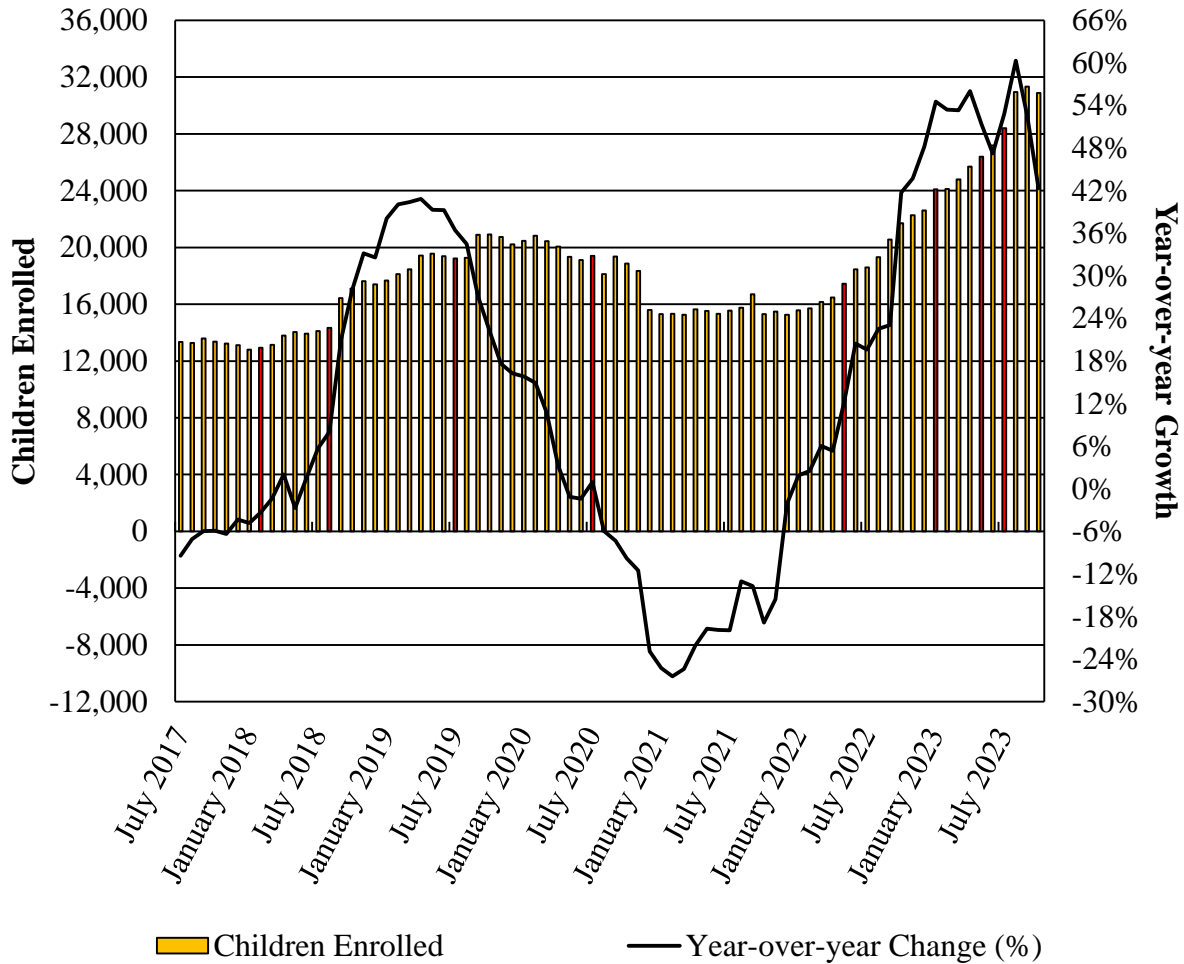
1. Fiscal 2025 Allowance Includes Cost Saving Measures under the CCS Program Following Significant Fiscal 2023 and 2024 Shortfalls

CCS Program Enrollment Trends and Programmatic Changes

The CCS program provided financial assistance with child care tuition to 23,107 eligible children and over 15,078 families per month on average in fiscal 2023. For each child needing care, participating families receive a voucher that indicates the scholarship rate and assigned copayment (if applicable) that are determined by household income and region, among other factors. Program eligibility is primarily determined by household income, which places the family in an income eligibility scale in categories A through J (category A being lowest income and category J being highest income). Participating families use vouchers and their assigned copayment to purchase child care directly from the provider of their choice, and MSDE reimburses the provider for the approved scholarship rate. The family may also be responsible for any remaining balance between the rate charged by the provider and the voucher amount.

As shown in **Exhibit 5**, CCS program enrollment experienced a notable increase from 15,296 children served in January 2021 to 30,889 children served in October 2023 (a 102% increase). This rapid doubling of enrollment occurred over approximately two years, following a gradual decline during the COVID-19 pandemic when child care providers were required to temporarily close and overall demand for child care was reduced. Starting from January 2022, the year-over-year change in enrollment generally increased each month. Specifically, CCS enrollment from October 2022 to October 2023 has consistently exceeded the prepandemic high of 20,907 children enrolled in October 2019, reaching a peak of 31,340 children enrolled in September 2023.

Exhibit 5
Unduplicated Monthly Count of Children Enrolled in the CCS Program
July 2017 to October 2023



CCS: Child Care Scholarship

Note: Enrollment counts of September and October 2023 are preliminary and may change. Bars shaded in red note significant policy changes, such as the Maryland State Department of Education lifting an enrollment freeze in February 2018; raising income eligibility levels in August 2018 and May 2022; reducing copays and increasing reimbursement rates in May 2022; and opening the full presumptive eligibility program statewide in July 2023.

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

The sharp increase in enrollment coincided with significant policy changes that encouraged more children, families, and providers to participate, including:

R00A99 – MSDE – Early Childhood Development

- reductions in copays to a range of \$1 to \$3 per week effective in May 2022;
- waived copays for individuals participating in certain public benefits programs, including (but not limited to) the SNAP and Special Supplemental Nutrition Program for Women, Infants, and Children (commonly referred to as the WIC program) effective July 1, 2022, as required by Chapters 525 and 526 of 2022;
- expanded income eligibility thresholds from 65% of the calendar 2022 State median income (SMI) to 75% effective May 2022;
- increased reimbursement rates from the sixtieth percentile to the seventieth percentile of the most recent market rates effective in May 2022;
- the introduction of advanced enrollment payments effective in January 2023 as announced by MSDE in a memo to the child care community; and
- the implementation of a fast-track application process (presumptive eligibility) effective July 1, 2023, as required by Chapters 525 and 526.

Chapters 731 and 732 of 2023 generally prohibited MSDE from altering policies that were in effect as of January 1, 2023, by increasing copay levels, reducing the reimbursement rates, reducing income eligibility requirements, or implementing a freeze in program enrollment. MSDE can make some of these program alterations if it submits notification on the intended changes to certain committees of the General Assembly and waits to implement the changes until the legislative session has ended.

