

Department of Legislative Services
 Maryland General Assembly
 2017 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 346 (Senator Conway, *et al.*)
 Budget and Taxation

Education - Prekindergarten Students - Funding

This bill establishes supplemental prekindergarten grants, beginning in fiscal 2019, to local boards of education based on the number of 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. Beginning in fiscal 2019, eligible prekindergarten students enrolled on September 30 of the previous school year are included in the enrollment count used to determine the local share of the foundation program. Provisions of the bill may not be construed to authorize the inclusion of prekindergarten students in the county or statewide wealth per pupil calculations included in the Education Article.

The bill takes effect July 1, 2017.

Fiscal Summary

State Effect: General fund expenditures for direct aid to public schools increase by \$50.8 million in FY 2019 and by \$52.1 million in FY 2022. State teacher retirement expenditures increase beginning in FY 2021. Revenues are not affected. **This bill increases 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 | 50.8 | 51.2 | 51.7 | 52.1 |
| Net Effect | \$0.0 | (\$50.8) | (\$51.2) | (\$51.7) | (\$52.1) |

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

Local Effect: Statewide, local school systems receive approximately \$50.8 million in increased State aid in FY 2019 and \$52.1 million in FY 2022, but State aid decreases for

several local school systems each year. Local teacher retirement expenditures likely change for each county, beginning in FY 2021.

Small Business Effect: None.

Analysis

Bill Summary: For each county, the supplemental prekindergarten grant is the sum of:

- the State share of the per pupil foundation amount for each eligible prekindergarten student; and
- the number of eligible prekindergarten students multiplied by the per pupil amount the local board is calculated to receive under the compensatory education grant program.

Current Law/Background: 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. 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.

State Fiscal Effect: General fund expenditures increase by an estimated \$50.8 million in fiscal 2019 and by \$52.1 million by fiscal 2022. This represents the net effect of approximately \$99.9 million in supplemental prekindergarten grants established under the bill as partially offset by an estimated \$49.1 million decrease in State formula aid for public schools, which is caused by adding to the enrollment count used to determine the local share of the foundation program. As shown in **Exhibit 1**, while supplemental prekindergarten grants increase annually through fiscal 2022, the decreases in State formula aid also increase each year through fiscal 2022.

Exhibit 1
Changes in State Aid Under SB 346
(\$ in Millions)

| | <u>FY 2019</u> | <u>FY 2020</u> | <u>FY 2021</u> | <u>FY 2022</u> |
|--------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| PreK Supplemental Grants | \$99.9 | \$101.6 | \$103.6 | \$105.5 |
| State Formula Aid | -49.1 | -50.4 | -51.9 | -53.4 |
| Net Effect | \$50.8 | \$51.2 | \$51.7 | \$52.1 |

The above estimates for fiscal 2019 State aid are based in part on an estimated 13,840 eligible full-time equivalent (FTE) students, which includes 7,565 eligible full-day students added to 6,275 students (12,550 eligible half-day students multiplied by 0.5). These estimates are based on the total count of full- and half-day prekindergarten students for the 2015-2016 school year for each county, as well as the estimated percentages of full- and half-day kindergarten students that are eligible for free and reduced-price meals (FRPM) for each county. According to data provided by the Maryland State Department of Education (MSDE), there were approximately 10,900 full-day and 20,200 half-day public school prekindergarten students in the State during the 2015-2016 school year. Further, based on MSDE data, it is estimated that about 68% of full-day and 61% of half-day prekindergarten students are eligible for FRPM, based on family income.

Out year estimates reflect an annual adjustment based on projected growth in total student enrollment. Applying these same assumptions, the number of eligible FTE students increases to approximately 14,085 for purposes of fiscal 2022 State aid calculations. This estimate does not account for any increases in prekindergarten enrollment that may occur as a result of the bill providing additional enrollment-based State funding for prekindergarten.

