

Department of Legislative Services
 Maryland General Assembly
 2012 Session

FISCAL AND POLICY NOTE

House Bill 1241
 Ways and Means

(Delegate Rosenberg, *et al.*)

Education - Preschool for All - Establishment

This bill establishes a “Preschool for All” program that requires local school systems to make publicly funded prekindergarten available to all four-year-old children by the 2015-2016 school year. Full-day prekindergarten must be available for economically disadvantaged children; half-day programs are required for other children. School funding formulas are altered to include prekindergarten students in the annual full-time equivalent (FTE) enrollment counts and to phase down State funding from the compensatory education formula, through which existing prekindergarten programs are supported. To the extent allowable, the Maryland State Department of Education (MSDE) must use funds from the federal Challenge grant to increase capacity, training, and teacher certification for the enhancement and sustainability of the Preschool for All initiative.

The bill takes effect July 1, 2012.

Fiscal Summary

State Effect: General fund expenditures increase by an estimated \$108.3 million in FY 2014 due to the changes to State education aid formulas and the expected enrollment of a small number of additional prekindergarten students in September 2013. Future year expenditure increases reflect the enrollment of additional prekindergarten students each year, full implementation of the program by the 2015-2016 school year, and a small media campaign in FY 2014 through 2016. Revenues are not affected.

(\$ in millions)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	108.3	107.4	127.6	151.6
Net Effect	\$0	(\$108.3)	(\$107.4)	(\$127.6)	(\$151.6)

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

Local Effect: Local school expenditures increase by an estimated \$212.0 million to \$265.0 million by no later than FY 2016 to pay for an expansion of prekindergarten programs. County minimum required school appropriations will increase significantly due to an increase in FTE enrollments. State aid for local school systems increases by an estimated \$108.3 million in FY 2014 and by an estimated \$151.6 million in FY 2017. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: Potential meaningful.

Analysis

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

MSDE must adopt regulations that set standards for qualified vendors, and the standards must include a requirement that there be a teacher in each prekindergarten classroom with a State certificate in early childhood education. MSDE also has to establish provider rates for qualified vendors and provide lists of qualified vendors to local school systems each year. Qualified vendors must be evaluated for recertification by MSDE at least every three years; MSDE may revoke certification if it finds that a vendor is not in compliance with applicable standards.

Economically disadvantaged students, as defined by eligibility for free and reduced-price meals, are each counted as 1.0 FTE and must be offered full-day prekindergarten. Half-day programs must be available for students who do not qualify for free and reduced-price meals, and these students are counted as 0.5 FTE each. The compensatory education formula per pupil amount is phased down over four years from 97% of the per pupil foundation amount in fiscal 2013 to 93% of the per pupil foundation amount in fiscal 2017.

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

In collaboration with local school systems, MSDE must develop a media campaign to advertise the availability of the Preschool for All initiative.

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

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

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

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

Background: The Bridge to Excellence in Public Schools Act of 2002 (Chapter 288) required local school systems to make publicly funded prekindergarten programs available to all four-year-old children from economically disadvantaged backgrounds by the 2007-2008 school year. In September 2011, 28,734 students were enrolled in prekindergarten programs funded by the local school systems. Enrollments are displayed by local school system in **Exhibit 1**. Prince George's County (5,460 students) and Baltimore City (4,844 students) have the highest prekindergarten enrollments in the State. MSDE reports that 29% of the students in publicly funded prekindergarten are in full-day programs, and the other 71% are in half-day programs.

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

Allegany	499	Harford	779
Anne Arundel	1,892	Howard	1,066
Baltimore City	4,844	Kent	122
Baltimore	3,604	Montgomery	3,626
Calvert	386	Prince George's	5,460
Caroline	324	Queen Anne's	252
Carroll	294	St. Mary's	701
Cecil	590	Somerset	201
Charles	891	Talbot	268
Dorchester	256	Washington	485
Frederick	1,059	Wicomico	615
Garrett	131	Worcester	389
Total State		28,734	

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

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

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

State Expenditures: General fund expenditures for State education aid will increase by an estimated \$108.3 million in fiscal 2014 due to changes in the State education aid formulas. This estimate is based on the information and assumptions discussed below.

- Since local school systems are currently required to make prekindergarten available to all disadvantaged students, most of the students in prekindergarten in September 2012 will be eligible for a 1.0 FTE count (rather than 0.5).