Another contributing factor for increased costs in the CCS program is related to the replacement of the Child Care Administration Tracking System (CCATS) (see **Appendix 2** for further details). MSDE introduced advanced enrollment-based payments in January 2023 and the fast-track application process (providing presumptive eligibility) in July 2023, which added to the program's administrative expenses. These changes along with customer service improvements, led to MSDE updating CCATS, particularly the development and implementation of Family and Provider portals, automated data entry for CCS applications, and the establishment of the Fast Track portal. **MSDE should comment on the timing of implementing these administrative and information technology changes and their associated costs. Furthermore, MSDE should comment on any additional processing and customer service changes planned within the CCS program.**

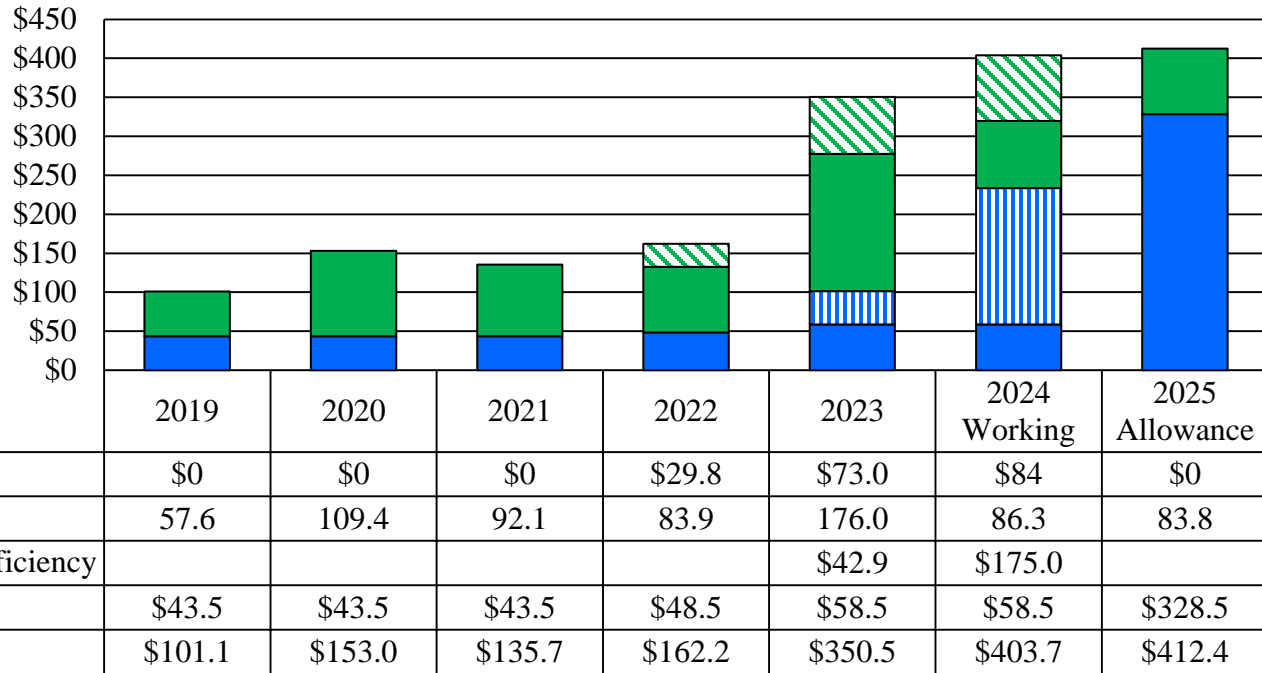
Fiscal 2023 and 2024 Shortfalls and Fiscal 2025 Spending Forecast

Enrollment growth coupled with programmatic changes has led to higher CCS program costs and shortfalls in fiscal 2023 and 2024. As shown in **Exhibit 6**, total fund spending on CCS payments increases significantly by \$250.2 million from fiscal 2022 through the fiscal 2025 allowance. From fiscal 2019 to 2023, federal funds consistently covered a substantial portion of

R00A99 – MSDE – Early Childhood Development

expenses, ranging from 57% to 71%. During that time, the annual CCDBG allocation into the Child Care and Development Fund (CCDF) remained the primary source of funding for the CCS program. MSDE also spent supplemental CCDBG funding authorized in the ARPA to support programmatic changes in fiscal 2022 through the fiscal 2024 working appropriation. These funds were awarded to states to make child care more affordable and accessible for families and to meet other needs related to the State’s child care system. However, the funds were distributed during the COVID-19 pandemic as one-time support, while MSDE allocated them toward ongoing changes within the CCS program.

Exhibit 6
Child Care Scholarship Expenditures by Fund Source
Fiscal 2019-2025
(\$ in Millions)



CCDF: Child Care and Development Fund

Note: This exhibit reflects only spending on child care scholarships and does not include COVID-19 CCDF distributed as stabilization grants or CCDF spent on other early childhood system improvements. Other CCDF funding budgeted under the Division of Early Childhood for administrative costs is also excluded.

Source: Department of Budget and Management; Maryland State Department of Education; Department of Legislative Services

R00A99 – MSDE – Early Childhood Development

Due to the ongoing cost of programmatic changes, enrollment growth, and end of the one-time ARPA support, CCS program expenses outpaced available federal fund sources beginning in fiscal 2023. MSDE closed fiscal 2023 with a deficit and anticipates a continued shortfall in fiscal 2024. As a result, the fiscal 2025 allowance includes a proposed deficiency totaling \$217.9 million in general funds, with \$42.9 million covering the fiscal 2023 shortfall and \$175 million supporting fiscal 2024 spending. The fiscal 2025 allowance further grows by \$8.7 million compared to the fiscal 2024 working appropriation, after accounting for just the fiscal 2024 share of the proposed deficiency. General fund need for the program continues to grow substantially by \$95 million in fiscal 2025 over the prior year, mainly to backfill approximately \$84 million in one-time ARPA support.

Exhibit 7 shows estimates for CCS expenditures, enrollment, and average cost per child for fiscal 2023 through 2025 prepared by the Regional Economic Studies Institute (RESI) at Towson University (MSDE’s research and data analysis vendor for the CCS program). RESI prepared low, middle, and high scenarios for costs, and the exhibit shows only the middle scenario compared to actual spending in fiscal 2023 and budgeted funding in fiscal 2024 and 2025. The estimates are based on current policy and do not include estimated savings from any cost containment measures.

Exhibit 7
RESI’s Estimations for CCS Program
Fiscal 2023-2025

<u>Forecasts Middle Scenario</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Total Forecasted Expenditures (A)	\$268,368,483	\$395,672,065	\$433,200,283
Total Children	23,133	33,923	37,054
Overall Average Cost/Child	\$11,601	\$11,664	\$11,691
Actual, Working Appropriation and Allowance (B)	\$350,454,055*	\$403,694,408*	\$412,350,758
Difference B-A	\$82,085,572	\$8,022,343	-\$20,849,525

CCS: Child Care Scholarship
RESI: Regional Economic Studies Institute

*The fiscal 2023 actual expenditures and fiscal 2024 working appropriation include the proposed deficiency.

Note: The estimations are from RESI’s middle scenario forecast provided to the Maryland State Department of Education in December 2023.

Source: Maryland State Department of Education; Regional Economic Studies Institute at Towson University

R00A99 – MSDE – Early Childhood Development

It should be noted that RESI's initial middle scenario estimate provided in January 2023 for total CCS program expenditures in fiscal 2023 were \$248.4 million, significantly lower by \$102 million than the actual expenditures of \$350.5 million. Similarly, the December 2023 forecast continued to display lower fiscal 2023 forecasted spending than actual expenditures. MSDE indicated that this forecast only included services provided during fiscal 2023 and excludes the July 2023 advance payment issued in June 2023. The discrepancy observed in the estimates for fiscal 2023 raises questions regarding the accuracy of RESI's estimates for the following fiscal years. **MSDE should comment on a plan and timeline to competitively bid CCS program forecasting services in the future.**

In fiscal 2024, RESI projects the total CCS program expenditures to be \$395.7 million, covering a population of 33,923 children and resulting in an overall average cost per child of \$11,664. The fiscal 2024 working appropriation of \$407.6 million appears to have sufficient funding to cover these costs after accounting for the fiscal 2024 share of the proposed deficiency. For fiscal 2025, the total expenditures are anticipated to be \$433.2 million, with an increased child population of 37,054 and a slightly elevated overall average cost per child at \$11,691. When comparing the fiscal 2025 allowance of \$412.4 million to the forecasted expenditures in fiscal 2025, there is a deficit of \$20.8 million.

Proposed CCS Program Cost Containment Measures

Increased Family Copays

Increased CCS program expenditures and related shortfalls have led to concerns related to affordability and sustainability of the program for the State. To limit program costs, MSDE notified the appropriate committee chairs on January 9, 2024, of plans to increase family copays for new families enrolling in the program and those renewing their eligibility redetermination beginning July 1, 2024.

As shown in **Exhibit 8**, the potential copay scale would align with income brackets relative to SMI. Families with incomes falling within 35% or below of the SMI threshold would have their copayments waived entirely. Families between 36% and 54% of SMI would contribute a copayment equivalent to 3% of their gross income, while those at 55% of SMI or above would contribute 7% of their gross income. MSDE indicates that the current scholarship recipients would not pay a copay until their eligibility is redetermined at the expiration of their scholarship term.

