

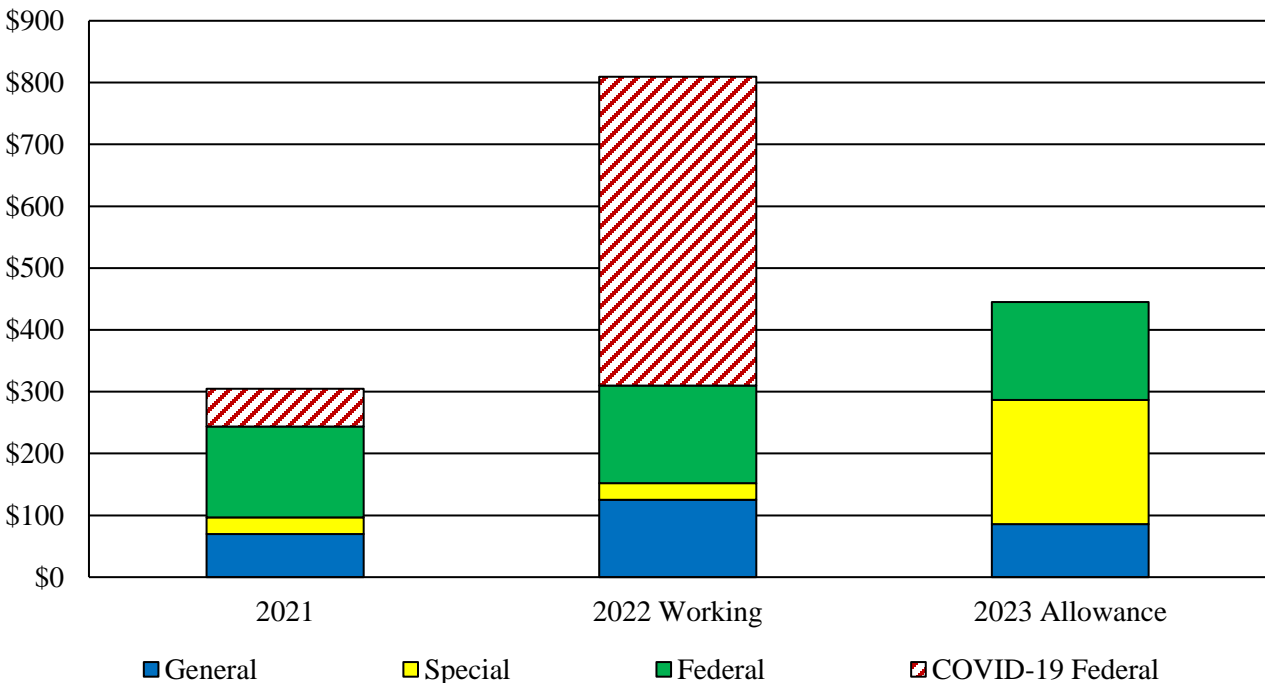
R00A99
Early Childhood Development
Maryland State Department of Education

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 Publicly Funded Full-day Prekindergarten Program, and the Prekindergarten Expansion Grant Program.

Operating Budget Summary

**Fiscal 2023 Budget Decreases \$364.3 Million, or 45.0%, to \$444.9 Million
(\$ in Millions)**



Note: The fiscal 2022 working appropriation includes deficiency appropriations. The fiscal 2022 working appropriation and fiscal 2023 allowance do not reflect funding for statewide personnel actions budgeted in the Department of Budget and Management, which include cost-of-living adjustments, increments, bonuses, and may include annual salary review adjustments. Fiscal 2021 actual expenditures and the fiscal 2022 working appropriation do not include special funds for early childhood education programs budgeted under the Blueprint for Maryland’s Future Grant Program. Numbers may not sum due to rounding.

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- The fiscal 2023 allowance for MSDE’s early childhood programs decreases by a net of approximately \$364 million compared to the fiscal 2022 working appropriation, mainly due to one-time federal stimulus funding and one-time general fund support. The decreases are partially offset by an increase in special funds (\$174 million) from the Blueprint for Maryland’s Future Fund for early childhood education initiatives enacted in Chapter 36 of 2021, as amended by Chapter 55 of 2021. The increase in special fund support for early childhood programs is overstated in this chart as early childhood initiatives were funded elsewhere in the budget in fiscal 2021 and 2022.

Key Observations

- ***Significant One-time Federal Funding and State Funding Made Available for Early Childhood Programs to Respond to the COVID-19 Pandemic:*** Maryland child care and early childhood education providers were struggling with workforce shortages and unsustainable operating costs prior to the COVID-19 pandemic, and the public health emergency exacerbated these challenges. The American Rescue Plan Act (ARPA) distributed over \$500 million to Maryland in part to pass through to providers as short-term stabilization grants and to invest in long-term solutions for the child care system. A proposed fiscal 2022 deficiency appropriation for \$50 million in general funds would extend more stabilization grants to providers.
- ***Early Childhood Expansion Efforts Funded with Blueprint for Maryland’s Future Fund:*** The fiscal 2023 allowance reflects special fund support for early childhood program expansion in accordance with Chapter 36 (the Blueprint for Maryland’s Future), as amended by Chapter 55. Through these initiatives, the State aims to improve access and affordability of full-day prekindergarten. Due to implementation issues, the fiscal 2023 allowance funds the Publicly Funded Full-day Prekindergarten Program above the mandated funding level.

Operating Budget Recommended Actions

1. Adopt committee narrative requesting a report on COVID-19-related federal funding allocated to Maryland for child care and early childhood education.
2. Adopt committee narrative requesting a report on the redesign of the Early Childhood Data System Modernization major information technology project.
3. Add budget language restricting general funds budgeted for the Child Care Scholarship Program until the Maryland State Department of Education submits a report detailing how federal funding for the program was used.
4. Adopt committee narrative requesting quarterly reports on Child Care Scholarship Program enrollment, expenditures, and recent programmatic changes.

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Operating Budget Analysis

Program Description

DEC, composed of the Office of Child Care, Early Learning Branch, and the Collaboration and Program Improvement Branch, coordinates and implements the State’s child care and early education programs.

The Office of Child Care licenses and monitors child care centers and family child care programs in the State through regional licensing offices, administers the CCS Program, manages the Maryland Child Care Credential program and child care training approval process, and administers Maryland EXCELS (the State’s quality rating and improvement program for child care and early education programs).

The Early Learning Branch is responsible for publicly funded prekindergarten and kindergarten policies. It oversees the administration of Ready for Kindergarten: Maryland Early Childhood Comprehensive System; early childhood curriculum guidance; developmental screening; 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: strengthening availability and access to services; improving and supporting program quality; deepening family engagement; ensuring successful transition experiences into kindergarten; and expanding and enhancing workforce development and improving systems for infrastructure, data, and resource management.

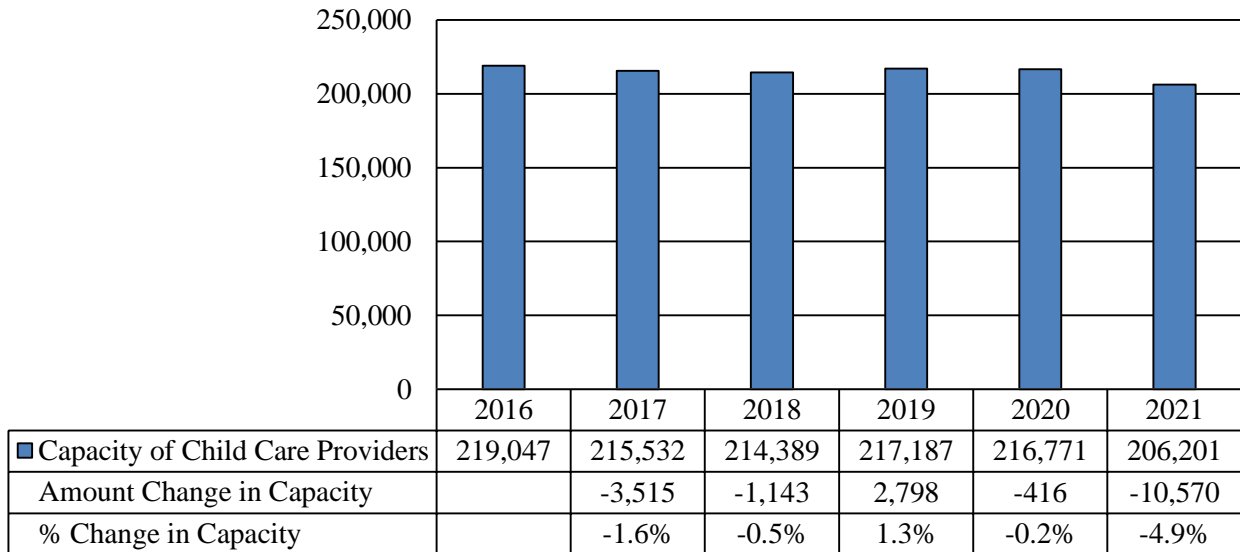
Performance Analysis: Managing for Results

