Department of Legislative Services

Maryland General Assembly
2025 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1326 (Delegate Wivell)
Ways and Means

Prekindergarten Savings Account Program - Establishment

This bill creates the Prekindergarten Savings Account (PSA) program in the Maryland State Department of Education (MSDE) to provide grants to families to cover specified costs associated with a prekindergarten education for eligible students. Participating students are included in the enrollment count used to calculate required State and local education aid for local school systems. The State must deposit specified portions of per pupil State and local education aid, depending on family income, in each participating student's account, with each county reimbursing the State for the local share deposited. The bill establishes a subtraction modification from the State income tax for contributions to an eligible PSA, beginning in tax year 2025. **The bill takes effect July 1, 2025.**

Fiscal Summary

State Effect: General fund revenues decrease beginning as early as FY 2026 due to the subtraction modification for contributions to PSA accounts, but a reliable estimate is not feasible as discussed below. Special (Blueprint for Maryland's Future Fund – BMFF) and general fund expenditures may increase but likely not meaningfully, as discussed below. **This bill may increase a mandated appropriation beginning in FY 2027.**

Local Effect: County expenditures for public school aid are likely not meaningfully affected, as discussed below. Local school system revenues decrease, potentially drastically, threatening the financial viability of public prekindergarten programs. Local income tax revenues decrease. **This bill may impose a mandate on a unit of local government.**

Small Business Effect: Potential meaningful.

Analysis

Bill Summary:

Eligible Students and Qualifying Schools

"Eligible student" means a student eligible to enroll in a public prekindergarten program in Maryland. In order to qualify for a PSA grant, an eligible student's parent must sign an agreement with MSDE with specified provisions, including that participating children will take all assessments required by the State and that all funds provided by PSA will be used only for specified expenses in a prekindergarten program.

The bill establishes educational, legal, and reporting requirements for "qualifying schools," which are defined as nonpublic prekindergarten schools that have notified MSDE of their intention to participate in the PSA program and comply with its requirements. A home school program is not a qualifying school. Resident school districts must provide a qualifying school or other specified providers with a complete copy of a student's record in compliance with federal law.

Contributions to Eligible Accounts

For students whose family income is less than or equal to 500% of the federal poverty level (FPL), the State must deposit into a PSA account, on a quarterly basis, 75% of the per pupil amount of State and local funds for each education program for which the student would be included in the resident school district enrollment count. For students whose family income exceeds 500% of FPL, the contribution is 50% of per pupil education funding, also on a quarterly basis. Any funding deposited into an eligible student's PSA account must be deducted from the amount of State and local funds provided to the resident school district under the State's K-12 funding formulas. In 2025, the federal poverty threshold for a family of four is $32,150, making 500% of that level equal to $160,750. Actual thresholds used for the program will vary by the size of each participating family.

Any unused funds when the student completes a prekindergarten program or is no longer enrolled in a qualifying school must be returned to the State.

Eligible Expenses

Parents of eligible students may use funds in the account only for the following expenses:

- tuition and fees at a qualifying school;
- textbooks or uniforms required by a qualifying school;

- private tutoring;
- the purchase of curriculum and instructional materials;
- tuition or fees for a nonpublic online learning program;
- fees for specified exams;
- education services from a licensed or accredited provider of services for students with special needs or disabilities;
- contracted education services provided at a public prekindergarten program or within a local school system;
- Internet service provider or online learning fees, if applicable; and
- any other expenses approved by MSDE.

Maryland State Department of Education Responsibilities

MSDE must qualify private financial management firms or similar entities to manage accounts and establish reasonable fees based on market rates. It may conduct or contract for the auditing of accounts, but at a minimum, a random sampling of accounts must be audited annually. MSDE must provide written notice to parents on eligible uses of funds, parental responsibilities, and duties of the department, and must develop regulations to implement the bill. MSDE may determine a parent to be ineligible based on misuse of funds.

Subtraction Modification

Parents of an eligible student may deposit additional funds to an account on a pre-tax basis. Any such contributions by a parent (but not by the program) are eligible for a subtraction modification in the calculation of Maryland adjusted gross income for the purpose of calculating State income tax payments.

Current Law: The full-day prekindergarten funding formula provides State and local funding for voluntary full-day prekindergarten for (1) children who are three or four years old from low-income families and homeless youths and whose family income is less than or equal to 300% of the FPL (Tier I children) and (2) four-year-olds from families whose income is – for fiscal 2026 funding – between 300% and 360% of FPL, and beginning fiscal 2027 between 300% and 600% of FPL (Tier II students). Tier III students (those with family incomes above 600% of FPL) are not included in the prekindergarten enrollment counts for the purpose of calculating State and local funding for prekindergarten programs, but they are eligible to participate in a public prekindergarten program (with the families paying the full cost).