Exhibit 8
Possible Copayment Scale for New Families Enrolling CCS Program

<u>SMI</u>	<u>Annual Income Range*</u>	<u>Family Share: % of Gross Annual Income</u>	<u>Annual Amount</u>
0%-35%	\$0-\$42,015	0%	\$0
36%-54%	43,216-64,824	3%	1,296-1,945
55%	66,024	7%	4,622

CCS: Child Care Scholarship
 SMI: State median income

*This exercise is for illustrative purposes. The income ranges were calculated based on SMI in Maryland for a family of four, or \$120,044.

Source: Maryland State Department of Education; Department of Legislative Services; U.S. Census Bureau

Currently, a family that does not receive TCA or Supplemental Security Income (SSI) may be required to contribute a copayment, and any remaining balance between the actual rate charged by the provider and the voucher amount. Chapters 525 and 526 also required MSDE to waive copays for families participating in one of several programs (WIC, SNAP, federal Housing Choice Voucher Program, SSI Benefits, and TCA), and families that prove employment or enrollment in an education or career training program.

Before the reduction of copayments to a range of \$1 to \$3 per week on May 23, 2022, MSDE implemented a system of fixed copayment amounts based on income eligibility ranges, where copayments increased with household income across different regions. For instance, a family residing in Region U, earning between \$0 and \$21,998 annually, would pay a copayment of \$4.56 per week or \$237.12 annually. This represented approximately 1% of their income. As shown in **Exhibit 9**, the previous copay framework used by MSDE shows that only families in Region X (containing Montgomery and Howard counties) were subject to copayments of up to 7% of their annual income.

Exhibit 9
Regional Annual Copayment for One Child
Age 24 Months or Older in Family Child Care or Center Care

	<u>Income Eligibility</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-\$21,998	1%	1%	1%	2%	1%	1%	1%
B	\$21,999-\$27,496	1%	1%	2%	2%	2%	1%	2%
C	\$27,497-\$30,247	2%	2%	3%	3%	2%	2%	2%
D	\$30,248-\$32,995	3%	2%	3%	4%	3%	2%	3%
E	\$32,996-\$35,745	3%	3%	4%	5%	4%	3%	4%
F	\$35,746-\$38,495	4%	3%	5%	6%	5%	4%	4%
G	\$38,496-\$41,245	4%	4%	6%	7%	5%	4%	5%
H	\$41,246-\$47,431	4%	4%	6%	7%	5%	4%	5%
I	\$47,432-\$53,617	4%	4%	5%	7%	5%	4%	5%
J	\$53,618-\$60,081	4%	3%	5%	6%	5%	4%	4%

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

Authorization to Freeze CCS Program Enrollment

In March 2011, an enrollment freeze and waitlist were imposed on the CCS program by MSDE due to a federal fund shortfall. Although the freeze for all income levels was lifted in fiscal 2013, the freeze remained in place for the highest income categories until February 2018, when the complete lifting of the enrollment freeze occurred. Chapters 731 and 732 restricted MSDE from making specific alterations to the CCS program from policies effective January 1, 2023, which included implementing an enrollment freeze. However, a proposed action in the BRFA of 2024 would remove the restriction on enrollment freezes and provide MSDE with the authority to introduce an enrollment freeze, without the necessity of informing the General Assembly or obtaining approval from the Board of Public Works. MSDE indicated that it does not have plans to initiate a waitlist in fiscal 2025. Additionally, MSDE was unable to provide detail for spending or enrollment growth levels that would trigger an enrollment freeze and the income categories that would be impacted.

Cost Containment Impact on Fiscal 2025 Allowance

The savings from the co-payments should help to eliminate the gap between the allowance and the RESI forecast of fiscal 2025 expenses. MSDE indicates that the fiscal 2025 allowance does not incorporate potential savings from the possibility of an enrollment freeze. It is concerning that there is a lack of clarity on when an enrollment freeze would be triggered or how it would be implemented.

Given the significance of copay increases and potential enrollment freezes in managing CCS program costs and resolving the potential \$20 million deficit in fiscal 2025, MSDE should provide detailed savings estimates for increasing copays and implementing an enrollment freeze. DLS recommends adopting committee narrative that requests a report with updates on implementation of any cost containment measures in the CCS program. The report should include spending or enrollment triggers for implementing an enrollment freeze and strategies for effectively managing wait lists. Lastly, DLS recommends adopting committee narrative requesting quarterly reports on CCS program expenditures and enrollment to continue monitoring program costs.

2. Early Childhood Programs under the Blueprint for Maryland’s Future

The Blueprint for Maryland’s Future education reform effort established in Chapter 36, as amended by Chapter 55, included several initiatives and mandates that expand early childhood programs and gradually phase in from fiscal 2023 through 2030. **Appendix 3** details early childhood provisions in Chapter 36 and fiscal 2024 and 2025 Blueprint mandates by program.

The fiscal 2025 allowance includes \$220.9 million in total funds for Blueprint mandates supporting early childhood programs. Most of this funding (\$193.3 million) is budgeted as special funds from the Blueprint for Maryland’s Future Fund. All early childhood programs expanded or funded through Chapter 36 meet the mandated funding levels in the fiscal 2025 allowance. However, the Maryland Child Care Credential Program does not receive funds in fiscal 2025 as Chapter 36 only required 10% increases in program funding each year through fiscal 2024, and it does not impose a minimum funding requirement for fiscal 2025. **MSDE should comment on the impact of this on the implementation of the program.**

In general, funding for Blueprint initiatives related to early childhood programs falls into the following four programs/categories:

- ***Maryland State Prekindergarten Grant Program:*** Chapter 36 established a new funding formula for voluntary prekindergarten for three-year-old and four-year-old children from low-income families. The formula is jointly funded by the State and local governments, with per pupil funding levels increasing from \$10,094 in fiscal 2023 to \$19,526 in fiscal 2030. MSDE established the Maryland State Prekindergarten Grant program to distribute formula funding to local school systems and private programs.
- ***Prekindergarten Expansion Grant Program:*** MSDE has distributed competitive prekindergarten expansion grants to qualified public and private providers serving families with incomes at or below 300% FPG, children with disabilities, and English learners since fiscal 2015. Chapter 36 extended the Prekindergarten Expansion Grant program through fiscal 2025, after which the program will be consolidated with the Maryland State Prekindergarten Grant Program in fiscal 2026.