1. COVID-19 Impacts on Child Care Providers Lead to Increased Program Closures and Lower Capacity

Before the COVID-19 pandemic, MSDE reported declining licensed child care slots in Maryland and mainly attributed these trends to family child care programs closing. As shown in **Exhibit 1**, there was a net reduction of 12,846 licensed child care slots between fiscal 2016 and 2021. From fiscal 2020 to 2021 alone, child care capacity fell by 10,570 licensed slots, accounting for 82.3%

of the total reduction since fiscal 2016. This sharp decline in capacity highlights how the pandemic has accelerated program closures.

Exhibit 1
Statewide Child Care Capacity
(Shown as Licensed Slots)
Fiscal 2016-2021



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

The COVID-19 pandemic has heightened many of the workforce and operational issues that child care and early childhood education providers were already experiencing. In a November 10, 2021 presentation to the Joint Committee on Children, Youth, and Families, MSDE reported that all but two jurisdictions experienced reductions in the number of licensed providers between January 2020 and November 2021. Prince George’s County reported the largest decline in providers with 141 fewer providers in November 2021 compared to January 2020. Similar to prepandemic trends, approximately 81% of the 751 program closures statewide between January 2020 and November 2021 were among family child care providers.

Fiscal 2022

Over \$500 Million in ARPA Funding Made Available to Support Child Care in Maryland

In response to the issues causing widespread child care program closures, the ARPA allocated \$38.9 billion in supplemental funding for states through the Child Care and Development Block Grant (CCDBG) to support the child care industry. Of the ARPA funding, Maryland received \$502.3 million for the following purposes:

- \$309.1 million targeted for child care stabilization grants to support child care providers' operating and personnel costs to reopen or stay open, provide safe and healthy learning environments, and provide mental health supports for staff and children; and
- \$193.2 million through a discretionary CCDBG award authorized to be spent on making child care more affordable and accessible for families, increasing wages for early childhood workers, or meeting other needs related to the State's child care system.

Maryland's total federal grant was appropriated in fiscal 2022 through two separate budget amendments signed by Governor Lawrence J. Hogan Jr. on September 16, 2021, and December 13, 2021, respectively. This federal aid is in addition to \$45.8 million authorized in the Coronavirus Aid, Relief, and Economic Security Act and \$128.8 million authorized in the Coronavirus Response and Relief Supplemental Appropriations Act that MSDE primarily used for the Essential Personnel Child Care program and distributed as grants to child care providers.

Child Care Stabilization Grants

MSDE has administered two application cycles to distribute child care stabilization grants in fiscal 2022. Through the first two rounds of child care stabilization grants, MSDE indicated that it would provide up to \$286 million in grants to providers. The following allowable uses were described in one or both grant applications:

- personnel costs, including wages and benefits, staff bonuses, costs for employee recruitment and retention; employee transportation costs to or from work and to vaccine appointments; paid sick or family leave; and other expenses;
- operating costs, such as rent or mortgage, utilities, maintenance, and insurance;
- personal protective equipment (PPE), cleaning and sanitation supplies, equipment and supplies needed to respond to the COVID-19 public health emergency, and other health and safety needs; and
- mental health services supporting children and employees, among other uses.

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First Application Cycle: MSDE published an application for child care stabilization grants that was open from July 14, 2021 to August 6, 2021. Approximately \$158 million was awarded to just under 5,200 providers in this first round of grants. Awards were set at a base of \$15,000 with an additional \$500 per licensed slot for all grantees. Originally MSDE expected to send payments for the first round of funding by September 30, 2021. However, the department experienced delays due to a lag in hiring contractual staff to process grant applications, and payments were instead distributed on a rolling basis in October 2021.

Second Application Cycle: Between January 3, 2022, and January 23, 2022, child care providers were able to submit applications for a second round of stabilization grants. At the time of this writing, MSDE is in the process of evaluating grant applications on a rolling basis and expects to distribute all round two grant awards by March 4, 2022. MSDE noted that it had streamlined the application process and made additional customer service support available for the second round of applications after hearing provider feedback during the first cycle. Additional support included virtual customer service sessions that were recorded and posted to DEC’s website.

Supporting materials for the grant application announced that \$128 million would be available in this round and that awards would provide \$10,000 as a base grant with additional funding per licensed slots for providers meeting certain criteria, including:

- serving infants (6 weeks to 12 months) or toddlers (13 months to 23 months);
- enrolling children who participate in the CCS Program;
- participating in the Maryland EXCELS program; or
- being located in a census tract that meets a certain minimum social vulnerability index.

Based on the above criteria, providers would be eligible to receive between \$0 and \$630 per licensed slot. After processing all applications, the department expects to allocate any remaining grant funding across all round two grantees as an additional amount per licensed slot.

Planned Uses of Remaining Stabilization Funds and Proposed Deficiency for Additional Grants: Remaining child care stabilization federal funds were appropriated for administrative costs of implementing the grant program and for activities that would increase the supply of child care. A proposed fiscal 2022 deficiency appropriation would supplement the federal grant by adding \$50 million in general funds for additional child care stabilization grants. In a press release issued on January 17, 2022, Governor Hogan listed personnel costs, operating costs, PPE, mental health support, and other allowable uses that were in line with the first two grant application cycles.

Considering the significant amount of one-time federal aid and State funding for child care stabilization grants made available in a short period of time, MSDE should provide:

- **a timeline for distributing \$50 million in additional stabilization grants (contingent on the legislature approving the deficiency appropriation);**
- **a discussion of whether any new uses or stakeholder input on new uses will be considered for stabilization grants supported with State funds;**
- **an explanation for how grants used for ongoing expenses, such as certain personnel costs, will be supported in the future; and**
- **first round grant allocations by jurisdiction and grant allocations broken out by child care centers and family child care providers.**

The Department of Legislative Services (DLS) recommends adopting committee narrative requesting that MSDE submit a report providing information about child care stabilization grant allocations, including a summary of how child care programs used the funding among the allowable uses.

Supplemental CCDBG Discretionary Funds

MSDE held three town hall meetings in fall 2021 to receive stakeholder input and develop a proposed spending plan for \$193.2 million in discretionary CCDBG funds, outlined as follows:

- \$87.1 million for mental health supports, outreach on the availability of child care assistance, and program evaluation. MSDE further indicated that these funds would cover:
 - grants to support multilingual children, infants, toddlers, and children with special needs;
 - efforts to improve higher education course content and career advancement for early childhood staff;
 - improvements to regional centers to support new and current family child care programs; and
 - bonuses to participants in the Maryland Child Care Credentialing program.
- \$81.0 million for the following programmatic changes to the CCS Program. A more detailed discussion of recent changes to the CCS Program can be found in Issue 1 of this analysis:
 - raising provider reimbursement rates from the sixtieth percentile of current market rates to the seventieth percentile; and
 - expanding income eligibility from 65% of the State median income (SMI) to 75%.

