

Department of Legislative Services
 Maryland General Assembly
 2017 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 1080 (Delegates Walker and Hixson)
 Ways and Means

Education - Universal Prekindergarten - Established

This bill provides each local school system with a supplemental prekindergarten grant based on the number of full-time equivalent (FTE) eligible children (those who are four years old on September 1) enrolled in prekindergarten in the county on September 30 of the prior school year. The grant to each county is one-half of the State share of the per pupil foundation amount for each eligible FTE child. In providing the grants, the State must first use special funds from the Education Trust Fund (ETF), then general funds. Each local school system must admit, free of charge, every eligible child to at least a half-day of publicly funded prekindergarten.

The bill takes effect July 1, 2017, and applies beginning with the 2018-2019 school year.

Fiscal Summary

State Effect: Use of ETF monies to fund supplemental prekindergarten grants requires general fund expenditures to increase by an equal amount. General fund expenditures for direct public school aid increase by \$36.6 million in FY 2019 and by approximately \$57.5 million by FY 2022. State teacher retirement expenditures increase beginning in FY 2021 (not shown below). State school construction project requests increase, as discussed below, however total State funding for school construction is not affected. Revenues are not affected. **This bill establishes a mandated appropriation beginning in FY 2019.**

| (\$ in millions) | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 |
|------------------|---------|----------|----------|----------|----------|
| Revenues | \$0 | \$0 | \$0 | \$0 | \$0 |
| GF Expenditure | 0 | 36.6 | 54.3 | 56.0 | 57.5 |
| Net Effect | \$0.0 | (\$36.6) | (\$54.3) | (\$56.0) | (\$57.5) |

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

Local Effect: Statewide, local school systems receive increases in State aid of approximately \$36.6 million in FY 2019 and \$57.5 million by FY 2022. Local school construction costs likely increase to meet increased demand for public prekindergarten. Local teacher retirement costs increase beginning in FY 2021. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: The scope of the existing Prekindergarten Expansion Grant Program is narrowed. Prekindergarten Expansion Grants may be used to expand prekindergarten services, including (1) establishing or expanding existing Judy Centers for the families of eligible children or additional eligible children who are located in Title I school attendance areas and (2) expanding existing half-day prekindergarten programs into full-day prekindergarten programs for eligible children or additional eligible children.

Current Law/Background:

Publicly Funded Prekindergarten

Chapter 288 of 2002, the Bridge to Excellence in Public Schools Act, required each local school system to 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. The State provides funding to school systems to support the program through the State compensatory education formula.

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. Under Chapter 2, Prekindergarten Expansion Grants may be used to expand prekindergarten services, including (1) establishing or expanding existing half-day prekindergarten for *additional* eligible children (*i.e.*, whose family income is at or below 300% of FPG); (2) establishing or expanding existing full-day prekindergarten for eligible children (*i.e.*, whose family income is at or below 185% of FPG) or additional eligible children; (3) establishing or expanding existing Judy Centers for the families of eligible children or additional eligible children who are located in Title I school attendance

areas; and (4) expanding existing half-day prekindergarten programs into full-day prekindergarten programs for eligible children or additional eligible children.

Since fiscal 2015, the State budget has included \$4.3 million for the expansion 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. Pursuant to Chapters 683 and 684 of 2016, the Governor must include an appropriation in the budget for the amount that the State committed to fund as the State match to the federal grant in addition to the amount required under current law for the State Prekindergarten Expansion Grant Program. The proposed fiscal 2018 budget contains a total of \$16.0 million in federal funds and \$8.0 million in State funds to support public prekindergarten expansion.