There is no family share for Tier I students. For Tier II students, a sliding scale developed by MSDE determines the family share. For four-year-olds from families with income above 600% (Tier III), the family share covers the full cost of full-day prekindergarten. However, a local board may provide up to 100% of the family share on behalf of the family. Local governments are required to fund the local share of the full-day prekindergarten program. The funding formula for full-day prekindergarten is based in part on the per pupil amount. The per pupil amount is $14,473 for fiscal 2026, escalates to $19,950 in fiscal 2027 and 2028, and increases annually by inflation beginning in fiscal 2029.

Beginning in the 2024-2025 school year, prekindergarten slots provided by eligible private providers must account for at least 10% of the total prekindergarten slots provided by eligible prekindergarten providers in each county. The proportion of eligible private provider prekindergarten slots in each county increases by 10 percentage points every school year, until, in the 2028-2029 school year, and each subsequent school year, eligible private provider prekindergarten slots account for at least 50% of eligible prekindergarten provider prekindergarten slots in each county.

Priority in expanding full-day prekindergarten slots is given to three- and four-year-olds who are Tier I children, children with disabilities regardless of family income, and children living in homes where English is not the primary spoken language. The proportion of enrolled Tier I children who are three- and four-year-olds must increase annually until all such children are enrolled in a full-day prekindergarten program.

A local department of social services or a local health department must provide a parent or guardian with notice that their child may be eligible for publicly funded prekindergarten programs if the parent or guardian (1) applied for economic services with the local department of social services or the local health department and (2) has a child who will be three or four years old by September 1 of the next academic year.

Public and private providers must meet specified requirements to be eligible to participate in the publicly funded full-day program. Each local board of education must enter into a memorandum of understanding with MSDE, each eligible private provider participating in publicly funded prekindergarten in the county, and other applicable government agencies.

Blueprint for Maryland's Future Fund

BMFF is intended to assist in providing adequate funding for early childhood education and primary and secondary education to provide a world-class education to students in Maryland. BMFF special fund revenues are projected to be sufficient to cover mandated annual increases in expenditures for the Blueprint for Maryland's Future (Blueprint) through fiscal 2026.

State Revenues: General fund revenues decrease beginning in fiscal 2026 due to the subtraction modification decreasing taxable income for some participating families, but a reliable estimate is not feasible. The number of participating families cannot be known in advance; moreover, it is not known what percentage of participating families will make their own tax-exempt contributions to PSAs in excess of contributions by the State and local school systems. As most PSA participants are expected to be low- and medium-income families, the percentage who make excess contributions to PSAs is likely small.

State Expenditures: Special and general fund expenditures for education aid are likely not meaningfully affected, but a reliable estimate is not feasible because it depends on multiple factors discussed below. The PSA program potentially benefits children in Tiers I and II, but not Tier III. Tier I families have no family share to participate in the Blueprint prekindergarten program, so their only incentive to participate in PSA is to pay for supplemental services authorized by the bill (such as private tutoring or Internet service). Tier II families have a family share based on a sliding scale, so they have a higher incentive to participate if they want the PSA accounts to cover their family share (so they have no out-of-pocket costs for prekindergarten).

Tier III families initially satisfy the bill's eligibility criteria for PSA accounts because they are eligible to enroll their children in a public prekindergarten program in the State. However, they have to pay the full cost (tuition) associated with their child's participation in the program. As noted above, since Tier III families pay the full cost, their children are not included in the enrollment count that determines State and local funding for public prekindergarten. The bill specifies that PSA accounts consist of 75% or 50% of the per pupil amount of State and local funds for any program in which the eligible student is included in the enrollment count for the calculation of State and local aid. Since Tier III students are not included in prekindergarten enrollment counts, this analysis assumes they are not eligible to have any State or local funds deposited in a PSA account for them.

Exhibit 1 shows the distribution of Tier I and Tier II children between public and private prekindergarten providers for the 2024-2025 school year. Reliable data on the number of Tier III students participating in the program are not available because those students are not counted for funding purposes.

Exhibit 1
Tier I and Tier II Prekindergarten Participation
School Year 2024-2025

	Tier I		Tier II	
	Public	**Private**	**Public**	**Private**
Enrollment	21,675	1,654	522	43

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

State Education Aid Expenditures

In general, State special and general fund expenditures for the Blueprint prekindergarten program are likely not meaningfully affected. Under the bill, the State pays the same share of the per pupil amount for each Tier I and Tier II student enrolled in prekindergarten, except that either 50% or 75% of that amount is paid to a PSA account instead of directly to a local school system or private provider. State expenditures are partially offset to the extent unused portions of PSA accounts, including county shares, are remitted to the State at the end of each fiscal year.