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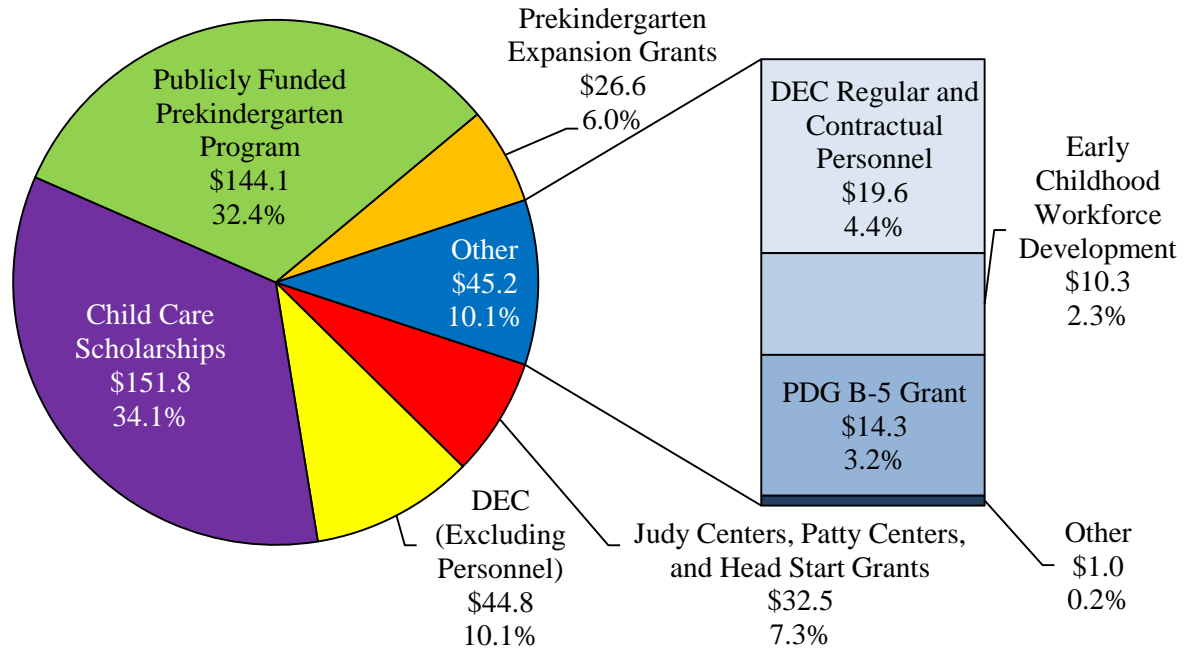
- \$21.8 million for an ongoing Major Information Technology Development Project (MITDP) that will replace the Child Care Administration Tracking System (CCATS). MSDE indicated that this funding would expedite the CCATS replacement project, which is described in further detail in **Appendix 2**.
- \$3.4 million for administrative expenses, including \$2.1 million for contractual personnel and \$1.3 million for other expenses to manage, administer, and oversee this federal grant funding. MSDE plans to contract with a vendor to provide video production and social media content.

Fiscal 2023 Overview of Agency Spending

Exhibit 2 provides information on the fiscal 2023 allowance for early childhood services by use of funds. More than 70% of the fiscal 2023 allowance pays directly for low-income children and families to access early childhood programs, including \$151.8 million in total funds, or 34.1%, for financial assistance for child care through CCS payments; \$144.1 million in special funds, or 32.4%, for full-day prekindergarten slots in public school-based programs (Publicly Funded Prekindergarten Program); and \$26.6 million in special funds, or 6.0%, for prekindergarten slots in community-based programs (Prekindergarten Expansion Grants). MSDE also provides funding for wraparound and supportive services, with a total of \$32.5 million, or 7.3%, budgeted for grants to the Judith P. Hoyer Center Early Learning Hubs (Judy Centers), Patty Centers, and Head Start programs.

Exhibit 2
Overview of MSDE – Early Childhood Services Spending
Fiscal 2023 Allowance
(\$ in Millions)

Total Expenditures = \$445.0



DEC: Division of Early Childhood
 MSDE: Maryland State Department of Education
 PDG B-5: Preschool Development Grant Birth through Five

Note: Numbers may not sum to total due to rounding. The fiscal 2023 allowance does not reflect funding for statewide personnel actions budgeted in the Department of Budget and Management, which include cost-of-living adjustments, increments, bonuses, and may include annual salary review adjustments.

Source: Governor’s Fiscal 2023 Budget Books; Department of Legislative Services

Proposed Budget Change

As shown in **Exhibit 3**, the adjusted fiscal 2023 allowance decreases by \$364.3 million compared to the fiscal 2022 working appropriation, mainly due to the termination of one-time federal aid and State funding for child care related to the COVID-19 pandemic.

Exhibit 3
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 2021 Actual	\$69,889	\$26,644	\$208,433	\$304,966
Fiscal 2022 Working Appropriation	125,184	26,644	657,432	809,260
Fiscal 2023 Allowance	<u>85,629</u>	<u>200,890</u>	<u>158,430</u>	<u>444,950</u>
Fiscal 2022-2023 Amount Change	-\$39,554	\$174,246	-\$499,002	-\$364,310
Fiscal 2022-2023 Percent Change	-31.6%	654.0%	-75.9%	-45.0%
Where It Goes:				<u>Change</u>
Personnel Expenses				
Turnover adjustments (reduced from 8.9% to 5.0%)				\$535
Employee and retiree health insurance				78
Workers’ compensation premium assessment.....				46
Other fringe benefit adjustments				-9
Retirement contributions				-25
Regular earnings.....				-203
Child Care Assistance				
General fund support for child care scholarships (discussed in Issue 1).....				10,000
Coronavirus Response and Relief Supplemental Act support for child care providers				-19,393
State investment in Child Care Stabilization grants after accounting for a \$50 million fiscal 2022 deficiency (general funds)				-50,000
American Rescue Plan Act (ARPA) funding budgeted to expand income eligibility and increase reimbursement rates under the Child Care Scholarship program				-81,000
Additional ARPA funding administered by the Division of Early Childhood.....				-120,969
Federal Child Care Stabilization grants authorized in the ARPA allocated to providers..				-278,176
Blueprint Initiatives – Workforce and Capacity Initiatives				
Maryland Child Care Credential Program.....				5,170
Maryland EXCELS bonuses				5,000
Child Care Accreditation Support Fund.....				1,000
Child Care Incentive Grant Program.....				110

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Where It Goes:	<u>Change</u>
Blueprint Initiatives – Prekindergarten and Supportive Services Expansion	
First year of implementation of the Publicly Funded Full-day Prekindergarten Program	144,063
Judy Center expansion.....	14,361
Patty Center expansion.....	4,542
Other Expenditures	
Division of Early Childhood operating expenses.....	560
Total	-\$364,310

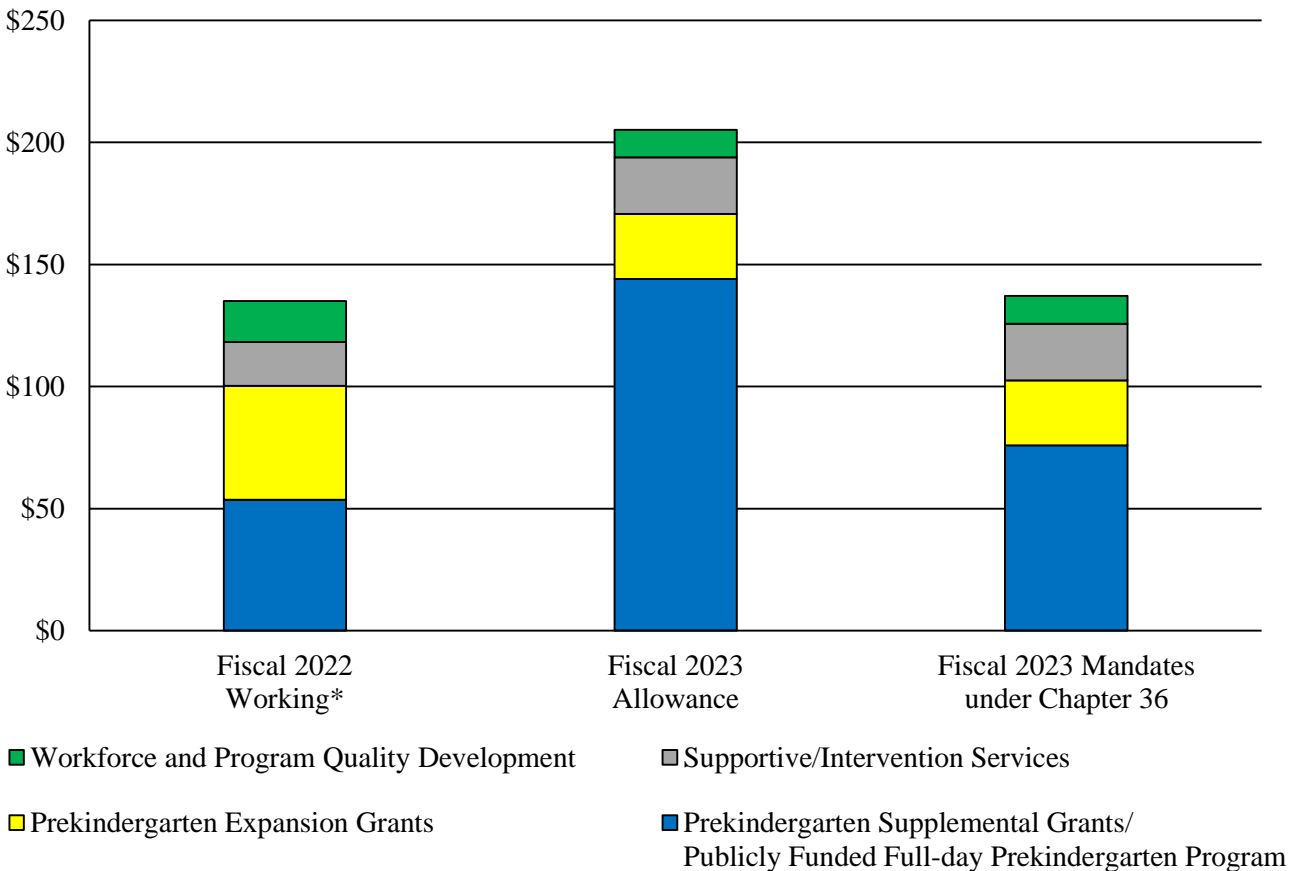
MSDE: Maryland State Department of Education

