

Department of Legislative Services
 Maryland General Assembly
 2026 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 1321

(Delegate Palakovich Carr, *et al.*)

Ways and Means and Appropriations

Education, Energy, and the Environment and
 Budget and Taxation

Child Care Scholarship Program - Application Process and Copays - Alterations

This bill authorizes the Maryland State Department of Education (MSDE) to award partial scholarships and to set a sliding fee copayment scale for the Child Care Scholarship (CCS) Program. The bill also prohibits charging copayments for certain households. While an enrollment freeze is active, MSDE must identify, inform, and assist CCS Program applicants who qualify for enrollment in publicly funded prekindergarten, Head Start, and Early Head Start. In addition, the bill repeals current statutory provisions related to presumptive eligibility for CCS Program applicants. The bill also establishes notification requirements for families and providers should MSDE implement the sliding fee scale and requires MSDE to report to the General Assembly, as specified. The bill is contingent on separate legislation that makes changes to waitlist requirements for the CCS Program. **The bill takes effect July 1, 2026.**

Fiscal Summary

State Effect: General fund expenditures increase by \$749,700 in FY 2027 for staff and one-time contractual services. Future years reflect annualization, inflation, and ongoing operating costs. The bill’s copayment provisions likely allow additional families to receive scholarships under the CCS Program without increasing program expenditures. Revenues are not affected.

(in dollars)	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	749,700	118,200	123,600	129,200	134,800
Net Effect	(\$749,700)	(\$118,200)	(\$123,600)	(\$129,200)	(\$134,800)

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

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary:

Program Enrollment Freeze Modifications

If MSDE establishes an enrollment freeze, it must identify applicants to the CCS Program whose children qualify for the publicly funded prekindergarten program under Title 7, Subtitle 1A of the Education Article, or a Head Start or Early Head Start program. MSDE must inform an applicant identified about the publicly funded prekindergarten program, Head Start program, or Early Head Start program, including by providing information on:

- available prekindergarten, Head Start, or Early Head Start programs in the county in which the applicant resides;
- how to contact providers who may have available slots; and
- how to apply for the programs.

On request, MSDE must provide eligible families with information on the enrollment processes. The process for identifying and assisting eligible program applicants whose children qualify for a program must continue as long as the waitlist is in effect.

MSDE must also provide to CCS Program applicants information on income-based government assistance programs and tax credits for which the applicants may be eligible.

Copayment Level Modifications

MSDE must award a scholarship in an amount sufficient to ensure that an individual who has an annual household income at or below the federal poverty line is not required to pay a copay for child care.

MSDE may award partial scholarships under the program through a sliding fee scale for copayments that:

- applies to an individual who (1) has an annual household income above the federal poverty line and (2) is not explicitly exempt from copayments;
- is based on an individual's annual household income above the federal poverty line;
- requires an individual to provide an increased percentage of the individual's annual household income as a copay as the individual's income increases;
- increases copay percentages gradually between household income categories, culminating in a maximum copay not to exceed 7% of an individual's annual

household income for an individual with the highest income category under the program;

- includes a sufficient number of household income categories to minimize significant increases in copay amounts for an individual who moves from one income category to another; and
- requires a copay for each child in a family receiving a partial scholarship, but requires a lower copay amount for each subsequent child.

MSDE may set a minimum copay amount for a partial scholarship award under the program (not to exceed \$10 each month).

Prekindergarten Information Sharing

In order to fulfill the requirement to share information about publicly funded prekindergarten slots with applicants to the CCS program, MSDE:

- may, before the date on which MSDE implements the Early Childhood Pre-K Enrollment System for publicly funded prekindergarten, provide information on available publicly funded prekindergarten slots in the county in which the applicant resides as of the most recent enrollment count; and
- must, beginning on the date MSDE implements the Early Childhood Pre-K Enrollment System for publicly funded prekindergarten, provide up-to-date information on available publicly funded prekindergarten slots in the county in which the applicant resides.

Copayment System Requirements

If MSDE implements a system for copayments for the CCS Program in accordance with the bill, MSDE must provide ample notice of incoming copayments, notifying current scholarship recipients and the child care providers that accept the scholarships multiple times, beginning with a first notice at least 90 days before a system of copayments is implemented.

By December 1, 2027, MSDE must report to the General Assembly on a system of copayments for the CCS program adopted in accordance with the bill. The report must include information on:

- income bands used to generate copayments;
- the number of scholarships in each income band; and
- the average copayment in each income band.

Waitlist Monitoring

MSDE must monitor the waitlist for the CCS Program in effect on July 1, 2026. If MSDE determines that there will no longer be any applicants on the waitlist within six months, it must report to the General Assembly on (1) the possibility of the waitlist ending and (2) whether the CCS Program should include a process that allows applicants to the program to enroll through presumptive eligibility. In issuing its report, MSDE must review the presumptive eligibility process in place before July 1, 2026, and consider possible changes to make the program more effective.

Current Law: The CCS Program provides financial assistance with child care costs to low-income families that meet applicable State or federal requirements. The program is funded through a combination of State funds and the federal Child Care and Development Block Grant. All participating parents or guardians must meet a variety of technical requirements and must be working or enrolled in school, a training program, or a work-related activity.

