

Department of Legislative Services
 Maryland General Assembly
 2016 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 1433
 Ways and Means

(Delegate A. Washington, *et al.*)

Education - Prekindergarten Students - Funding

This bill alters the definition of full-time equivalent (FTE) enrollment used to determine State education aid to public schools by including economically disadvantaged four-year-old children enrolled in half-day prekindergarten (multiplied by 0.5) and in full-day prekindergarten on September 30 of the prior school year.

The bill takes effect July 1, 2016.

Fiscal Summary

State Effect: General fund expenditures for direct aid to public schools increase by \$57.8 million in FY 2018 and by \$71.0 million in FY 2021. State teacher retirement expenditures increase beginning in FY 2020. Revenues are not affected. **This bill increases a mandated appropriation beginning in FY 2018.**

(in dollars)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	57,824,200	61,911,100	66,619,200	70,965,700
Net Effect	\$0	(\$57,824,200)	(\$61,911,100)	(\$66,619,200)	(\$70,965,700)

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

Local Effect: Statewide, local school systems receive approximately \$57.8 million in increased State aid in FY 2018 and \$71.0 million in FY 2021, but State aid decreases for several local school systems each year. Local teacher retirement expenditures likely change for each county, beginning in FY 2020.

Small Business Effect: None.

Analysis

Current Law/Background:

Bridge to Excellence in Public Schools Act

State financing of public schools changed considerably in fiscal 2004 with the implementation of new funding formulas established by the Bridge to Excellence in Public Schools Act (Chapter 288 of 2002). The financing structure established by the Act is based on the concept of “adequacy” – an empirical estimate of the amount of funding needed by schools and local school systems in order to obtain the resources needed to reasonably expect that students can meet the State’s academic performance standards. State education aid formulas incorporate the adequacy concept by ensuring a minimum per pupil funding level, providing additional funding based on enrollments of at-risk students, and granting additional aid to local school systems with higher educational resource costs.

The majority of State education aid is distributed to local school systems through formulas that are based primarily on student enrollment counts and local wealth (as derived from assessed property values and net taxable income in each county). Therefore, an alteration to the definition of FTE will generally alter the relative wealth per pupil across counties and therefore, generally, State aid to public schools will increase for some counties and decrease for others.

FTE student enrollment counts used in the education aid formulas include all kindergarten through grade 12 students enrolled in each school system on September 30 of the preceding school year, less out-of-state students attending Maryland schools and discounted for part-time students. State funding for prekindergarten was built into the State education aid structure established in the Bridge to Excellence in Public Schools Act. Likewise, local funding for prekindergarten is part of the overall funding that the counties and Baltimore City provide for the boards of education and is not a separate line item within county appropriations.

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

Prekindergarten students are *not* included in the annual September 30 enrollment counts for State education aid. Instead, since the State mandates that local school systems make

prekindergarten available only to disadvantaged four-year-old children, State funding is provided through the compensatory aid formula established in the Bridge to Excellence Act. Specifically, the compensatory aid formula uses a per pupil cost that is 0.97 times the per pupil funding level established in the foundation program for each student eligible for free and reduced-price meals (FRPMs). Of the 0.97 compensatory add-on or weight, approximately 0.07 is provided by the State to fund prekindergarten. In the Governor's proposed fiscal 2017 budget, this adjustment equates to \$94.6 million in State funds.

Separate enrollment counts are used for the State compensatory education, limited English proficient (LEP), special education, and disabled student transportation programs. The Code of Maryland Regulations specifies the age ranges to be used in the enrollment counts that are taken annually on October 31. For the compensatory education grant, the age range used in the enrollment count is from 5 to 21 years old; for LEP, special education, and disabled student transportation grants the relevant age range is from 3 to 21 years old.

Prekindergarten Expansion

Chapter 2 of 2014 expanded prekindergarten services to additional eligible four-year-old children from families whose income is at or below 300% of federal poverty guidelines by establishing a competitive grant program to provide funding to qualified public and private prekindergarten providers. Pursuant to Chapter 2, if funds are provided for the Prekindergarten Expansion Grant Program in the State budget, then at least the same amount must be provided in subsequent years. The fiscal 2015 budget included \$4.3 million for the expansion program, thus, at least \$4.3 million must be provided annually. The bill also established the Prekindergarten Expansion Fund, which is administered by the Maryland State Department of Education (MSDE). The fund consists of money appropriated to the fund in the State budget and any other money accepted for the benefit of the fund from any other source. The fund may only be used for grants made by MSDE for the program.