Note: Numbers may not sum to total due to rounding. The fiscal 2022 working appropriation includes deficiency appropriations. The fiscal 2022 working appropriation and fiscal 2023 allowance do not reflect funding for statewide personnel actions budgeted in the Department of Budget and Management, which include cost-of-living adjustments, increments, bonuses, and may include annual salary review adjustments.

Blueprint for Maryland’s Future Significantly Expands Early Childhood Programs in First Year of Implementation

The fiscal 2023 allowance includes approximately \$205.2 million in special funds from the Blueprint for Maryland’s Future Fund supporting a variety of early childhood programs, detailed in **Appendix 3**. Overall, the early childhood programs expanded or funded through Chapter 36 (as amended by Chapter 55) meet the mandated funding level, as shown in **Exhibit 4**. In addition to the mandated funding levels, \$68.2 million are budgeted for the Publicly Funded Full-day Prekindergarten Program as a discretionary enhancement due to implementation issues related to income eligibility determination.

Exhibit 4
Early Childhood Initiatives Funded through
the Blueprint for Maryland’s Future Fund
Fiscal 2022-2023
(\$ in Millions)



*Special funds from the Blueprint for Maryland’s Future Fund budgeted in the fiscal 2022 working appropriation were centrally budgeted under the Blueprint for Maryland’s Future Grant Program; therefore, these funds do not appear in Maryland State Department of Education Early Childhood programs shown throughout this budget analysis. The fiscal 2023 allowance reflects funding for early childhood programs in the appropriate program and is reflected in budget data for this analysis.

Note: Supportive/Intervention Services include funding for Judy Centers, Patty Centers, and the Infants and Toddlers Program. Workforce and program quality development includes funding for Maryland EXCELS bonuses paid to participating providers, tuition and financial assistance for early childhood educator credentialing programs, and other career development programs.

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

Data Collection Challenges Cause MSDE to Fund Prekindergarten Formula Above Mandated Level

Publicly Funded Prekindergarten Programs in Maryland: The largest expansion of any early childhood program under Chapter 36 is the Publicly Funded Full-day Prekindergarten Program, which greatly increases State and local investment in full-day prekindergarten services for low-income children and families. Before this program, multiple programs supported prekindergarten services, including:

- Prekindergarten Supplemental Grants established in Chapters 6 and 607 of 2017 (later amended in Chapter 771 of 2019), which funded full-day prekindergarten services by distributing grants to local school systems based on the number of four-year-old students they enrolled in public full-day prekindergarten; and
- Prekindergarten Expansion Grant Program, which provided competitive grants to qualified public and private providers serving children with incomes at or below 300% of the federal poverty guidelines (FPG).

Chapter 36 extends Prekindergarten Expansion grants through fiscal 2025 to support publicly funded slots in community-based programs. Beginning in fiscal 2026, the funding for this program will be consolidated with the funding distributed through the Publicly Funded Full-day Prekindergarten Program.

Fiscal 2023 is the first year of implementation for the Publicly Funded Full-day Prekindergarten Program, which establishes a new funding formula for voluntary full-day prekindergarten for low-income four-year-olds and three-year-olds (defined as having household incomes at or below 300% FPG). Chapters 36 and 55 outline a phase-in schedule for MSDE and local school systems to administer all components of this program. According to the phase-in schedule, families with incomes between 300% and 600% FPG will eventually have access to publicly funded full-day prekindergarten services by paying a family share of costs beginning in fiscal 2025, contingent on available slot capacity and local school systems choosing to collect a family share.

Implementation Considerations and Formula Funding for the Publicly Funded Full-Day Prekindergarten Program: In a mandated Prekindergarten Implementation Planning Report dated November 4, 2021, MSDE detailed some of the implementation considerations for the program, such as:

- an income verification process for determining the tier status of a child (tier I including families with incomes at 300% FPG or lower, tier II including families with incomes between 300% and 600% FPG, and tier III including families with incomes more than 600% FPG);
- administrative procedures for distributing funds;
- providing for family preference between public or community-based programs;

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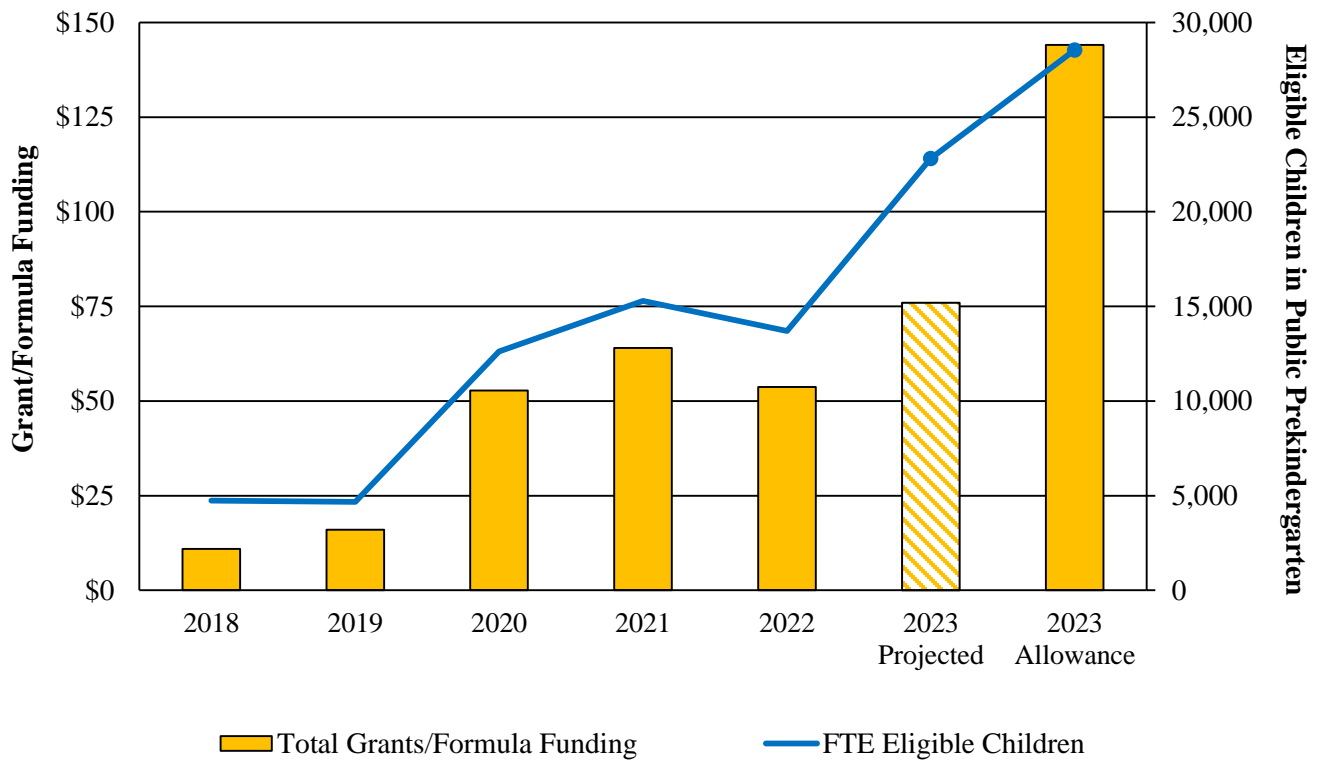
- calculating State, local, and family share of program costs for children designated as tier II that will receive benefits and pay a family share on a sliding scale; and
- recommendations for the continuation of Prekindergarten Supplemental grants.