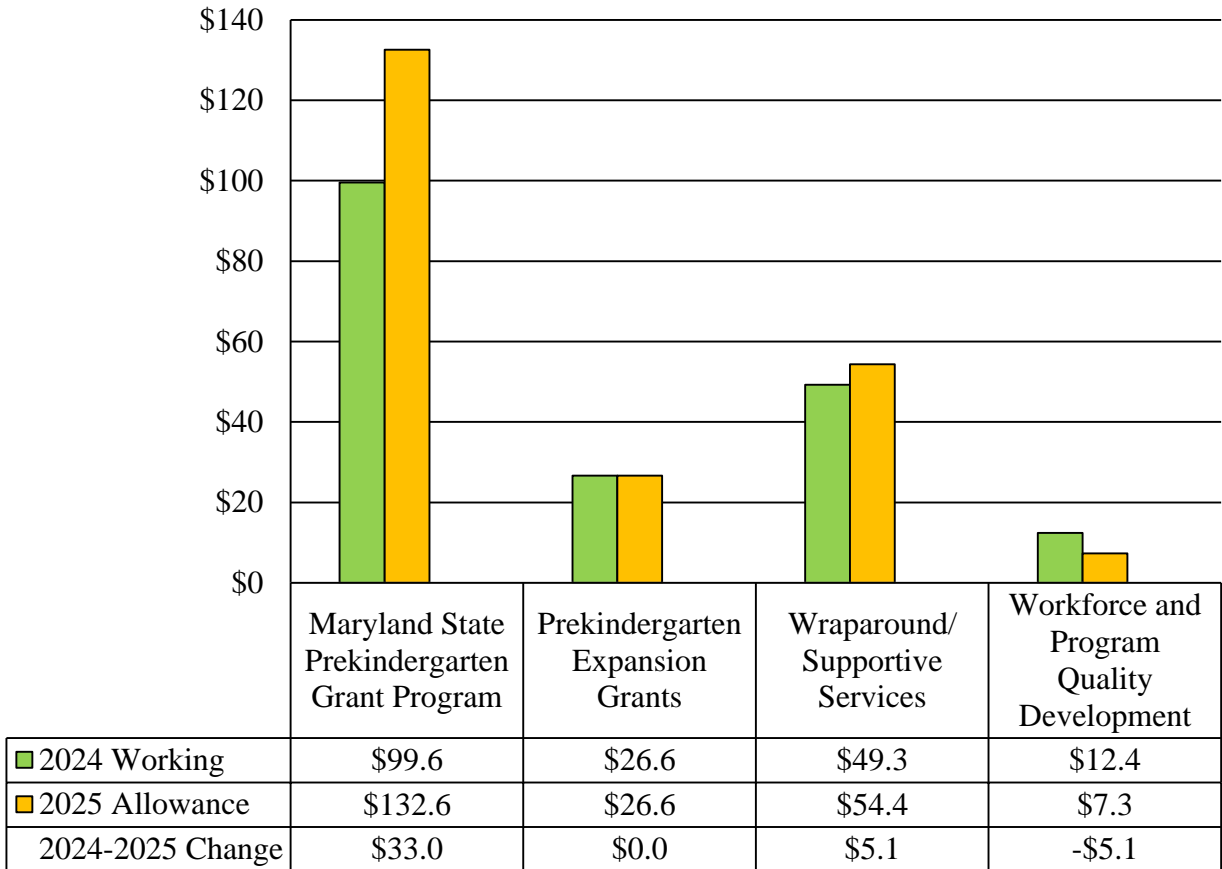
R00A99 – MSDE – Early Childhood Development

- **Wraparound/Supportive Services:** Chapter 36 expands the number of Judy Centers and Patty Centers, which offer early childhood education programs, comprehensive support services, and educational and health-related services for young children and their families. Additionally, Chapter 36 increases funding for the Maryland Infants and Toddlers Program, which provides a system of comprehensive community-based intervention services to young children up to age three who have developmental delays and disabilities.
- **Workforce and Program Quality Development:** Chapter 36 codified existing early childhood professional development programs, such as the Maryland Child Care Credential Program, and required certain funding levels and increases that vary across the initiatives. MSDE must also designate a primary contact employee for early child care to assist child care providers in improving their EXCELS rating and applying for funding and accreditation.

Fiscal 2025 Prekindergarten Formula Funding Increases by \$33 Million Compared to the Fiscal 2024 Working Appropriation

As shown in **Exhibit 10**, the largest early childhood education expansion within the Blueprint for Maryland’s Future is the funding formula for full-day, high-quality prekindergarten distributed through the Maryland State Prekindergarten Grant Program. This program constitutes 53% and 60% of the overall early childhood spending under the Blueprint for Maryland’s Future in the fiscal 2024 working appropriation and fiscal 2025 allowance, respectively. **Appendix 4** provides a breakdown of fiscal 2024 and 2025 prekindergarten formula funding allocated by local school system.

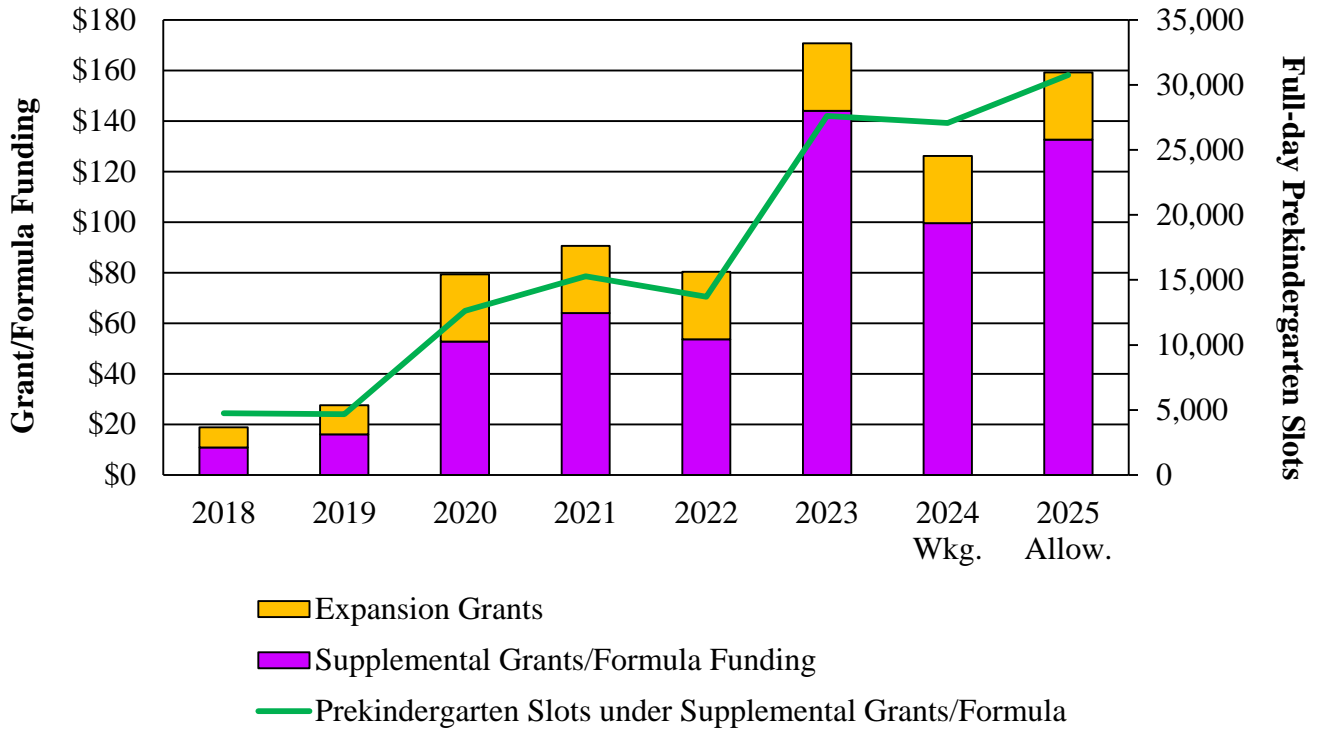
Exhibit 10
Early Childhood Funding under the Blueprint for Maryland’s Future
Fiscal 2024-2025
(\$ in Millions)



Source: Department of Budget and Management

Exhibit 11 shows funding levels and enrollment for publicly funded full-day prekindergarten slots beginning in fiscal 2018. From fiscal 2018 to 2022, MSDE funded full-day services by awarding Prekindergarten Supplemental grants established in Chapters 6 and 607 of 2017 (later amended in Chapter 771 of 2019) to local school systems based on the number of four-year-old students they enrolled in public programs. Chapter 36, as amended by Chapter 55, established a phased-in timeline beginning in fiscal 2023 in which MSDE and local school systems fund three-year-old and four-year-old children with family incomes at or below 300% FPG (defined as Tier I children) in both public and private programs through the full-day prekindergarten formula.

Exhibit 11
Full-day Prekindergarten State Funding and Enrollment
Fiscal 2018-2025
(\$ in Millions)



Note: Fiscal 2018 to 2022 actual expenditures show Prekindergarten Supplemental and Prekindergarten Expansion grants. The fiscal 2023 actual expenditure, the fiscal 2024 working appropriation and fiscal 2025 allowance show Prekindergarten Expansion grants and prekindergarten formula funding distributed through the Maryland State Prekindergarten Grant program.

Source: Department of Budget and Management; Department of Legislative Services

Local school systems faced challenges in reporting prekindergarten enrollment by income tiers to calculate formula funding for fiscal 2023, specifically for families with incomes below 300% FPG. As a result, State formula funding totaling \$144.1 million was calculated based on overall prekindergarten enrollment figures, serving as a transitional measure due to the absence of income tier data collection. Due to MSDE and local school systems correcting the eligibility determination issue and calculating the formula as directed in statute, the fiscal 2024 working appropriation and fiscal 2025 allowance include \$99.6 million and \$132.6 million for the prekindergarten formula, respectively. These funds will support 27,076 children in fiscal 2024 and 30,765 in fiscal 2025 across public and private prekindergarten slots.