Chapter 288 of 2002 required the State to contract with a consultant to conduct a follow-up study of the adequacy of education funding in the State approximately 10 years after its enactment. The concept of adequacy is based on determining the level of resources that is adequate for all public school students to have the opportunity to achieve academic proficiency standards. Legislation in 2011 and 2012 delayed the beginning of the study and required additional reports to be included in the study, such as a cost-benefit analysis of prekindergarten expansion. Work on the adequacy study began in June 2014, when a contract was awarded to Augenblick, Palaich, and Associates (APA) and its team of researchers that included Picus Odden and Associates and the Maryland Equity Project.

APA's report on prekindergarten expansion in the State was finalized in January 2016. The report recommended that the State offer universal, full-day prekindergarten for four-year-olds in Maryland, by providing funding for 80% of Maryland's four-year-olds to attend either a public prekindergarten program or a private program that has received a rating of Level 5 in Maryland EXCELS (the State's tiered Quality Rating Improvement System for licensed child care centers, family child care providers, and public prekindergarten programs) or has national or state accreditation. The report noted that the 80% target is at the higher end of what is considered "universal," when comparing with other states that have implemented universal prekindergarten. However, after considering the importance of prekindergarten, as evidenced by the literature review included in the report, and an analysis of the return on investment, the report concluded that increased investment in quality prekindergarten is justified.

Chapter 701 of 2016 established the Commission on Innovation and Excellence in Education to review APA's adequacy study and related reports and, among other charges, make recommendations on expanding prekindergarten, including special education

prekindergarten. The commission must make recommendations to the Governor and the General Assembly by December 2017.

Education Trust Fund

ETF is a nonlapsing, special fund to be used for continued funding of the Bridge to Excellence in Public Schools Act of 2002 formulas and programs, including the Geographic Cost of Education Index (GCEI). The fund may also be used to support capital projects for public schools, community colleges, and public four-year institutions as well as to expand public early childhood education programs in the State. A portion of the proceeds from video lottery terminals (VLTs) and table games is dedicated to ETF.

ETF was established during the 2007 special session as part of the VLT legislation, to receive approximately half of the gross VLT proceeds, after payouts to bettors. Chapter 1 of the 2012 second special session made numerous changes to the State's gaming program, including authorizing a sixth license in Prince George's County, table games at VLT facilities, and 24-hour per day gaming, which were approved by voters in November 2012. A portion of table game revenues is also distributed to ETF. The legislation also altered the distribution of VLT proceeds and broadened the authorized uses of ETF to encompass funding that expands public early childhood education programs in Maryland. The estimated ETF revenues for fiscal 2018 through 2022 are shown in **Exhibit 1**. The exhibit shows that the projected ETF revenues are less than the over \$3 billion in annual Bridge to Excellence foundation program expenditures.

Exhibit 1
Estimated Education Trust Fund Revenues
Fiscal 2018-2022
(\$ in Millions)

| <u>ETF</u> | <u>FY 2018</u> | <u>FY 2019</u> | <u>FY 2020</u> | <u>FY 2021</u> | <u>FY 2022</u> |
|-------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| VLT | \$447.9 | \$454.1 | \$460.9 | \$467.8 | \$474.8 |
| Table Games | 98.8 | 100.0 | 101.5 | 103.0 | 104.6 |
| Total ETF | \$546.7 | \$554.1 | \$562.4 | \$570.9 | \$579.4 |

ETF: Education Trust Fund
VLT: video lottery terminal

Source: Board of Revenue Estimates; Department of Legislative Services

State Fiscal Effect: Prioritizing use of a certain amount of ETF monies for supplemental prekindergarten grants under the bill requires general fund expenditures to increase by an equal amount. Currently, all proceeds credited to ETF are budgeted for the Bridge to Excellence foundation formula and programs, including GCEI. The Governor's proposed fiscal 2018 budget includes \$546.7 million in ETF revenues, all of which are directed toward the \$3.2 billion in Bridge to Excellence foundation formulas, including GCEI. The remaining \$2.7 billion in Bridge to Excellence formula funding is general funds (excluding retirement). Thus, using ETF for purposes under the bill does not alter the amount of special fund expenditures; instead, general fund expenditures increase.