- Prekindergarten enrollments will expand to 10% of the unserved population in September 2012, resulting in an increase to approximately 32,300 prekindergarten students.
- Initial efforts to expand prekindergarten opportunities will focus on getting students with disabilities and with limited English proficiency enrolled in the programs. The expansion will therefore result in higher counts for the special education and limited English proficiency formulas.
- The FTE enrollment count of prekindergarten students used for fiscal 2014 aid calculations will be an estimated 29,250. As specified in the bill, the compensatory education weight used for fiscal 2014 will drop from 97% to 96% of the per pupil foundation amount.

Because of the one-year lag in State aid enrollment counts, the phase in of the formula changes will continue through fiscal 2017, one year after the mandate for full implementation. Estimated State aid increases for fiscal 2014 through 2017 are shown by State aid program in **Exhibit 2**. The estimates assume a relatively slow expansion of prekindergarten programs prior to the 2015-2016 school year and that the proportion of four-year-old children who eventually participate in Preschool for All will be roughly equivalent to the proportion of kindergarten students who attend Maryland public schools. The exhibit shows that large increases in foundation program aid will be partially offset by declines in compensatory education funding. In fiscal 2017, when all of the additional prekindergarten students are included in the annual enrollment counts, State aid is expected to be \$151.6 million higher than it would be under current law. If participation is lower than anticipated, State general fund costs will decrease accordingly.

Exhibit 2
Increases in Direct State Education Aid by Program
Fiscal 2014-2017
(\$ in Millions)

<u>Program</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
Foundation Program	\$99.9	\$105.4	\$126.1	\$163.6
Geographic Cost of Education Index	5.1	5.3	6.2	7.8
Supplemental Grants	0.0	0.0	0.0	0.0
Compensatory Education	(9.1)	(22.2)	(36.6)	(52.2)
Special Education Formula	2.9	5.1	11.8	12.2
Limited English Proficiency	2.3	4.1	10.2	11.3
Guaranteed Tax Base	(0.5)	1.4	(0.0)	(1.7)
Student Transportation	7.7	8.2	9.8	10.6
Total	\$108.3	\$107.4	\$127.6	\$151.6

Expanding prekindergarten programs will also increase teachers' retirement costs in future years. State payments for teachers' retirement are calculated using actual school system salary bases from the second prior fiscal year. Assuming local school systems begin expanding prekindergarten programs in fiscal 2013, retirement payments will increase in fiscal 2015. The amount of any increase will depend on local implementation strategies, particularly the extent to which local school systems hire additional prekindergarten teachers to implement the programs rather than using qualified vendors. Regardless, additional teachers' retirement costs will add several million additional dollars in general fund spending to the cost of a prekindergarten expansion.

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

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

Local Revenues: Local school revenues will increase beginning in fiscal 2014 due to additional direct State aid. Based on the assumptions described above, State aid will increase by \$108.3 million in fiscal 2014 and by an estimated \$151.6 million in fiscal 2017. Estimates of the additional State aid for those two years are shown by county in **Exhibit 3**. Two local school systems that have lower percentages of students eligible for free and reduced-price meals, Carroll and Howard counties, may see decreases in State aid in fiscal 2014. The potential decreases are due in part to the wealth equalization factors in State aid that measure wealth on a per FTE student basis. By fiscal 2017, all local school systems are expected to receive more State aid than they would under current law.

Exhibit 3
Additional State Education Aid
Fiscal 2014 and 2017
(\$ in Thousands)

County	FY 2014	FY 2017
Allegany	\$2,572	\$1,547
Anne Arundel	3,000	9,039
Baltimore City	36,753	29,745
Baltimore	13,938	20,910
Calvert	383	1,425
Caroline	1,905	1,251
Carroll	(1,026)	2,462
Cecil	2,450	3,853
Charles	1,583	1,223
Dorchester	1,820	1,318
Frederick	1,949	6,890
Garrett	77	378
Harford	1,250	5,503
Howard	(140)	3,964
Kent	520	343
Montgomery	4,169	13,120
Prince George's	28,846	32,969
Queen Anne's	453	849
St. Mary's	1,831	2,891
Somerset	1,349	884
Talbot	234	120
Washington	545	5,454
Wicomico	3,549	5,317
Worcester	322	109
Total	\$108,332	\$151,564

Local Expenditures: Counties and local school systems will experience increased costs under the bill. The counties will be required to provide additional funding to the local school systems under the MOE requirement, and local school systems are required to implement the Preschool for All program. Local school construction costs may also increase.

County Appropriations to Local School Systems

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

Implementation of the Preschool for All Program

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

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

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

School Construction Costs

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

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

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Cecil, Carroll, Harford, Montgomery, and St. Mary's counties; Maryland Department of Planning; Maryland State Department of Education; Department of General Services; Public School Construction Program; Department of Legislative Services

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