Of the \$99.9 million in prekindergarten supplemental grants for fiscal 2019, \$49.3 million results from multiplying the number of eligible students for each county by half of the projected per pupil foundation amount, and \$50.6 million results from multiplying the number of eligible students by the per pupil amount the local board is calculated to receive under the compensatory education grant program. These two components, respectively, are estimated at \$50.2 million and \$55.3 million in fiscal 2022, for a total of \$105.5 million.

As noted above, the increases in State aid due to the prekindergarten supplemental grants established by the bill are partially offset by decreases to existing State formula aid programs due to the required adjustment of the enrollment count used to determine the local share of the foundation program. The local share of the foundation program is one factor determining the amount of State aid provided to local boards of education,

through the foundation program, guaranteed tax base grants, and net taxable income (NTI) grants. Increases to the enrollment count used to determine the local share of the foundation program generally have the effect of reducing (without accounting for supplemental grants created by the bill) State aid to local school systems. Though the local share of the foundation program does involve both wealth and enrollment, it is assumed that because its enrollment component is explicitly altered under the bill, it does not constitute one of the wealth per pupil calculations that may not be altered under the bill.

The \$49.1 million decrease in fiscal 2019 formula aid is the net result of a \$48.0 million decrease in foundation program grants, a \$1.3 million decrease in guaranteed tax base grants, and an increase of \$230,000 in NTI grants. By fiscal 2022, the \$53.4 million decrease in formula aid is the net result of a \$52.3 million decrease in foundation program grants, a \$1.3 million decrease in guaranteed tax base grants, and an increase of \$212,000 in NTI grants.

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 2021.

Local Fiscal Effect: Direct State aid to local school systems increases by \$50.8 million in fiscal 2019 and by \$52.1 million by fiscal 2022. **Exhibit 2** shows, for fiscal 2019, the estimated change in direct State aid, by county.

Under the bill, some local school systems will realize significant reductions in State aid for public schools. Four counties (Carroll, Howard, Kent, and Montgomery) incur funding reductions in excess of \$100,000 in fiscal 2019, including a reduction in excess of \$1.0 million for Howard County. By fiscal 2022, Howard and Montgomery counties incur funding reductions in excess of \$1 million, and four other counties (Calvert, Carroll, Harford, and Kent) incur a reduction of at least \$100,000 each. Other local school systems receive additional funding, including an estimated \$18.4 million increase for Baltimore City and a \$21.0 million increase for Prince George's County, as well as increases in excess of \$1.0 million for an additional five counties in fiscal 2019.

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 2021.

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

| County | PreK Supplemental Grants | State Formula Aid | Net Effect |
|-----------------|---|----------------------------------|-------------------|
| Allegany | \$1,320 | -\$379 | \$941 |
| Anne Arundel | 6,378 | -5,611 | 768 |
| Baltimore City | 21,926 | -3,503 | 18,423 |
| Baltimore | 8,037 | -5,980 | 2,056 |
| Calvert | 759 | -835 | -76 |
| Caroline | 1,329 | -249 | 1,080 |
| Carroll | 927 | -1,351 | -424 |
| Cecil | 1,793 | -692 | 1,101 |
| Charles | 2,602 | -1,188 | 1,414 |
| Dorchester | 956 | -213 | 743 |
| Frederick | 2,500 | -1,981 | 519 |
| Garrett | 494 | -252 | 241 |
| Harford | 1,924 | -1,931 | -6 |
| Howard | 2,351 | -3,529 | -1,178 |
| Kent | 0 | -175 | -175 |
| Montgomery | 11,475 | -12,314 | -839 |
| Prince George's | 26,743 | -5,766 | 20,977 |
| Queen Anne's | 424 | -491 | -67 |
| St. Mary's | 1,726 | -832 | 894 |
| Somerset | 456 | -127 | 329 |
| Talbot | 358 | 0 | 358 |
| Washington | 1,659 | -1,011 | 647 |
| Wicomico | 3,256 | -661 | 2,595 |
| Worcester | 509 | 0 | 509 |
| Total | \$99,902 | -\$49,072 | \$50,831 |

Additional Information

Prior Introductions: None.

Cross File: None.

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

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