The estimates for fiscal 2019 State aid are based in part on an estimated 18,546 FTE eligible four-year-old children. This estimate is based on the total count of four-year-old full- and half-day prekindergarten for the 2016-2017 school year for each county. According to data provided by the Maryland State Department of Education (MSDE), there were approximately 10,044 full-day and 16,824 half-day public school four-year-old prekindergarten students in the State during the 2016-2017 school year. Based on these figures, general fund expenditures increase by \$36.6 million in fiscal 2019 to fund the new supplemental grants.

Out-year projections are difficult to determine precisely. According to MSDE data, Baltimore City and Garrett and Kent counties already offer universal access to full-day public prekindergarten. Three counties, Allegany, Somerset, and Talbot, provide universal access to half-day public prekindergarten. In these six counties, the estimated portion of all four-year-olds enrolled in public prekindergarten ranges from 43% to 54%. Overall, about 50% of all four-year-olds attending prekindergarten are enrolled in a public program according to the APA report.

Some portion of the four-year-olds who are currently attending a private program are likely to attend a public program under the bill. The APA study found that up to 80% of all four-year-olds may enroll in a prekindergarten program if a subsidy is provided. This bill expands public prekindergarten to all four-year-olds regardless of their parents' income status, but does not provide a subsidy for private providers. Given the considerable range in estimates of the additional four-year-olds who may enroll in public prekindergarten, the Department of Legislative Services assumes that the participation rate could range between 50% and 70% of four-year-olds (presuming some portion of parents will continue to enroll their children in private programs). Thus, out-year costs increase annually to between approximately \$50.0 million and \$65.0 million by fiscal 2022, averaging to \$56.0 million annually from fiscal 2020 to 2022.

There may also be an increase in State school construction requests in order to ensure that all local school systems can accommodate additional prekindergarten students in the

out-years. However, the total amount of State funding for public school construction is not altered by the bill; the number and type of projects funded could be affected.

Local Revenues: Exhibit 2 shows the fiscal 2019 statewide total of \$36.6 million in supplemental prekindergarten grants to local school systems by county, ranging from \$67,000 in Talbot County to \$10.2 million in Baltimore City.

Local Expenditures: Statewide, local expenditures increase by at least as much as the equivalent of increased State aid provided under the bill (described above). For each county, to the extent that additional State aid under the bill does not cover the full cost of providing prekindergarten to four-year-olds who are enrolled in public school, local school system expenditures increase. Local teacher retirement costs increase beginning in fiscal 2021. Local school construction costs also increase, potentially significantly, to accommodate additional prekindergarteners.

Small Business Effect: Day school centers and preschools that are small businesses will be negatively impacted by a substantial loss of a large portion of their four-year-old students, who are likely to be instead served by programs that are offered at no cost to their parents.

Exhibit 2
Fiscal 2019 Change in Direct State Education Aid
(\$ in Thousands)

| County | Supplemental PreK Grants |
|-----------------|-------------------------------------|
| Allegany | \$543 |
| Anne Arundel | 1,922 |
| Baltimore City | 10,169 |
| Baltimore | 3,179 |
| Calvert | 323 |
| Caroline | 594 |
| Carroll | 348 |
| Cecil | 652 |
| Charles | 1,189 |
| Dorchester | 519 |
| Frederick | 1,063 |
| Garrett | 248 |
| Harford | 875 |
| Howard | 946 |
| Kent | 78 |
| Montgomery | 1,889 |
| Prince George's | 8,161 |
| Queen Anne's | 180 |
| St. Mary's | 919 |
| Somerset | 463 |
| Talbot | 67 |
| Washington | 1,038 |
| Wicomico | 1,114 |
| Worcester | 94 |
| Total | \$36,574 |

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Baltimore, Charles, and Montgomery counties; Maryland State Department of Education; Department of Legislative Services

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fn/rhh

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