MSDE is still working through these implementation considerations and in the report discussed future goals for the program as the program is phased in, which include developing a single application form for families applying to early education programs and encouraging local school systems to use a unified and common enrollment system for prekindergarten students, among other efforts.

Specifically related to the continuation of Prekindergarten Supplemental grants, MSDE recommended funding both Prekindergarten Supplemental grants and Prekindergarten Expansion grants, partially due to data collection issues that prevent the department from calculating the State share for funding all tier I children in fiscal 2023. The report noted that local school systems were unable to report prekindergarten enrollment by tiers, namely the number of children served from families with incomes less than 300% FPG. MSDE indicated that extending the existing prekindergarten grant programs would allow the department and local school systems to address income data issues while continuing to support tier II students.

The fiscal 2023 allowance bases State formula funding on all public prekindergarten full-day enrollment to serve as a transition period, while local school systems do not collect income tier data from students. This means that rather than providing for only tier I children, which was projected to cost \$75.9 million according to the Chapter 36 fiscal and policy note, funding for the prekindergarten formula in the fiscal 2023 allowance supports all children in public prekindergarten programs. As a result, funding in the fiscal 2023 allowance (\$144.1 million) for the formula is significantly higher than projected for that year. The fiscal 2023 allowance funds approximately 5,730 more children in public prekindergarten programs than was projected, as shown in **Exhibit 5**, and at higher cost overall as tier II and tier III children would not have received the same per pupil funding as tier I children under Chapter 36.

**Exhibit 5
Public Prekindergarten Enrollment and
Funding for Local School Systems
Fiscal 2018-2023
(\$ in Millions)**



FTE: full-time equivalent

Note: Excludes Prekindergarten Expansion Grant funding.

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

MSDE should discuss:

- **local school systems’ ability to collect tiered income data for students in public prekindergarten programs, including whether this data will be available for determining fiscal 2024 formula allocations;**

- whether the prekindergarten formula methodology will change to return to the phase-in schedule outlined in Chapter 36 in fiscal 2024 and beyond, including a timeline for when the prekindergarten formula allocation would not fund all children enrolled in full-day public programs and description for how that transition would occur;
- a process for notifying local school systems about changes to the prekindergarten formula methodology, especially concerning the transition to funding tier II students as a percentage of the per pupil amount and ceasing payments for tier III students; and
- how the State’s enhancement in fiscal 2023 affects the local share of prekindergarten funding and how the local share for each jurisdiction will be calculated.

Personnel Data

	<u>FY 21</u>	<u>FY 22</u>	<u>FY 23</u>	<u>FY 22-23</u>
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>
Regular Positions	167.00	167.00	170.00	3.00
Contractual FTEs	<u>45.90</u>	<u>82.00</u>	<u>57.00</u>	<u>-25.00</u>
Total Personnel	212.90	249.00	227.00	-22.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	8.52	5.01%
Positions and Percentage Vacant as of 12/31/21	6.00	3.59%
Vacancies Below Turnover	2.52	

- This budget data reflects DEC receiving a net increase of 3.0 positions. However, upon review, MSDE indicate that DEC shows a net increase of 4.0 regular positions in fiscal 2023 due to transfers within MSDE. Otherwise, DEC has no new or abolished positions.
- The fiscal 2023 allowance reflects a net reduction of 25 contractual full-time equivalents, including more than 20 program, fiscal, or administrative staff members supported with ARPA funding that assisted with COVID-19-related grant management.
- ARPA-funded positions are not backfilled with State funding in fiscal 2023. **Considering delays in disbursing child care stabilization grants in fall 2021 due to discontinuing contractual positions that were needed to process applications, MSDE should discuss how it will ensure adequate contractual staffing levels to complete all child care stabilization grant application evaluations and processing, including processing needed for distributing \$50 million in additional stabilization grants proposed in a deficiency appropriation.**

Issues

1. CCS Program Enrollment Trends and Expansion

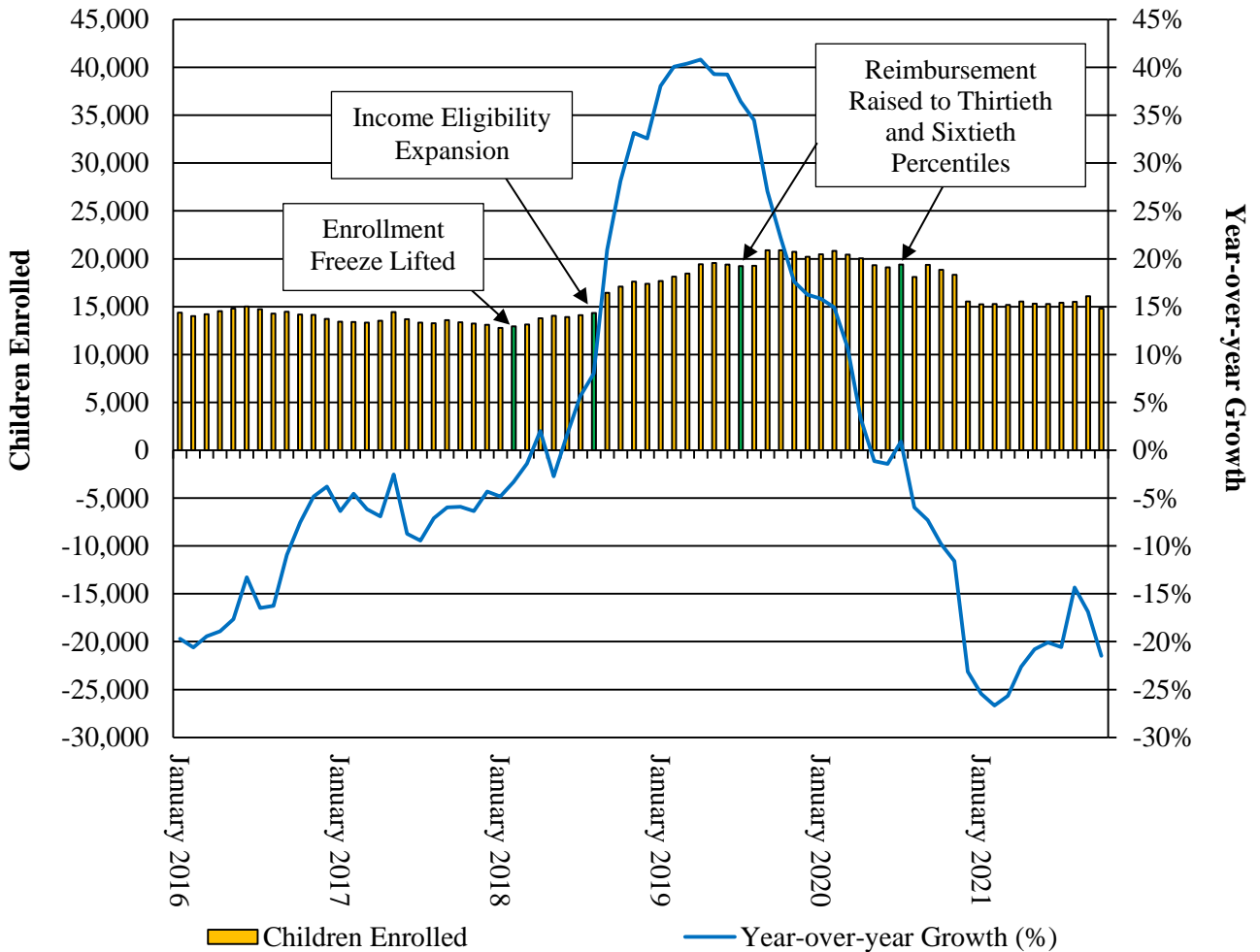
The CCS Program provides financial assistance with child care tuition to over 15,000 eligible children and slightly over 10,000 families per month. For each child needing care, participating families receive a voucher that indicates the scholarship rate and the assigned copayment that is determined by household income and region, among other factors. Eligibility for the program and the size of a family's copayment are primarily determined by household income, which places the family in an income eligibility scale in categories A through J (with families with the lowest income in category A and families with the highest income in category J). 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.