Chapter 119 of 2023 changed the definition of Tier I children within the Publicly Funded Full-Day Prekindergarten program. Effective in fiscal 2023 and on, Tier I includes children aged three or four who are homeless youths. Additionally, for the 2023-2024 school year only, Tier II children with disabilities or those from households where English is not the primary language are also classified as Tier I. Consequently, these children would be factored into the prekindergarten enrollment count for determining the funding amount provided by both the State and local governments, in fiscal 2023 and 2024. **MSDE should clarify whether it incorporated the updated definition of Tier I children, as outlined in Chapter 119, into calculation of full-day prekindergarten formula funding in fiscal 2024 or 2025.**

3. Proposed Prekindergarten Sliding Scale

Since fiscal 2023, the Maryland State Prekindergarten Grant Program has covered the full per pupil cost of high-quality full-day prekindergarten for families with incomes up to 300% of FPG (Tier I students). As part of the full-day prekindergarten formula established in Chapter 36, as amended by Chapter 55, MSDE is required to implement a sliding scale to subsidize prekindergarten services for families earning more than 300% of FPG but not exceeding 600% of FPG (Tier II students) by the start of the 2024-2025 school year. Specifically, the Blueprint requires MSDE to develop a sliding scale structure with incremental increases in the family share of the per pupil cost of prekindergarten services as household incomes approach 600% of FPG. Households with incomes surpassing 600% of FPG (Tier III students) can participate in public prekindergarten programs but are required to pay the total per pupil funding rate for full-day prekindergarten services. Furthermore, priority in expanding full-day prekindergarten slots is allocated to Tier I students, including children from low-income families, those with disabilities, and children residing in households where English is not the primary spoken language, irrespective of income.

Prekindergarten Tier Distribution

According to the *Prekindergarten Sliding Scale Methodology* report developed by MSDE in September 2022, Maryland publicly funded prekindergarten programs enrolled a total of 30,718 children. The enrollment count taken on September 30, 2022, in the 2022-2023 school year marked the first instance of collecting household income data from families of prekindergarten students for the purposes of determining income tiers under the full-day formula. Among these enrollees, 19,162 (62.4%) had reported household income data, while 11,556 (37.6%) were missing household income data. Within the subset with reported data, 16,762 students (54.6%) fell under Tier I, signifying family incomes at or below 300% of FPG. Projections of family, State and local shares run by MSDE showed that these children would have qualified for full-day prekindergarten at no cost to the family, with State and local governments contributing a total of \$218.0 million for these Tier I families (of this, the State share was \$126.2 million). For the Tier II families, only 1,748 students were identified. According to the report, enrolled Tier II children were found to be predominantly from lower income levels (50% of the students were in the 301% to 400% federal poverty level (FPL) range while only 27% of the students were in the 500% to 600% FPL range). A smaller group of 652 students was identified as Tier III, requiring families to cover the entire cost of prekindergarten services.

Financial Analysis of Sliding Scale Options for Tier II Families

In July 2023, MSDE presented the *Prekindergarten Sliding Scale Cost Modeling* report to the Maryland State Board of Education and detailed four proposals for sliding scale methodology for Tier II families. The first three options required families contributing a percentage of the cost of care across 3, 5, and 15 levels within the FPG range, respectively, dependent on their income level. In contrast, the fourth option proposed that families contribute a specified portion of their annual income across five levels.

As shown in **Exhibit 12**, MSDE conducted a financial analysis to assess the impact of each of the four proposed sliding scale methodologies on Tier II families, aiming to identify the most cost-effective option for families. Utilizing the calendar 2022 FPG of \$27,750 for a family of four, the mandated prekindergarten program per pupil amount of \$13,003 in fiscal 2025, and the 2022-2023 school year enrollment data for 1,748 children identified as Tier II, MSDE calculated the family share of the cost of high-quality full-day prekindergarten services. Among the 1,748 Tier II children with reported FPG data as of September 30, 2022, Option 4 emerged as the least expensive for families, requiring a total family contribution of \$7.3 million. Options 2 and 3 presented nearly identical figures for the family share (\$9.04 million and \$9.03 million, respectively), while Option 1 emerged as the most expensive for families, demanding a family contribution of \$9.6 million.

Exhibit 12
Prekindergarten Family Cost Option Comparison for Tier II Families
(\$ in Millions)

Sliding Scale Option	Distribution of Family Shares	Family Share	Total Tier II Family Contribution (FPG 301% to 600%)	Total State and Local Contribution	Family Contribution: % of Total Costs of Care
1	3 levels	25% to 75% *	\$9.63	\$13.10	42.4%
2	5 levels	10% to 90% *	9.04	13.69	39.8%
3	15 levels	6% to 94% *	9.03	13.69	39.7%
4	5 levels	1% to 7% **	7.34	15.39	32.3%

FPG: federal poverty guideline

* Family share is determined by a percentage of the per pupil cost. For example, under option 1, the family share is split over three levels at 25%, 50%, or 75% of the per pupil cost for families with incomes between 301% to 400% FPG, 401% to 500% FPG, and 501% to 600% FPG, respectively.

** Family share is determined by a percentage of household income.

Source: Maryland State Department of Education

To minimize the financial impact on Tier II families, MSDE recommended the implementation of sliding scale Option 4, which calculates family share of the cost of care as a percentage of income. **Exhibit 13** details the sliding scale framework used in Option 4. In adherence to this option, families are capped at a maximum contribution of 7% of their annual income. The recommended option 4 for the prekindergarten sliding scale will be presented to the State Board of Education in February 2024, where MSDE will provide the details of the implementation as well as request to publish regulation amendments to implement the sliding scale.

Exhibit 13
Option 4: Tier II Sliding Scale Structure

<u>FPG</u>	<u>Annual Income Range</u>	<u>Family Share: % of Annual Income</u>	<u>Annual Amount</u>	<u>Monthly Amount</u>
301% to 306%	\$83,528 to \$99,900	1%	\$835 to \$999	\$84 to \$100
361% to 420%	100,178 to 116,550	2%	2,004 to \$2,331	200 to 233
421% to 480%	116,828 to 133,200	4%	4,673 to 5,328	467 to \$533
481% to 540%	133,478 to 149,850	6%	8,009 to 8,991	801 to 899
541% to 600%	150,128 to 166,500	7%	10,509 to 11,655	1,051 to 1,166

FPG: federal poverty guideline

Note: The monthly amount is based on a 10-month billing cycle

Source: Maryland State Department of Education

Considerations Regarding the Proposed Sliding Scale Options

DLS notes the following considerations that should be taken into account as sliding scale methodology is developed and finalized.

- The absence of income Tier data for 38% of prekindergarten students enrolled as of September 30, 2022, raises concerns about potential underrepresentation of the actual total cost of services.
- The assumption of a family of four and use of fiscal 2022 FPG in the calculations influences the accuracy of the projected costs of prekindergarten services. The estimations should also consider cost-of-living differences across counties.

MSDE should comment on:

- **the absence of income tier data for 38% of prekindergarten students, including how it will determine eligibility and the family share of costs for publicly funded prekindergarten for those students;**
- **plans to improve the collection of household income data from families of prekindergarten students;**
- **whether the fiscal 2025 allowance calculates the full-day prekindergarten formula funding level based on the sliding scale Option 4; and**
- **the process and timeline for approval and implementation of the sliding scale methodology, specifying whether this process involves receiving feedback or approval from the General Assembly.**

4. Child Care Stabilization Grant Awards

Maryland received more than \$500 million in federal aid through the ARPA to support the child care industry and the early childhood system in light of the challenges posed by the COVID-19 pandemic. Over 50% of this funding was directed toward short-term stabilization grants for child care providers, with an additional \$53.2 million in State funds allocated to augment these efforts through supplementary grant funding. Committee narrative in the 2023 JCR requested that MSDE submit a report on stabilization grant allocations by jurisdiction, grant allocations by child care program type, the number of child care providers that received stabilization grants, and the ways that child care providers spent the grants across allowable uses.