To meet income requirements, an individual must meet income guidelines that vary based on family size or be a recipient of TCA or SSI. Beginning July 1, 2023, MSDE implemented a process for granting presumptive eligibility to individuals who attest to meeting the eligibility requirements for a scholarship, as required by Chapters 525 and 526 of 2022. Effective May 2022, MSDE also increased the income eligibility threshold to 75% of the State median income (SMI) using federal assistance distributed to states during the COVID-19 pandemic.

For each child needing care, eligible families receive a voucher with the scholarship rate, which is used to purchase child care directly from the provider of their choice. Families also receive access to information and referral services to assist them in finding appropriate child care. Scholarship rates are determined by the geographic region, type of provider, and age of the child. A family that does not receive TCA or SSI may be required to contribute a copayment (paid directly to the provider), and any remaining balance between the actual rate charged by the provider and the voucher amount. In accordance with Chapters 525 and 526, MSDE must award scholarships in an amount sufficient to ensure that an individual will not be required to pay a copay if they participate in certain programs, such as the Supplemental Nutrition Assistance Program or the federal Housing Choice Voucher Program. Effective May 2022, MSDE also reduced copays for all other participating families to a range of \$1 to \$3 per week.

MSDE determines provider reimbursement rates based on market rate surveys of the geographic regions conducted every two years.

Under current law, MSDE is generally prohibited from making certain alterations to the CCS program. For example, it is prohibited from making the following alterations to the CCS Program in effect as of January 1, 2023: (1) reducing the reimbursement rates; (2) reducing the income eligibility requirements; or (3) implementing a freeze in program enrollment. However, MSDE may do so if (1) it submits a notification to specified committees of the General Assembly on the intended program alterations, including the reason for, and expected duration of, the proposed actions and (2) the program alterations identified in the notification are not implemented until the completion of the regular legislative session immediately following the submission of the notification. If the Board of Public Works approves budget reductions for the program pursuant to its current statutory authority for a certain fiscal year, MSDE may reduce the reimbursement rates, reduce the income eligibility requirements, or implement a freeze in enrollment at any time during the fiscal year. MSDE is also prohibited from increasing the copayment levels of the program in effect as of January 1, 2024.

State Expenditures: Due to prior year budget shortfalls for the CCS Program, MSDE implemented an enrollment freeze to slow spending growth; a waitlist for program services was implemented beginning May 1, 2025. The overall impact on CCS Program expenditures under the bill cannot be reliably estimated at this time. While certain elements of the bill likely increase MSDE's costs (*e.g.*, personnel needs), other provisions could allow MSDE to reduce costs associated with providing scholarships (*e.g.*, authorizing copayments for certain families and the repeal of presumptive eligibility), thereby decreasing program expenditures. Additional information regarding certain impacts of the bill is provided below; however, the Department of Legislative Services (DLS) notes that the precise impact depends in part on implementation decisions by MSDE. This analysis generally (1) accounts for administrative costs, (2) does not reflect any reduction in program expenditures, and (3) assumes that any potential savings under the bill are repurposed such that additional children are able to receive scholarships without otherwise increasing program expenditures.

Scholarship Costs

Under the bill, a copayment may not be required if a household has an annual household income that is at or below the federal poverty line. The sliding scale established by the bill authorizes copayments to be required for households at or above the federal poverty line (up to 7% of household income). Although information is not readily available on the number of families participating in the program with household incomes at or below the federal poverty line, for context, the majority of families receiving a scholarship in fiscal 2026 (based on current projections) are below 40% of SMI. This analysis assumes that the higher copayments authorized by the bill are sufficient to cover participating families with household incomes at or below the federal poverty level. MSDE notes that a copayment scale established in accordance with the bill may be sufficient to serve over

1,000 additional children each year without increasing general fund expenditures. DLS notes that the bill is contingent on separate legislation (House Bill 849, which is also contingent on this bill) that requires additional families to be served under the program regardless of any waitlist; the analysis for House Bill 849 does not account for additional costs associated with serving these additional families based on the assumption that the associated costs are covered by the changes in this bill.

Administrative Costs

MSDE expects increased costs associated with staffing and operational needs. Further, contractual costs are expected to total approximately \$650,000 in fiscal 2027 only for necessary programming changes. Accordingly, general fund expenditures increase by \$749,736 in fiscal 2027 for these administrative costs. This estimate reflects the cost of hiring one program manager to assist with managing new program requirements under the bill (and in the companion bill that is contingent on this bill). It includes a salary, fringe benefits, one-time start-up costs, including the aforementioned programming changes, and ongoing operating expenses.

Position	1.0
Salary and Fringe Benefits	\$90,595
One-time Programming Costs	650,000
Operating Costs	<u>9,141</u>
FY 2027 State Expenditures	\$749,736

Future year expenditures reflect a full salary with annual increases and employee turnover as well as annual increases in ongoing operating expenses.

Small Business Effect: Private child care providers that qualify as small businesses and accept child care scholarships may benefit to the extent the bill’s changes result in an overall increase in the number of children receiving a scholarship.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

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

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