COVID-19 Pandemic Causes Decline in Enrollment

As shown in **Exhibit 6**, since January 2016, CCS Program enrollment has ranged between 12,796 children served in January 2018 to 20,907 children served in October 2019. Since February 2018, programmatic changes, including lifting enrollment freezes, eligibility expansion, and increased provider reimbursement rates, generally led to greater demand and enrollment prior to the onset of the COVID-19 pandemic.

- MSDE imposed an enrollment freeze and waitlist for the CCS Program starting February 2011. The enrollment freeze originally applied to all income eligibility levels, but MSDE opened all levels except I and J (the highest income tiers) in fiscal 2013 and lifted the enrollment freeze altogether on February 1, 2018.
- Effective August 1, 2018, an emergency regulation raised income eligibility levels from approximately 32% to 65% of the SMI at that time.
- Chapters 563 and 564 of 2018, later amended by Chapters 595 and 596 of 2019, required MSDE to adjust provider reimbursement rates to meet increasing minimum percentiles of current market rates. Reimbursement rates were increased to the thirtieth percentile at the start of fiscal 2020 and were increased to the sixtieth percentile at the start of fiscal 2021.

**Exhibit 6
Unduplicated Count of Children Enrolled in the CCS Program
January 2016 to October 2021**



CCS: Child Care Scholarship

Note: Enrollment counts from August 2021 to October 2021 are preliminary and may change.

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

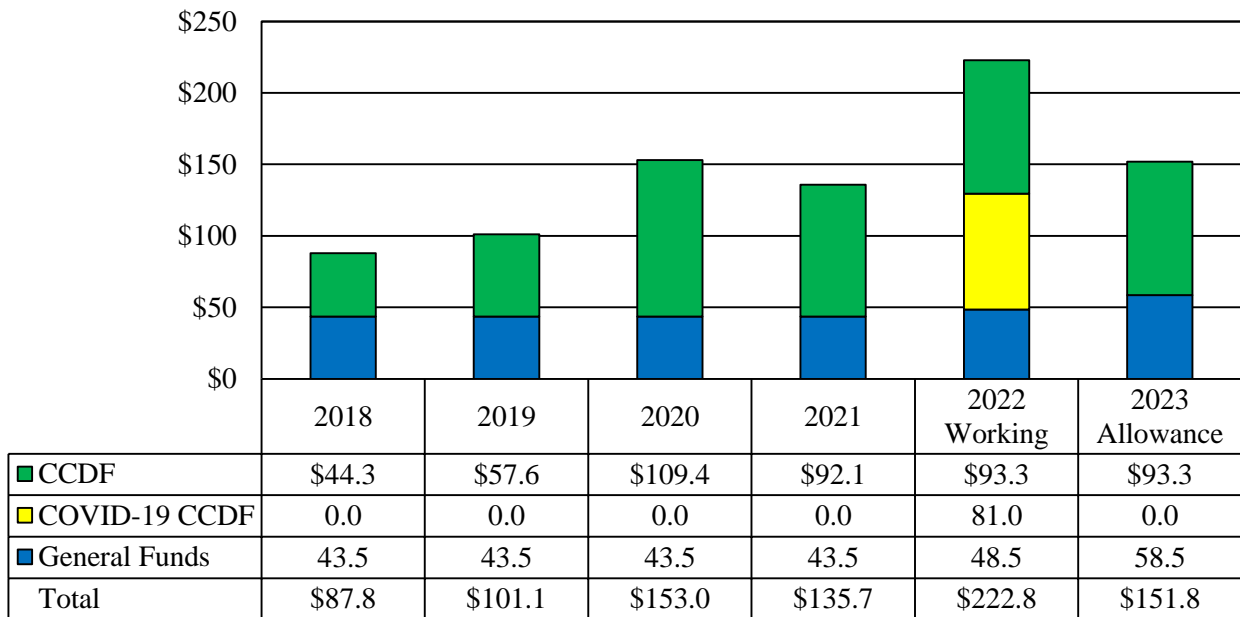
After peaking in April 2019, the year-over-year growth in CCS enrollment growth was already slowing in the months leading up to March 2020. Despite this, CCS enrollment still showed double-digit growth over the prior year. However, the onset of the COVID-19 pandemic caused a sharp drop in CCS enrollment and, by May 2020, when child care programs generally remained closed except to serve children of essential personnel and workers at reopened businesses, enrollment was 1.12%

lower than the prior year. Since the start of academic year 2022, enrollment has continued to decline, with 21.5% fewer children participating in the CCS Program in October 2021 compared to October 2020. Preliminary October 2021 enrollment shows only 14,810 children participating, the lowest number of unduplicated children participating since August 2018.

One-time Federal Aid Budgeted for Ongoing CCS Programmatic Changes

As shown in **Exhibit 7**, spending on CCS payments has fluctuated since fiscal 2018. Although the program recorded significant declines in enrollment due to the COVID-19 pandemic, expenditures for CCS payments remained elevated in fiscal 2020 and 2021 as MSDE temporarily reimbursed child care providers based on program enrollment rather than attendance. This was intended to provide financial assistance to child care programs serving CCS participants while providers could not serve up to their full licensed capacity.

Exhibit 7
Child Care Scholarship Expenditures by Fund Source
Fiscal 2018-2023
(\$ 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 grants to child care providers or spent on other early childhood system improvements. Other CCDF funding budgeted under the Division of Early Childhood for administrative costs are also not included.

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

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Maryland’s annual CCDBG allocation paid into the Child Care and Development Fund (CCDF) continues to serve as the primary source of funding for the CCS Program, even as State funding for CCS payments grows by \$15 million across fiscal 2022 and 2023. A fiscal 2022 budget amendment appropriated \$81.0 million in one-time CCDF support as part of MSDE’s spending plan for its \$193.2 million supplemental CCDBG award authorized in the ARPA. This funding implements the following two ongoing programmatic changes.

- CCS Program income eligibility limits would be raised from 65% of the 2018 SMI to 75% of the current SMI. For a family of four, this would increase the top income threshold from \$71,525 per year as listed in the Code of Maryland Regulations, to approximately \$90,033 per year according to federal fiscal 2021 estimates published by the U.S. Department of Health and Human Services (HHS).
- Provider reimbursement rates increase from the sixtieth to seventieth percentile of current market rates. HHS Administration for Children and Families considers the seventy-fifth percentile of market rates as the benchmark for ensuring children receiving CCS have equal access to services provided to other children.

As of November 1, 2021 (the submission date of the last quarterly report on CCS Program expenditures), reimbursement rates were still set at the sixtieth percentile. Further, no regulation changes related to eligibility have been proposed. MSDE indicated that it expects to update its CCS eligibility regulation following the 2022 legislative session and increase reimbursement rates in March 2022.

Based on the delayed timing of when these programmatic changes would take effect, in addition to lower enrollment stemming from the pandemic, the fiscal 2022 working appropriation appears to be substantially overfunded in fiscal 2022 at \$222.8 million in total funds. Most recently in fiscal 2021 when the program still served over 18,000 children on average per month through the first six months of the fiscal year, only \$135.7 million was spent on the program. On average in fiscal 2022 year to date, only an average of 15,461 children have been served in the CCS Program per month. **Therefore, MSDE should explain how much of the \$81.0 million in supplemental CCDF support it actually expects to spend in fiscal 2022. The department should also discuss whether expanding income eligibility to 75% of SMI and increasing reimbursement rates to the seventieth percentile of market rates would be retroactive to a specific date.**

Potential State Fund Need Is Unknown without Adequate Cost Estimates

Since unspent CCDF allocations can be reserved or carried forward into future years, it is possible the initial \$81.0 million federal fund allocation could be sufficient to cover multiple years of expanded eligibility and reimbursement rates, especially considering the continued enrollment decline resulting from the COVID-19 pandemic. However, it is important to note that the fiscal 2023 allowance includes \$10 million in additional general fund support without any published cost estimates or forecasting that finds this additional funding to be necessary to cover CCS costs.