In 2014, Maryland was also awarded a federal grant that provides \$15 million annually through fiscal 2019 to continue the expansion of public prekindergarten. In its grant application, the State committed to matching funds of \$3,672,000 in fiscal 2018 and \$7,344,000 in fiscal 2019 to provide access to high-quality prekindergarten to families with incomes between 200% and 300% of federal poverty guidelines. The application further indicated that the funds would serve approximately 500 four-year-olds in fiscal 2018 and approximately 1,000 four-year-olds in fiscal 2019.

To ensure that funding is used to advance high-quality programs, in order to be eligible for grants, a program must be (1) a prekindergarten program operated by a local education agency; (2) a licensed program that is MSDE-certified as a nursery school; (3) a program with State or national accreditation; or (4) a licensed program that is published at Level 5,

the highest level on MD EXCELS (the State's tiered Quality Rating Improvement System for licensed child care centers, family child care providers, and public prekindergarten programs).

Preschool in Maryland

According to MSDE, 52,908 four-year-old children were enrolled in prekindergarten during the 2014-2015 school year. Baltimore, Montgomery, and Prince George's counties have the highest enrollments, along with Baltimore City. Approximately half of the children are in public prekindergarten programs, with the remainder in private child care centers (40.9%) or family child care homes (8.8%).

Exhibit 1 shows the number and percentage of four-year-olds in half- and full-day public prekindergarten in each local education agency who are eligible for FRPM in the 2015-2016 school year.

School Readiness

Publicly funded prekindergarten is part of the State's initiative that all children enter kindergarten ready to learn. Based on the Kindergarten Readiness Assessment, (KRA) administered to all kindergarteners entering public school during the 2014-2015 school year, 47% of all Maryland public school children displayed the foundational skills indicating they were fully ready for kindergarten. Of children enrolled in state prekindergarten programs, 46% demonstrated readiness. The KRA used in this school year builds on the prior statewide kindergarten assessment tool and is part of the new Ready for Kindergarten: Maryland's Early Childhood Comprehensive Assessment System that was developed to align with Maryland's more rigorous PreK-12 College- and Career-Ready Standards.

Exhibit 1
Prekindergarten Four-year-old Attendees, September 30, 2015

<u>County</u>	<u>FRPM Eligible</u>			<u>Non-FRPM Eligible</u>			<u>Percentage FRPM Eligible</u>		
	<u>Half-Day</u>	<u>Full-Day</u>	<u>Total</u>	<u>Half-Day</u>	<u>Full-Day</u>	<u>Total</u>	<u>Half-Day</u>	<u>Full-Day</u>	<u>Total</u>
Allegany	272	0	272	160	0	160	63.0%	n/a	63.0%
Anne Arundel	478	698	1,176	597	228	825	44.5%	75.4%	58.8%
Baltimore City	1	2,680	2,681	1	1,795	1,796	50.0%	59.9%	59.9%
Baltimore	1,881	67	1,948	1,301	12	1,313	59.1%	84.8%	59.7%
Calvert	201	0	201	157	0	157	56.1%	n/a	56.1%
Caroline	75	99	174	65	31	96	53.6%	76.2%	64.4%
Carroll	259	0	259	78	0	78	76.9%	n/a	76.9%
Cecil	344	36	380	227	39	266	60.2%	48.0%	58.8%
Charles	228	218	446	273	56	329	45.5%	79.6%	57.5%
Dorchester	102	65	167	43	13	56	70.3%	83.3%	74.9%
Frederick	634	0	634	433	0	433	59.4%	n/a	59.4%
Garrett	0	72	72	0	86	86	n/a	45.6%	45.6%
Harford	313	122	435	329	12	341	48.8%	91.0%	56.1%
Howard	228	178	406	433	57	490	34.5%	75.7%	45.3%
Kent	0	0	0	0	120	120	n/a	0.0%	0.0%
Montgomery	2,857	0	2,857	667	0	667	81.1%	n/a	81.1%
Prince George's	1,664	1,969	3,633	664	521	1,185	71.5%	79.1%	75.4%
Queen Anne's	123	0	123	112	0	112	52.3%	n/a	52.3%
St. Mary's	263	74	337	471	0	471	35.8%	100.0%	41.7%
Somerset	99	0	99	90	0	90	52.4%	n/a	52.4%
Talbot	98	0	98	93	0	93	51.3%	n/a	51.3%
Washington	142	125	267	187	82	269	43.2%	60.4%	49.8%
Wicomico	202	222	424	81	40	121	71.4%	84.7%	77.8%
Worcester	134	6	140	219	1	220	38.0%	85.7%	38.9%
Total	10,598	6,631	17,229	6,681	3,093	9,774	61.3%	68.2%	63.8%