The report outlines the distribution of child care stabilization grants across three distinct funding rounds (the first two federally funded, and the third State funded), spanning from September 1, 2021, to September 30, 2023. Each stabilization grant disbursed during rounds one to three was determined by the number of licensed child care slots (licensed child care centers and registered family child care), offering additional funding options for providers meeting specific criteria depending on the respective round of application.

Stabilization Grant Allocations

Exhibit 14 shows an overview of stabilization grant allocations spanning September 2021 to September 2023. During this period, \$203 million was designated for child care centers, and \$126 million for family child care providers. The funding distribution includes \$295 million from federal grants across three rounds (fall 2021, winter 2022, and spring 2022 to fall 2022), supplemented by an additional \$34 million from State grant payments in the third round, resulting in a total of \$329 million in grant payments. This financial support reached a total of 22,810 child care providers, including 8,551 child care centers and 14,259 family child care providers. The

grants were distributed based on the number of licensed child care slots a provider had, with options for additional funding for those who met specific additional criteria. Providers could apply for funding in multiple rounds if they continued to meet the eligibility requirements, so the exhibit shows duplicated counts of providers that received multiple grants.

Exhibit 14
Grant Allocations by Child Care Program and Fund Type
September 2021 to September 2023
(\$ in Millions)

<u>Fund Type</u>	<u>Child Care Center</u>		<u>Family Child Care</u>		<u>Total Grants</u>
	<u>Count</u>	<u>Grants</u>	<u>Count</u>	<u>Grants</u>	
Federal	6,787	\$175,632,219	10,833	\$119,581,366	\$295,213,585
State	1,764	27,343,358	3,426	6,417,802	33,761,160
Total	8,551	\$202,975,577	14,259	\$125,999,168	\$328,974,745

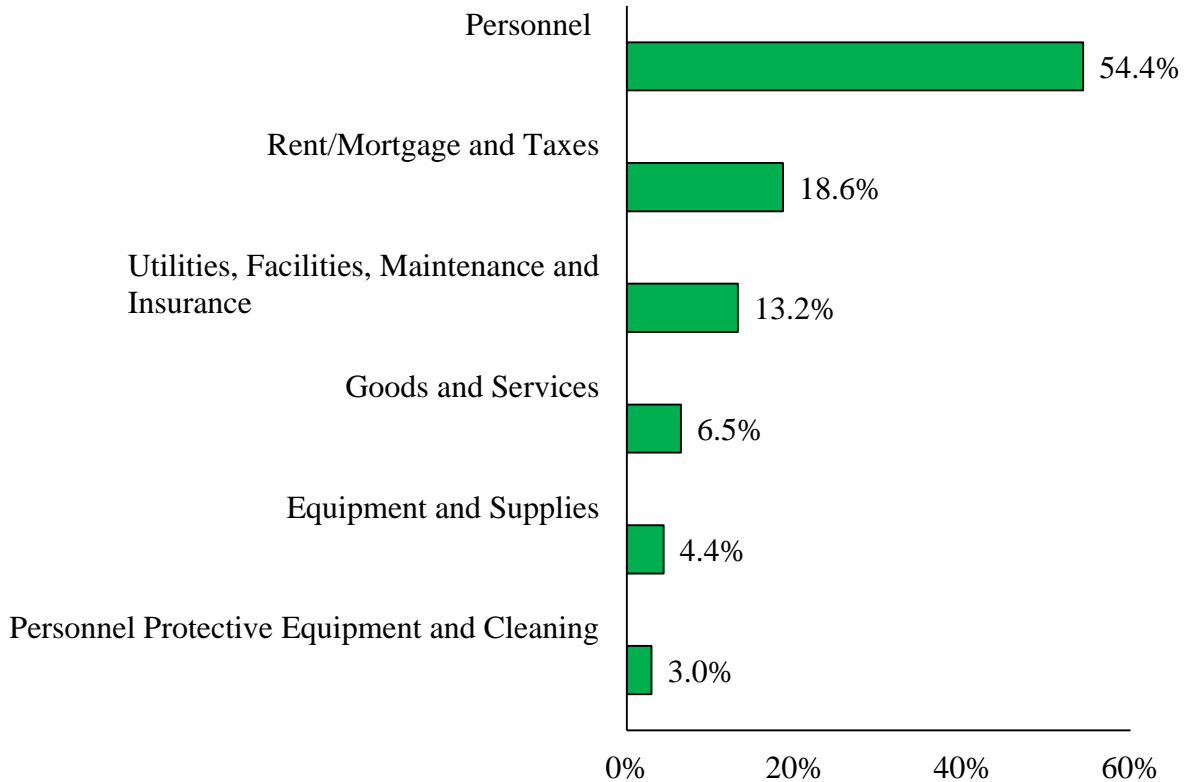
Source: Maryland State Department of Education

At the end of fiscal 2023, \$16.2 million in general funds budgeted in fiscal 2022 for child care stabilization grants were reverted in error. MSDE indicated that those funds were encumbered at the end of fiscal 2022 since grant awards had been determined but not yet processed. At the end of fiscal 2023, there was still \$16.2 million in leftover funding from this grant program. Therefore, the funds were reverted during fiscal 2023 closeout. **MSDE should clarify whether it still intends to make the planned awards and, if so, what funds will support the awards.**

Grant Expenditures by Use

As shown in **Exhibit 15**, MSDE reported that, based on the first round of the ARPA child care stabilization grant applications, 54% of child care providers indicated their intention to use the funds for personnel costs. Additionally, 19% of providers expressed their intention to allocate the funds for rent, mortgage, and taxes. The remaining 27% of providers planned to direct the funds toward utilities, maintenance, insurance, goods/supplies, services, and equipment. **MSDE should provide the actual expenditures of stabilization grants across all rounds.**

Exhibit 15
Anticipated Round 1 Stabilization Grants Spending by Use
Fiscal 2022



Note: This exhibit does not include anticipated spending categories for subsequent rounds of stabilization grants.

Source: Maryland State Department of Education

Stabilization Grants Across Jurisdictions

Exhibit 16 shows the distribution of stabilization grants across jurisdictions. Providers in Montgomery County received the largest portion of the funds at \$66 million followed by providers in Baltimore County with \$47 million. In contrast, providers from Garrett, Kent, and Somerset counties have received less than \$1 million. This pattern is primarily attributed to the limited number of child care and family child care providers in those counties relative to others.

Exhibit 16
Child Care Stabilization Grants Allocations by Jurisdiction
September 1, 2021, to September 30, 2023

<u>County</u>	<u>Total Providers That Received Federal Funded Grants</u>	<u>Federal</u>	<u>Total Providers That Received State Funded Grants</u>	<u>State</u>	<u>Total Grants</u>
Allegany	135	\$2,288,371	46	\$290,700	\$2,579,071
Anne Arundel	1207	23,781,794	398	3,326,880	27,108,674
Baltimore Baltimore City	2139	41,279,273	714	5,759,348	47,038,621
Calvert	1506	25,123,009	514	3,115,451	28,238,460
Caroline	335	5,477,158	99	405,665	5,882,823
Carroll	141	1,781,043	49	105,675	1,886,718
Cecil	400	8,449,200	111	977,725	9,426,925
Charles	249	3,960,827	79	485,480	4,446,307
Dorchester	535	8,900,061	179	923,091	9,823,152
Frederick	114	1,462,634	41	136,890	1,599,524
Garrett	941	16,787,175	301	1,611,675	18,398,850
Harford	38	487,943	12	38,530	526,473
Howard	746	13,459,242	237	1,740,545	15,199,787
Kent	983	19,475,346	294	2,298,846	21,774,192
Montgomery	62	879,057	12	54,240	933,297
Prince George's	2939	59,753,309	916	5,965,894	65,719,203
Queen Anne's	2053	36,379,628	692	3,559,039	39,938,667
Somerset	173	2,505,229	61	252,727	2,757,956
St. Mary's	322	749,293	19	69,270	818,563
Talbot	56	4,811,867	103	407,970	5,219,837
Washington	134	2,164,204	45	165,565	2,329,769
Wicomico	427	6,660,275	137	722,620	7,382,895
Worcester	298	6,315,865	100	1,054,534	7,370,399
Total	16,017	\$295,052,238	5,190	\$33,761,160	\$328,813,398

Source: Maryland State Department of Education

Future Plans for Supporting Child Care Programs Post-stabilization Grants

MSDE outlines the following initiatives to support child care programs post-stabilization grants.