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MSDE currently has a memorandum of understanding with the Regional Economic Studies Institute (RESI) at Towson University for advanced research and data analysis services related to the CCS Program. In response to the 2021 *Joint Chairmen’s Report* (JCR), RESI and MSDE submitted a report with program participation forecasts and a discussion of how programmatic changes in fiscal 2019 and 2020 increased actual program expenditures on a per child basis. This report did not forecast costs of expanding income eligibility to 75% of SMI or increasing reimbursement to the seventieth percentile of market rates.

MSDE and RESI should provide CCS Program cost and enrollment projections by fiscal year for expanding eligibility and increasing reimbursement rates.

Considering the significant amount of federal funds made available at the same time that CCS Program enrollment has declined, DLS recommends that the budget committees restrict \$10 million in general funds from the CCS Program until MSDE provides a report on federal funding adequacy in fiscal 2022 and 2023 for the planned income eligibility expansion and increased provider reimbursement rates.

DLS also recommends adopting committee narrative requesting that MSDE submit quarterly reports on CCS Program expenditures and enrollment.

Operating Budget Recommended Actions

1. Adopt the following narrative:

Child Care Stabilization Grant Awards: Maryland received more than \$500 million in federal aid through the American Rescue Plan Act to support the child care industry and overall early childhood system as the COVID-19 pandemic has greatly impacted these programs. More than half of this funding was allocated for short-term stabilization grants to child care providers, and a proposed fiscal 2022 deficiency would allocate \$50 million in State funds to distribute additional grants.

The committees are interested in receiving information about how federal aid and State funding have been spent to assist the State’s child care system. The committees request that the Maryland State Department of Education (MSDE) submit a report by November 1, 2022, that provides stabilization grant allocations by jurisdiction, grant allocations by child care program type (child care centers and family child care programs), the number of child care providers that received stabilization grants in each application cycle, and a summary of how child care providers spent the grants across specific uses (i.e., wages for employees, staff bonuses or paid leave, rent, transportation costs for staff, personal protective equipment, and other allowable uses). In the report, MSDE should also discuss any new programs or funding streams that it will administer to support child care programs with personnel retention, recruitment, and operating costs once the stabilization grant term ends.

Information Request	Author	Due Date
Report on COVID-19-related child care stabilization grants	MSDE	November 1, 2022

2. Adopt the following narrative:

Early Childhood Data System Modernization Project: Due to the availability of one-time federal funds to aid the early childhood education system in Maryland, the Maryland State Department of Education (MSDE) has redesigned its Child Care Administration Tracking System replacement project to include multiple early childhood data systems. Before September 1, 2022, MSDE, in consultation with the Department of Information Technology (DoIT), should submit a report to the committees including:

- a list of early childhood data systems and early childhood programs that will be affected by this project;
- the federal funding sources for this project with funds from each federal grant shown by fiscal year;

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- a description of major improvements planned for each early childhood program and benefits to relevant stakeholders;
- specific issues with legacy early childhood systems that will be improved with this major information technology project, including cybersecurity issues like ensuring independent security reviews (particularly System and Organization Controls reviews (SOC 2 Type 2));
- an update on whether any early childhood systems will be integrated to the Maryland Total Human-services Integrated Network; and
- the status of all applications completed or in the process of being completed.

Information Request	Author	Due Date
Report on the Early Childhood Data System Modernization project	MSDE DoIT	September 1, 2022

3. Add the following language to the general fund appropriation:

, provided that \$10,000,000 of this appropriation made for the purpose of the Child Care Scholarship Program may not be expended until the Maryland State Department of Education submits a report to the budget committees on fiscal 2022 and 2023 funding adequacy in the Child Care Scholarship Program. The report shall include:

- (1) fiscal 2022 year-to-date federal fund expenditures used to expand program income eligibility thresholds and increase reimbursement rates and the amount of federal funds being carried over into future fiscal years;
- (2) total projected costs for fiscal 2022 and 2023 for the Child Care Scholarship program separately identifying costs related to these programmatic changes;
- (3) a discussion of whether these programmatic changes are expected to continue after the one-time federal funding sources are fully expended, including cost estimates for fiscal 2024 and 2025 for these programmatic changes if the changes are expected to continue; and
- (4) if the planned changes are expected to continue, the planned funding sources that would be made available for ongoing program costs after one-time federal funding sources for child care purposes are fully expended.

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The report shall be submitted by July 1, 2022, and the budget committees shall have 45 days from the date of the receipt of the report to review and comment. Funds restricted pending the receipt of a report may not be transferred by budget amendment or otherwise to any other purpose and shall revert to the General Fund if the report is not submitted to the budget committees.

Explanation: The fiscal 2023 allowance includes \$10.0 million in new general fund support for the Child Care Scholarship (CCS) Program in a period when the COVID-19 pandemic has caused a significant reduction in enrollment, and additional federal aid has become available to support the State’s child care system. This language requires the Maryland State Department of Education (MSDE) to submit a report providing projected spending and cost estimates related to recent programmatic changes affecting CCS Program expenditures and a discussion of whether these changes are expected to be ongoing.

Information Request	Author	Due Date
Report on funding adequacy in the CCS Program	MSDE	July 1, 2022

4. Adopt the following narrative:

Child Care Scholarship Program Quarterly Reports: The COVID-19 pandemic has led to reduced enrollment in the Child Care Scholarship (CCS) Program, while significant federal aid and State funding has become available for child care programs. The Maryland State Department of Education (MSDE) allocated part of the one-time funding to expand CCS through higher income eligibility thresholds and increased provider reimbursement rates. Considering these programmatic changes, 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 expended (with federal awards for COVID-19-related uses listed separately), and general fund spending;
- CCS expenditures disaggregated by federal and State funding used directly for scholarships and funding used by MSDE Headquarters for administrative costs and activities to improve provider quality, specified by purpose;
- quarterly updates on the provider reimbursement rate as a percentile of the market rate, statewide by region;
- the total number of children and families receiving CCS per month, including the number of children and families who became eligible when income eligibility

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thresholds were raised to 65% of the State median income (SMI) and the number of children and families who become eligible once income eligibility is raised to 75% SMI; and

- 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.

In its August 2022 report, MSDE should include actual data as it related to the CCS Program in the final quarter of fiscal 2022 and aggregate fiscal 2022 data.

Information Request	Author	Due Date
CCS quarterly expenditure reports	MSDE	August 1, 2022 November 1, 2022 February 1, 2023 May 1, 2023

Appendix 1
2021 Joint Chairmen’s Report Responses from Agency

The 2021 JCR requested that MSDE prepare three reports. Electronic copies of the full JCR responses can be found on the DLS Library website.

- ***Early Childhood Expansion Funding:*** Additional information on early childhood expansion funding using special funds from the Blueprint for Maryland’s Future Fund can be found in the budget section of this analysis.
- ***CCS Program Data Analysis:*** Further discussion of CCS enrollment forecasting and cost estimates can be found in Issue 1 of this analysis.
- ***CCS Quarterly Reports:*** Further discussion of CCS enrollment and spending data can be found in Issue 1 of this analysis.

Appendix 2
Child Care Administration Tracking System Replacement
Major Information Technology Project
Maryland State Department of Education

New/Ongoing: Ongoing								
Start Date: March 9, 2020					Est. Completion Date: June 30, 2023			
Implementation Strategy: Agile								
(\$ in Millions)	Prior Year	2022	2023	2024	2025	2026	Remainder	Total
FF	\$4.500	\$9.000	\$23.100	\$18.800	\$8.600	\$0.000	\$0.000	\$63.900
Total	\$4.500	\$9.000	\$23.100	\$18.800	\$8.600	\$0.000	\$0.000	\$63.900

Note: Funding for this project is budgeted under MSDE Headquarters in the MITDPs program.