FRPM = Free and reduced-price meals
Source: Maryland State Department of Education

State Fiscal Effect: For reasons discussed below, total State direct education aid increases by approximately \$57.8 million in fiscal 2018 and by \$71.0 million in fiscal 2021. To the extent that the additional State funding under the bill is used to hire personnel and otherwise increase the statewide salary base for local school systems, State retirement expenditures increase beginning in fiscal 2020. Based on recent enrollment trends, the estimate assumes

that the number of eligible children attending half-day prekindergarten decreases annually and, conversely, that the number of full-day prekindergarteners increases.

Local Fiscal Effect: Altering the definition of FTE to include specified prekindergarten students results in changes to the relative wealth per pupil used to determine much of State aid to public schools. According to MSDE, enrollment of eligible (economically disadvantaged) four-year-olds in full-day prekindergarten totaled 6,631 and in half-day prekindergarten totaled 10,598, in September 2015. **Exhibit 2** shows, for fiscal 2018, the estimated increase in FTE under the bill as well as the change in direct State aid, by county. Under the bill, some local school systems will realize significant reductions in State aid for public schools. Seven counties (Baltimore, Calvert, Carroll, Harford, Howard, Montgomery, and Washington) incur funding reductions in excess of \$200,000 in fiscal 2018. By fiscal 2021 Carroll and Howard counties incur funding reductions in excess of \$1 million; Baltimore and Montgomery counties funding reductions exceed \$2.5 million. Other local school systems receive additional funding, including an estimated \$28.2 million increase for Baltimore City and a \$22.3 million increase for Prince George's County in fiscal 2018.

The funding results under State aid formulas that factor in local wealth per FTE are altered as described above. However, the counts of students eligible for compensatory education, LEP, special education, and disabled student transportation grants remain unchanged under the bill.

To the extent that the additional State funding under the bill is used to hire personnel and otherwise increase the statewide salary base for a local school system (and, conversely, reduced funding results in a reduced salary base), the local share of retirement aid is altered beginning in fiscal 2020.

Exhibit 2
Estimated Change in FTE and State Aid
Fiscal 2018

County	FTE Increase	Change in State Aid (\$ in Thousands)
Allegany	133	\$542.9
Anne Arundel	993	2,481.6
Baltimore City	2,918	28,189.2
Baltimore	991	(226.9)
Calvert	98	(233.5)
Caroline	144	1,042.8
Carroll	126	(635.7)
Cecil	207	654.9
Charles	349	1,189.8
Dorchester	121	901.8
Frederick	309	(69.5)
Garrett	78	332.8
Harford	286	(226.2)
Howard	305	(951.3)
Kent	0	(158.1)
Montgomery	1,395	(403.7)
Prince George's	2,956	22,324.0
Queen Anne's	60	3.1
St. Mary's	209	596.0
Somerset	48	227.9
Talbot	48	64.3
Washington	205	(218.9)
Wicomico	340	2,300.2
Worcester	72	96.8
Total	12,392	\$57,824.2

Additional Information

Prior Introductions: None.

Cross File: SB 461 (Senator Conway) - Budget and Taxation.

Information Source(s): Maryland State Department of Education, Department of Legislative Services

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