- The Maryland Rebuilds Initiative grant program, funded federally with CCDBG support provided through the ARPA, will continue to stabilize the child care system. MSDE indicated the program would fund strategies like growing a highly effective child care workforce.
- The Enhanced Child Care Support and Teacher Retention Award Program, backed by ARPA Discretionary Funds, aims to address early childhood educator turnover with retention bonuses distributed through a lottery process.
- The State fiscal 2024 working appropriation allocated \$5.5 million for bonuses paid to providers participating in Maryland EXCELS. The fiscal 2025 allowance includes a total of \$6.1 million to continue supporting this program as part of the Blueprint for Maryland's Future.
- The Blueprint for Maryland's Future codifies and requires certain funding levels for capacity building and workforce development programs within MSDE.

Operating Budget Recommended Actions

1. Adopt the following narrative:

Child Care Scholarship (CCS) Program Waiting List Proposal: The Maryland State Department of Education (MSDE) indicates that the fiscal 2025 allowance for the CCS program does not incorporate estimated savings resulting from a provision in the Budget Reconciliation and Financing Act of 2024 would authorize MSDE to implement an enrollment freeze under the program. The committees request that MSDE submit a report with the following information:

- an outline of specific spending or enrollment triggers that would prompt the implementation of an enrollment freeze within the CCS program. These triggers should indicate if they are based on predetermined thresholds or indicators that signify financial constraints or capacity limitations, among others;
- strategies proposed by MSDE for effectively managing waitlists within the CCS program. These strategies should address how waitlists will be monitored, prioritized, and managed to ensure allocation of subsidies to eligible families; and
- fiscal 2024 and 2025 year-to-date forecasts from the Regional Economic Studies Institute at Towson University for the CCS program, including estimated savings related to the implementation of an enrollment freeze.

Information Request	Author	Due Date
Report on plans for a CCS waiting list	MSDE	September 1, 2024

2. Adopt the following narrative:

Child Care Scholarship (CCS) Program Quarterly Reports: The Maryland State Department of Education (MSDE) has implemented several changes under the CCS program in short succession, including raising income eligibility levels, increasing provider reimbursement rates, and waiving assigned copayments for most participating families, that all took effect May 23, 2022. These programmatic changes combined with enrollment growth have led to higher CCS program costs and shortfalls in fiscal 2023 and 2024. The committees request that MSDE submit quarterly reports with the following information:

- CCS expenditures, including Child Care and Development Fund spending that was carried over from prior fiscal years, the amount of newly authorized federal funds

R00A99 – MSDE – Early Childhood Development

expended (with federal awards from COVID-19 stimulus legislation listed separately), and general fund spending;

- fiscal 2025 year-to-date spending and annualized cost estimates, noting the adequacy of remaining State and federal fund sources;
- the number of scholarships awarded by income eligibility category by month, total expenditures for those scholarships, and average cost per child;
- CCS expenditures disaggregated by federal and State funding used directly for scholarships and expenditures by MSDE Headquarters for administrative costs and activities to improve provider quality, specified by purpose;
- updates on the provider reimbursement rate as a percentile of the market rate, statewide and by region, including the status of the next market rate survey or alternative method allowable under federal law;
- quarterly updates on whether the department is maintaining a CCS waiting list and, if so, which income categories are impacted and how many children and families have applied for CCS benefits and been added to the waiting list; and
- updates on the implementation of an enrollment freeze and changes in copayments, including up-to-date savings estimates.

In its August 2024 report, MSDE should include actual data for the CCS program in the final quarter of fiscal 2024 and aggregate fiscal 2024 data. All reports should provide data on a monthly basis for fiscal 2025 year to date.

Information Request	Author	Due Date
CCS quarterly expenditure reports	MSDE	August 1, 2024 November 1, 2024 February 1, 2025 May 1, 2025

Appendix 1
2023 Joint Chairmen’s Report Responses from Agency

The 2023 JCR requested that MSDE prepare four reports. Electronic copies of the full JCR responses can be found on the DLS Library website.

- ***CCS Program Customer Service and Application Processing:*** MSDE provided performance measures related to CCS program customer service and application processing. Further details are discussed in the Performance Analysis section of this document.
- ***CCS Program Quarterly Reports:*** MSDE provided three of four quarterly reports detailing CCS program enrollment and spending trends. Further discussion of this data can be found in Issue 1 of this analysis.
- ***Child Care Stabilization Grant Awards:*** MSDE submitted a report that included stabilization grant allocations by jurisdiction and child care program type, the number of child care providers that received stabilization grants, and the ways that child care providers spent the grants across allowable uses. Further discussion of this data can be found in Issue 4 of this analysis.
- ***Current and Potential Funding Opportunities for Child Care Providers:*** MSDE submitted a report providing details on State government-funded resources and opportunities and private-sector-sponsored resources for child care providers to strengthen business practices. These resources supported providers’ options for expanding existing programs or establishing new initiatives and included technical assistance offered to prospective and existing child care providers.

Appendix 2
CCATS Replacement
Major Information Technology Development Project
Maryland State Department of Education

Funding for this project is budgeted within MSDE Headquarters Major Information Technology Development Projects.

New/Ongoing: Ongoing								
Start Date: March 9, 2020					Est. Completion Date: June 3, 2024			
Implementation Strategy: Agile								
(\$ in Millions)	Prior Year	2024	2025	2026	2027	2028	Remainder	Total
FF	\$25.646	\$12.000	\$5.000	\$0.000	\$0.000	\$0.000	\$0.000	\$42.646
Total	\$25.646	\$12.000	\$5.000	\$0.000	\$0.000	\$0.000	\$0.000	\$42.646

The fiscal 2025 allowance includes \$238,095 for oversight.

- Project Summary:** DEC initially planned a replacement project for one legacy child care information technology (IT) program but expanded the scope of the project to include all early childhood programs due to the availability of flexible federal support under the supplemental CCDBG grant authorized in the ARPA. The project uses a Software as a Service system that builds on a Salesforce platform and will require integration with other existing State platforms and information systems, including the Comptroller’s Financial Management Information System.
- Need:** The State has increased its investment in early childhood programs in recent years, causing a need for effective IT systems and cross-program data collection and analysis. DEC indicates that the new system will allow for more efficient case management and quicker data collection and will eliminate the need for multiple system interfacing.
- Concerns:** Resource availability has been designated as high risk because the project relies on a contract for consulting and technical services that would cause delays in obtaining other resources if there is protest or delay in awarding that contract. Another concern is that refocusing this project on more early childhood systems will mean the legacy CCATS program is in place longer when multiple agencies and stakeholders determined it needed to be replaced.

Appendix 3
Early Childhood Mandates Under Chapter 36 (the Blueprint for Maryland’s Future)
Fiscal 2024-2025
(\$ in Millions)

<u>Early Childhood Program</u>	<u>2024 Working</u>	<u>2025 Allowance</u>	<u>Change</u>	<u>Chapter 36 Mandates As Amended by Chapter 55</u>
Publicly Funded Prekindergarten				
Full-day Prekindergarten Formula Grants ¹	\$99.575	\$132.604	\$33.029	Children from families with household incomes at or below 300% FPL may receive funding for publicly funded prekindergarten services (based on a \$11,594 per pupil amount in fiscal 2024 and \$13,003 in fiscal 2025). In fiscal 2025, children from families with an annual income of more than 300% FPL but not more than 600% FPL will be eligible for subsidized full-day prekindergarten (Tier II students).
Prekindergarten Expansion Grants	26.644	26.644	0.000	The Governor must appropriate the same amount to the Prekindergarten Expansion Grant program as the prior year through fiscal 2025. After fiscal 2025, Prekindergarten Expansion grant funding will be consolidated into the full-day prekindergarten formula grants.
Subtotal	\$126.219	\$159.248	\$33.029	
Wraparound/Supportive Services				
Infants and Toddlers Program ¹	\$15.816	\$16.958	² \$1.142	The Governor shall provide \$15.8 million in fiscal 2024 and \$17 million in fiscal 2025 for the Maryland Infants and Toddlers Program.
Judy Centers	27.906	30.876	² 2.970	The State shall fund nine additional Judy centers per year from fiscal 2021 through 2025 (funded at \$330,000 per center).