- Project Summary:** DEC initially planned a replacement project for one legacy child care information technology (IT) program, but this project has been updated with a much larger scope and new project title (Early Childhood Data System Modernization) due to the availability of federal funds. MSDE has expanded this project to increase capabilities for four legacy systems, which will impact licensing, staff evaluation and electronic inspections, community-based programs, professional development, quality improvement initiatives, and data analysis and reporting across all DEC programs.
- 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.
- Observations and Milestones:** Following the major redesign of this project, the Department of Information Technology and the Department of General Services are still reviewing DEC’s task order request for proposals. DEC has also signed an intergovernmental agreement with Colorado to receive a no-cost copy of existing early childhood applications developed with federal funds. Colorado’s applications will not meet all of DEC’s need for its child care programs. Therefore, more steps will be needed to adopt the system.
- Changes:** DEC is greatly expanding the scope, timeline, and budget for this project as it has received significant one-time funding through a supplemental CCDBG award. This grant funding is provided to states on a discretionary basis, and states can use the funding to implement long-term improvements for early childhood education and child care systems.
- 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.

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Finally, a finding in the September 2019 DEC audit conducted by the Office of Legislative Audits discussed how DEC lacked assurance that CCATS was sufficiently protected against operational and security risks. Specifically, the CCATS primary service provider had not had the SOC 2 Type 2 reviews that were required in the State’s contract with the vendor. Following the audit, DEC obtained an independent security review of the primary service provider and confirmed that reviews were completed for subcontractors. These reviews found that there were no control weaknesses cited. As DEC undertakes this modernization project for CCATS and other data systems, it should ensure that all required security reviews are being undertaken for all vendors and subcontractors.

Appendix 3
Early Childhood Programs Funded with Special Funds
From the Blueprint for Maryland's Future Fund
Fiscal 2022-2023

<u>Early Childhood Program</u>	<u>Working Appropriation¹ 2022</u>	<u>Allowance 2023</u>	<u>Mandates under Chapter 36 of 2021 2023</u>	<u>Change 2022-2023</u>	<u>Chapter 36 vs. Allowance Difference</u>	<u>Chapter 36 Mandates As Amended by Chapter 55 of 2021</u>
Publicly Funded Prekindergarten						
Prekindergarten Supplemental Grants/ Publicly Funded Full-day Prekindergarten Program	\$53.7	\$144.1	\$75.9*	\$90.4	\$68.2	In fiscal 2023, children from families with household incomes at or below 300% FPG may receive funding for publicly funded prekindergarten services based on a \$10,094 per pupil amount.
Prekindergarten Expansion Grants	26.6	26.6	26.6	0.0	0.0	The Governor must appropriate the same amount to the Prekindergarten Expansion Grant program as the prior year through fiscal 2025.
Discretionary Prekindergarten Expansion Grants	20.0	0.0	0.0	-20.0	0.0	n/a.
Subtotal	\$100.3	\$170.7	\$102.5	\$70.4	\$68.2	
Wraparound/Supportive Services						
Additional Judy Centers	\$3.3	\$3.0	\$3.0	-\$0.4	\$0.0	The State shall fund nine additional centers per year from fiscal 2021 through 2025 (funded at \$330,000 per center).
Grants and Grant Enhancements for Existing Judy Centers	8.1	11.4	11.4	3.3	0.0	
Total Judy Centers	\$11.4	\$14.4	\$14.4	\$3.0	\$0.0	

<u>Early Childhood Program</u>	<u>Working Appropriation¹ 2022</u>	<u>Allowance 2023</u>	<u>Mandates under Chapter 36 of 2021 2023</u>	<u>Change 2022-2023</u>	<u>Chapter 36 vs. Allowance Difference</u>	<u>Chapter 36 Mandates As Amended by Chapter 55 of 2021</u>
Additional Patty Centers	\$1.2	\$1.0	\$1.0	-\$0.2	\$0.0	For fiscal 2021, the State shall fund six additional centers. The State shall fund three additional centers per year from fiscal 2022 through 2029. Additional centers shall be funded at \$330,000 per center.
Grants and Grant Enhancements for Existing Patty Centers	2.4	3.6	3.6	1.2	0.0	
Total Patty Centers	\$3.6	\$4.6	\$4.6	\$1.0	\$0.0	
Infants and Toddlers Program ¹	\$3.0	\$4.3	\$4.3	\$1.3	\$0.0	The Governor shall provide \$14.7 million in total funds in fiscal 2023 (\$10.4 million is supported in general funds).
Subtotal	\$17.9	\$23.2	\$23.2	\$5.2	\$0.0	
Workforce/Program Quality Development						
EXCELS Bonuses to Participating Providers	\$0.0	\$5.0	\$5.0	\$5.0	\$0.0	The Governor shall appropriate \$5.0 million in fiscal 2023.
EXCELS Contract with Johns Hopkins University IDEALS Institute	6.3	0.0	0.0	-6.3	0.0	n/a.
Child Care Accreditation Support Fund	0.5	1.0	1.0	0.5	0.0	The Governor shall appropriate at least \$1.0 million beginning in fiscal 2021.
Child Care Incentive Grant Program	0.5	0.1	0.6	-0.4	-0.4	From fiscal 2022 through 2030, funding for this program shall increase 10% over the prior year.
Maryland Child Care Credential Program	5.5	5.2	4.8	-0.3	0.3	The Governor shall appropriate \$4.0 million in fiscal 2021 and

<u>Early Childhood Program</u>	<u>Working Appropriation¹ 2022</u>	<u>Allowance 2023</u>	<u>Mandates under Chapter 36 of 2021 2023</u>	<u>Change 2022-2023</u>	<u>Chapter 36 vs. Allowance Difference</u>	<u>Chapter 36 Mandates As Amended by Chapter 55 of 2021</u>
Child Care Career and Professional Development Fund	4.0	0.0	0.0	-4.0	0.0	from fiscal 2022 through 2024, funding for the program shall increase by 10% over the prior year. Additional State support for this program is budgeted in the Division of Early Childhood.
Subtotal	\$16.8	\$11.3	\$11.4	-\$5.5	-\$0.1	
<i>Other</i>						
Early Childhood Primary Contact	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	MSDE shall designate a primary contact employee for early child care in the Office of Child Care. The fiscal 2023 allowance meets this mandate with an existing position.
Total	\$284.9	\$205.2	\$137.1	-\$79.7	\$68.1	

¹ Special funds from the Blueprint for Maryland’s Future Fund budgeted in the fiscal 2022 working appropriation were centrally budgeted under the Blueprint for Maryland’s Future Grant Program; therefore, these funds do not appear in MSDE Early Childhood programs shown throughout this budget analysis. The fiscal 2023 allowance reflects funding for early childhood programs in the appropriate program and is reflected in budget data for this analysis.

*These funding amounts are projections published in the Chapter 36 fiscal and policy note.

Note: Numbers may not sum due to rounding. This shows special fund support for these programs. However, additional funding may be budgeted elsewhere in the Division of Early Childhood budget using general funds or federal funds that also support these programs and mandates.

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

Appendix 4
Fiscal Summary
Maryland State Department of Education – Early Childhood Development

<u>Program/Unit</u>	<u>FY 21 Actual</u>	<u>FY 22 Wrk Approp</u>	<u>FY 23 Allowance</u>	<u>Change</u>	<u>FY 22 - FY 23 % Change</u>
10 Division of Early Childhood Development	\$ 59,807,737	\$ 184,388,938	\$ 64,402,226	-\$ 119,986,712	-65.1%
06 Prekindergarten Expansion	26,644,000	26,644,000	170,707,352	144,063,352	540.7%
57 Transitional Education Funding Program	18,592,810	24,825,000	43,727,930	18,902,930	76.1%
58 Head Start	3,000,000	3,000,000	3,000,000	0	0%
59 Child Care Scholarship Subsidy	196,921,622	520,401,689	163,112,208	-357,289,481	-68.7%
Total Expenditures	\$ 304,966,169	\$ 759,259,627	\$ 444,949,716	-\$ 314,309,911	-41.4%
General Fund	\$ 69,888,724	\$ 75,183,529	\$ 85,629,408	\$ 10,445,879	13.9%
Special Fund	26,644,000	26,644,000	200,890,282	174,246,282	654.0%
Federal Fund	208,433,445	657,432,098	158,430,026	-499,002,072	-75.9%
Total Appropriations	\$ 304,966,169	\$ 759,259,627	\$ 444,949,716	-\$ 314,309,911	-41.4%

Note: The fiscal 2022 working appropriation does not include deficiency appropriations. The fiscal 2022 working appropriation and fiscal 2023 allowance do not reflect funding for statewide personnel actions budgeted in the Department of Budget and Management, which include cost-of-living adjustments, increments, bonuses, and may include annual salary review adjustments.