

Department of Legislative Services
Maryland General Assembly
2026 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1321 (Delegate Palakovich Carr)
Ways and Means and Appropriations

Child Care Scholarship Program - Enrollment and Copays - Alterations

This bill prohibits an enrollment freeze in the Child Care Scholarship (CCS) Program from applying to certain individuals. The Maryland State Department of Education (MSDE) must establish a waitlist during any enrollment freeze, which must give priority to certain applicants. While an enrollment freeze is active, MSDE must also identify, inform, and assist CCS Program applicants who qualify for enrollment in publicly funded prekindergarten. The bill also temporarily alters provisions related to authorized CCS Program copayment levels. **The bill generally takes effect July 1, 2026; however, provisions related to copayment modifications terminate June 30, 2028.**

Fiscal Summary

State Effect: Potential significant impact on CCS Program expenditures beginning in FY 2027, as discussed below. Revenues are not affected.

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary:

Program Enrollment Freeze Modifications – Effective July 1, 2026

A freeze in CCS Program enrollment may not apply to:

- a family or an individual who is enrolled in Temporary Cash Assistance (TCA);
- a family or an individual who is enrolled in the federal Temporary Assistance for Needy Families Program;

- a child who is enrolled in the federal Social Security Income (SSI) program; and
- a child who is homeless.

An individual described above must otherwise meet the criteria for enrollment in the CCS Program (described below). If MSDE establishes an enrollment freeze, MSDE must establish a waitlist for eligible individuals who apply to the program after the freeze is in effect. The waitlist must remain in effect as long as there are fewer available awards under the program than eligible applicants for the program. The waitlist must give priority for enrollment to qualified applicants who (1) have the greatest financial need, based on household income and (2) apply to enroll a child younger than the age of three.

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. MSDE must inform an applicant identified about the publicly funded prekindergarten program, including by providing information on:

- available prekindergarten slots in the county in which the applicant resides;
- contact information for private and public prekindergarten providers who have available slots; and
- how to apply for publicly funded prekindergarten.

On request, MSDE must assist eligible families with the publicly funded prekindergarten enrollment process. The process for identifying and assisting eligible program applicants whose children qualify for the publicly funded prekindergarten program must continue as long as the waitlist is in effect.

Copayment Level Modifications – Effective July 1, 2026, through June 30, 2028

The bill establishes new requirements related to copayments for CCS Program participants by temporarily exempting MSDE from the general requirement under current law that prohibits increasing the copayment levels of the program that were in effect as of January 1, 2024. Under the bill, MSDE must award a scholarship in an amount sufficient to ensure that an individual who has an annual income of up to 50% of the regional median income where the individual resides is not required to pay a copay for child care.

MSDE *may* award a scholarship in an amount that results in an individual paying a copy if the individual's annual income is more than 50% of the regional median income where the individual resides. However, MSDE may *not* award a scholarship in an amount that results in an individual paying (1) 3% or more of the individual's annual income as a copay, if the individual has an annual income of 65% (or less) of the regional median income where the

individual resides or (2) 7% or more of the individual's annual income if the individual has an annual income of more than 65% of the regional median income where the individual resides.

The copayment provisions above terminate June 30, 2028. Beginning July 1, 2028, MSDE is again prohibited from increasing copayment levels in effect as of January 1, 2024.

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, 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: The overall impact on CCS Program expenditures cannot be reliably estimated at this time, as while certain elements of the bill likely increase program costs, other provisions may allow MSDE to offset its costs, at least on a temporary basis. Additional information regarding the various impacts of the bill is provided below.

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. Under the bill, MSDE advises that the CCS Program must serve additional families who, under current law, would be placed on the waitlist. Certain exemptions related to the enrollment freeze, however, are not expected to have a fiscal impact. Specifically, families receiving TCA or SSI are already exempt from the waitlist. Therefore, there is no material impact from codifying these exemptions. However, MSDE notes that an estimated 4% of children on the waitlist are children experiencing homelessness. According to MSDE, if scholarships are awarded to all of these (218) children, general fund expenditures likely increase by approximately \$3.0 million annually, using an average cost per child (without accounting for future payment rate increases, the age of the child, or differences in cost by geographic location across the State).

MSDE further advises that 80% of children enrolled in the CCS Program have family incomes below 50% of SMI; under the bill, a copay may not be collected from these families. MSDE did not provide additional information on the overall amount of copays currently collected from families under this income threshold, although it expects to incur increased expenditures once the department is prohibited from requiring any copay. Conversely, under current law, copayments are also capped at \$3 per week (based on the amounts in effect as of January 1, 2024). The bill effectively repeals this limitation for some families (*i.e.*, those with annual incomes above 50% of SMI, as further specified). Accordingly, the expenditures referenced above are likely offset to some degree once higher contributions (in the form of copays) from other families are allowed. MSDE did not provide additional context to reliably estimate the impact of this authorization. The provisions associated with these impacts terminate at the end of fiscal 2028.

In addition, MSDE expects increased costs associated with higher caseloads, staffing and operational needs, and system modifications. Specifically, the agency's CCS Administrative Tracking System and the CCS provider and family portals must be modified to comply with the bill's changes. These costs are expected to total approximately \$125,000 in fiscal 2027 only.

MSDE also anticipates the need for additional staff to provide direct assistance to families on the waitlist seeking to apply for publicly funded kindergarten. This estimate reflects the cost of hiring one program manager to assist with higher workloads under the bill. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Position	1.0
Salary and Fringe Benefits	\$90,595
Operating Costs	<u>9,141</u>
FY 2027 State Expenditures – Staff	\$99,736

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 from the bill's eligibility changes, which may 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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caw/jkb

Analysis by: Eric F. Pierce

Direct Inquiries to:
(410) 946-5510
(301) 970-5510