<u>Early Childhood Program</u>	<u>2024 Working</u>	<u>2025 Allowance</u>	<u>Change</u>	<u>Chapter 36 Mandates As Amended by Chapter 55</u>
Patty Centers	5.532	6.522	0.990	The State shall fund three additional Patty centers per year from fiscal 2022 through 2029 (funded at \$330,000 per center).
Subtotal	\$49.254	\$54.356	\$5.102	
Workforce/Program Quality Development				
Maryland Child Care Credential Program	\$5.687	\$0.000	-\$5.687	From fiscal 2022 through 2024, funding for the program shall increase by 10% over the prior year.
EXCELS Provider Bonuses	5.500	6.050	0.550	From fiscal 2022 through 2026, funding for EXCELS bonuses will increase by 10% over the prior fiscal year.
Child Care Accreditation Support Fund	1.000	1.000	0.000	The Governor shall appropriate at least \$1.0 million beginning in fiscal 2021.
Child Care Incentive Grant Program	0.121	0.133	0.012	From fiscal 2022 through 2030, funding for this program shall increase 10% over the prior year.
Early Childhood Primary Contact	0.099	0.102 ²	0.002	MSDE shall designate a primary contact employee for early child care in the Office of Child Care.
Subtotal	\$12.407	\$7.285	-\$5.122	
Total	\$187.880	\$220.888	\$33.008	

¹Budgeted under R00A02.07.

²Fully or partially supported with general funds.

Source: Department of Budget and Management; Maryland State Department of Education; Department of Legislative Services

Appendix 4

**Formula Funding Distributed through the Maryland State Prekindergarten Grant Program and Prekindergarten Expansion Grant Program by Local School System
Fiscal 2024-2025**

<u>Local School System</u>	<u>2023 Prekindergarten Expansion Grant Allocations*</u>	<u>Formula Funding</u>		
		<u>2024 Working</u>	<u>2025 Allowance</u>	<u>Change</u>
Allegany	–	\$1,249,924	\$2,518,467	\$1,268,543
Anne Arundel	\$1,040,000	6,714,183	9,369,843	2,655,660
Baltimore City	2,060,257	20,503,199	29,581,939	9,078,740
Baltimore	1,456,000	1,155,594	3,558,852	2,403,258
Calvert	351,000	434,571	975,300	540,729
Caroline	–	2,097,828	3,577,601	1,479,773
Carroll	1,289,000	1,553,614	1,837,198	283,584
Cecil	302,820	2,707,910	3,494,376	786,466
Charles	260,000	4,567,731	5,550,323	982,592
Dorchester	195,000	1,687,242	2,217,004	529,762
Frederick	3,336,977	4,520,563	6,923,726	2,403,163
Garrett	334,440	639,645	775,009	135,364
Harford	780,000	2,530,762	3,691,872	1,161,110
Howard	2,992,120	1,810,959	2,416,683	605,724
Kent	–	236,274	323,512	87,238
Montgomery	6,930,431	5,595,704	7,340,157	1,744,453
Prince George’s	1,690,000	22,853,410	25,597,750	2,744,340
Queen Anne’s	660,000	307,302	743,008	435,706
St. Mary’s	1,820,000	3,206,069	3,146,613	-59,456
Somerset	468,000	1,618,866	2,612,231	993,365
Talbot	–	440,969	580,960	139,991
Washington	260,000	5,313,499	7,547,642	2,234,143
Wicomico	1,144,000	6,943,367	7,180,384	237,017
Worcester	2,749,851	885,884	1,043,395	157,511
Total	\$30,119,896	\$99,575,069	\$132,603,845	\$33,028,776

*Prekindergarten Expansion Grant allocations include \$3.7 million awarded through the Therapeutic Child Care Grant Program.

Source: Department of Budget and Management

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

<u>Object/Fund</u>	<u>FY 23</u> <u>Actual</u>	<u>FY 24</u> <u>Working</u> <u>Appropriation</u>	<u>FY 25</u> <u>Allowance</u>	<u>FY 24 - FY 25</u> <u>Amount Change</u>	<u>Percent</u> <u>Change</u>
Positions					
01 Regular	158.00	174.00	209.00	35.00	20.1%
02 Contractual	30.50	48.50	12.50	-36.00	-74.2%
Total Positions	188.50	222.50	221.50	-1.00	-0.4%
Objects					
01 Salaries and Wages	\$ 16,181,584	\$ 18,888,569	\$ 23,934,574	\$ 5,046,005	26.7%
02 Technical and Special Fees	5,192,169	4,752,442	1,463,891	-3,288,551	-69.2%
03 Communication	575,107	493,736	578,800	85,064	17.2%
04 Travel	123,965	83,000	75,000	-8,000	-9.6%
06 Fuel and Utilities	41,031	55,000	55,000	0	0%
07 Motor Vehicles	24,313	53,056	2,262	-50,794	-95.7%
08 Contractual Services	65,319,478	18,737,045	22,593,568	3,856,523	20.6%
09 Supplies and Materials	22,922	90,000	90,000	0	0%
10 Equipment – Replacement	93,534	250,000	460,000	210,000	84.0%
11 Equipment – Additional	9,160	0	0	0	0.0%
12 Grants, Subsidies, and Contributions	594,188,644	452,063,630	659,083,856	207,020,226	45.8%
13 Fixed Charges	915,607	1,018,757	1,009,080	-9,677	-0.9%
14 Land and Structures	68	0	0	0	0.0%
Total Objects	\$ 682,687,582	\$ 496,485,235	\$ 709,346,031	\$ 212,860,796	42.9%
Funds					
01 General Fund	\$ 108,689,614	\$ 91,430,594	\$ 361,581,508	\$ 270,150,914	295.5%
03 Special Fund	198,356,378	161,491,541	193,253,875	31,762,334	19.7%
05 Federal Fund	375,641,590	243,563,100	154,510,648	-89,052,452	-36.6%
Total Funds	\$ 682,687,582	\$ 496,485,235	\$ 709,346,031	\$ 212,860,796	42.9%

Note: The fiscal 2024 appropriation does not include deficiencies or across-the-board reductions. The fiscal 2025 allowance does not include cost-of-living adjustments.

Appendix 6
Fiscal Summary
MSDE – Early Childhood Development

<u>Program/Unit</u>	<u>FY 23 Actual</u>	<u>FY 24 Wrk Approp</u>	<u>FY 25 Allowance</u>	<u>Change</u>	<u>FY 24 - FY 25 % Change</u>
04 Division of Early Childhood	\$ 126,573,367	\$ 77,529,306	\$ 74,869,876	-\$ 2,659,430	-3.4%
06 Prekindergarten Expansion	169,134,589	126,219,069	159,247,845	33,028,776	26.2%
57 Transitional Education Funding Program	46,394,651	48,734,452	52,694,452	3,960,000	8.1%
58 Head Start	2,578,978	3,000,000	3,000,000	0	0%
59 Child Care Assistance Grants	338,005,997	241,002,408	419,533,858	178,531,450	74.1%
Total Expenditures	\$ 682,687,582	\$ 496,485,235	\$ 709,346,031	\$ 212,860,796	42.9%
General Fund	\$ 108,689,614	\$ 91,430,594	\$ 361,581,508	\$ 270,150,914	295.5%
Special Fund	198,356,378	161,491,541	193,253,875	31,762,334	19.7%
Federal Fund	375,641,590	243,563,100	154,510,648	-89,052,452	-36.6%
Total Appropriations	\$ 682,687,582	\$ 496,485,235	\$ 709,346,031	\$ 212,860,796	42.9%

Note: The fiscal 2024 appropriation does not include deficiencies or across-the-board reductions. The fiscal 2025 allowance does not include cost-of-living adjustments.