Participation in the PSA program by Tier I families is likely limited because their tuition is already 100% covered by the program, regardless of whether they enroll in a public or private prekindergarten program, so they have limited incentive to participate in the PSA program. However, some Tier I families may opt to participate to cover the cost of supplemental services allowed by the bill. Any unspent funds (State or local), which may be significant, revert to the State, potentially offsetting State expenditures for prekindergarten programs.

The effect on State expenditures for Tier II families is similar to that for Tier I families, except that Tier II families have a greater incentive to participate in the PSA program. Tier II families pay a family share of tuition costs for prekindergarten programs on a sliding scale, so they have an incentive to participate in the PSA program to offset all or a significant portion of the family share.

The PSA program may increase overall special and general fund expenditures by increasing participation among Tier I and, more likely, Tier II families in the public prekindergarten program. Some Tier II families may choose not to enroll their children in the public prekindergarten program because of the family share but may opt to participate if the PSA accounts can offset all or most of that cost. As these children are then included in the enrollment counts, their participation increases State expenditures for the program, potentially significantly. However, added participation may be restricted by limited supply of available slots with private providers. MSDE advises that, during the 2024-2025 school year, there are only about 400 vacant slots available with private providers, and some counties have few or no available slots. Thus, any potential increase in State special and general fund expenditures is likely minimal.

Maryland State Department of Education Administrative Expenses

MSDE incurs costs to manage the program and conduct annual audits of PSA accounts. As the bill requires MSDE to establish reasonable fees based on market rates, MSDE envisions covering these costs through a modest fee on PSA accounts, including costs associated with hiring a third-party administrator to manage the program and paying for the annual audits. This is consistent with the practice of Maryland's 529 plans and supplemental retirement plans, both of which use third-party program and asset managers that are reimbursed by fees based on a percentage of assets. Therefore, there is no net cost to MSDE for administrative expenses.

Local Fiscal Effect:

County Expenditures

As with the State, county expenditures are likely not meaningfully affected by the bill. Under current law, counties pay their share of the per-pupil prekindergarten funding directly to local school systems or private providers. Under the bill, they pay the same share for PSA participants, except that they reimburse the State for their share deposited into PSA accounts (instead of paying local school systems or private providers). Even though counties pay, on average, 50% of the per pupil funding level, the bill specifies that any unused funds in PSA accounts, including the county share, revert to the State. Therefore, unlike the State, counties receive no offsetting remittances from unused funds in PSA accounts.

Local School System Revenues

Local school system revenues decrease, potentially drastically, as a result of State and county per pupil funding being diverted to PSA accounts. Under the bill, for each child participating in the PSA program, either 75% or 50% of per pupil funding amounts paid to local school systems for each child enrolled in a public prekindergarten program is instead deposited into a PSA account. Thus, for each Tier I or Tier II student enrolled in a public prekindergarten program, local school systems receive only 25% or 50% of the funding needed to serve that child. Local school systems can continue to collect the family share from Tier II families, but they cannot collect any tuition from Tier I families, so operating a public prekindergarten program likely become financially infeasible.

Families that use their PSA accounts to transfer from a public program to a private provider generate offsetting revenue and expenditure effects on local school systems. However, any such transfers are likely minimal due to the limited number of available slots with private providers, as discussed above.

County Tax Revenues

County revenues decrease beginning in fiscal 2026 due to the subtraction modification decreasing taxable income for some participating families, but a reliable estimate is not feasible. The number of participating families cannot be known in advance; moreover, it is not known what percentage of participating families will make their own tax-exempt contributions to PSAs in excess of contributions by the State and local school systems. As most PSA participants are expected to be low- and medium-income families, the percentage who make excess contributions to PSAs is likely small.

Small Business Effect: Enrollment in private prekindergarten programs, many of which are small businesses, may experience an increase due to families using PSA accounts to pay tuition for the programs. Any such increase may be restricted due to limited availability of prekindergarten slots.

Additional Comments: Under an alternative assumption that Tier III students must be included in the enrollment counts, State special and general fund expenditures and county expenditures increase significantly.

Additional Information

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

Designated Cross File: None.

Information Source(s): Comptroller's Office; Maryland State Department of Education; Department of Budget and Management; Baltimore County Public Schools; Montgomery County Public Schools; Prince George's County; U.S. Department of Health and Human Services; Internal Revenue Service; Department of Legislative Services

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