Department of Legislative Services

Maryland General Assembly
2020 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1559 (Delegate Queen)
Appropriations

Child Care Scholarship Program - Alterations (Child Care for Working Families Act)

The bill makes numerous changes to the Child Care Subsidy (CCS) Program, including altering eligibility requirements and establishing maximum copayment amounts. The bill also renames the program as the Child Care Scholarship Program. **The bill takes effect July 1, 2020.**

Fiscal Summary

State Effect: General fund expenditures may decrease minimally in FY 2022 through 2025 to reflect lower eligibility thresholds. Beginning in FY 2025, general fund expenditures increase significantly, likely by more than $10 million annually, to reflect altered copayments and increased eligibility.

Local Effect: The bill does not materially affect local government operations or finances.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: The bill specifies that the Maryland State Department of Education (MSDE) must determine a child's eligibility to receive subsidized child care by considering the annual income and size of a child's family. To be eligible for subsidized child care, a child must reside in the State and reside with a parent who is engaged in a qualifying activity or be a vulnerable child.

Beginning July 1, 2021, and through June 30, 2025, a child must reside with a parent whose gross annual household income does not exceed 250% of the federal poverty level (FPL) or 85% of the State Median Income (SMI) based on family size, *whichever is lower.* The bill establishes the following eligibility thresholds for subsequent years: (1) beginning July 1, 2025, up to 300% of FPL; (2) beginning July 1, 2026, up to 350% of FPL; and (3) beginning July 1, 2027, up to 400% of FPL. Beginning July 1, 2028, *all* children in the State are eligible regardless of the amount of gross annual household income. A child whose family has no household income is eligible for subsidized child care at the lowest subsidy rate.

MSDE may limit the amount of child care subsidies based on available resources or funding. If MSDE implements a waiting list, it must give priority to (1) children in families with very low incomes; (2) children in families whose total assistance does not exceed $1.0 million; and (3) vulnerable children.

A child who is determined to be eligible for subsidized child care remains eligible for the following 12 months, regardless of (1) a change in gross annual household income, provided that the new income does not exceed 150% of the maximum allowable FPL; (2) a temporary change in the status of the parent or parents of the child; (3) whether the child remains younger than age 13 or, if the child has documented special needs, younger than age 19; or (4) a change of residency within the State.

Beginning July 1, 2024, a family whose gross household income exceeds 100% of the federal poverty guidelines for a family receiving subsidized care must be required to pay a copayment subject to maximum limits, as specified. The copayment requirements do not apply to an individual who is otherwise exempt from copayment requirements pursuant to Maryland regulations or a family with a gross income of less than 100% of the federal poverty guidelines.

The bill may not be construed to create a private right of action or entitlement to subsidized child care.

Current Law/Background: The CCS program provides financial assistance with child care costs to eligible low-income families. In Maryland, the CCS program is administered by MSDE and supported with general funds and the federal Child Care and Development Block Grant (referred to as the Child Care Development Fund). For each child needing care, the family receives a voucher that indicates the subsidy rate and the parent's assigned copayment. Some families, such as those receiving Temporary Cash Assistance, are exempt from copayment requirements pursuant to Maryland regulations. The family uses the voucher to purchase child care directly from the provider of their choice. The State pays the subsidy to providers, while the parent pays the required copayment and any remaining balance between the actual rate charged by the provider and the voucher amount. Eligibility for the program and the size of a family's copayment are primarily determined by family income, which places the family in an income eligibility scale in 10 categories.

An emergency regulation that took effect August 1, 2018, substantially increased the income eligibility levels for all household sizes from approximately 32% to 65% of 2018 SMI. This action caused a sharp increase in the number of children and families receiving CCS. Specifically, from August to September 2018, 2,114 more children and 1,436 more families received scholarships. MSDE reported that a total of 5,730 children and 4,035 families with household incomes above the previous eligibility threshold received CCS in May 2019. In fiscal 2019, an average of 16,348 children received CCS each month. The Governor's proposed fiscal 2021 budget includes $139.8 million in funding for CCS ($96.3 million federal funds/$43.5 million general funds).

Although the program is still referred to as the Child Care Subsidy Program in statute, the program is now called the Child Care Scholarship Program.

State Expenditures: General fund expenditures may decrease minimally in fiscal 2022 through 2025, to reflect families losing eligibility for CCS services under the eligibility thresholds established in the bill. However, general fund expenditures increase significantly beginning in fiscal 2025 to reflect lower copayment requirements and expanded eligibility for CCS. An estimate of the specific impact is not available for this fiscal and policy note, as discussed below. However, the Department of Legislative Services (DLS) advises that expanding eligibility for CCS to all families in the State, regardless of family income, coupled with new copayment thresholds, requires *significant* general fund expenditures (*easily* exceeding tens of millions of dollars annually, and likely more).

MSDE notes that the proposed income eligibility beginning July 1, 2021, through June 30, 2025 (the *lower* of 85% of SMI or 250% FPL), is *lower* than the current eligibility (approximately 273% FPL); accordingly, some families will no longer be eligible. General fund expenditures may decrease minimally to reflect the termination of services from fiscal 2022 through 2025.

Beginning in fiscal 2025, copayment requirements are altered each year so that by the time the bill is fully implemented in fiscal 2029, the maximum copayment for each family is capped at 10%. Although copayments vary depending on income, region, and family size, it is estimated that the copayment structure set forth in the bill is more favorable to families in most situations, thus increasing the State's share of the voucher amount and associated general fund expenditures. Beginning in fiscal 2026, eligibility for CCS is gradually expanded so that by fiscal 2029 all families, regardless of income, are eligible.

It is assumed that any expenditures associated with the bill's impact in future years will require general funds, as DLS has already expressed concerns that current funding levels (accounting for general and federal funds) may not be sufficient to fully implement the

CCS program under *current* requirements. Furthermore, because federal requirements restrict CCS eligibility to families with incomes under 85% SMI, any assistance provided to families with incomes over this threshold would not be a permitted use of federal funds.

DLS further notes that numerous changes to the CCS program in recent years (*e.g.*, lifting enrollment freezes, expanding income eligibility, and increasing provider reimbursement rates) have already resulted in a $52.0 million increase in scholarship expenditures from fiscal 2018 to 2021. As DLS discusses in greater detail in the Operating Budget Analysis for the Division of Early Childhood within MSDE, although these changes were implemented by MSDE within a short timeframe, MSDE was operating without a vendor or entity for an advanced research and data analysis contract for the CCS program. As a result, DLS has expressed concerns that MSDE does not have adequate forecasts for program costs in fiscal 2021 and beyond based on *current* program requirements, much less the significant changes contemplated by the bill. Accordingly, a precise fiscal analysis of the bill's impact is not possible given the lack of adequate forecasting and the information available at this time.

For purposes of this fiscal and policy note, it is assumed that until the copayment guidelines established in the bill take effect in fiscal 2025, the current copayment levels set forth in regulation are applicable.

The bill authorizes MSDE to limit CCS based on available resources or funding, and requires MSDE to prioritize funding, to families with "very low incomes," "vulnerable children," and children in families whose total assistance does not exceed $1.0 million. DLS notes, however, that the bill does not define "vulnerable children," and it is unlikely that many, if any, families receive total assistance in excess of $1.0 million.

Small Business Effect: Potential meaningful, to the extent that additional families participate in CCS due to the expanded eligibility for services.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

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

Fiscal Note History: First Reader - March 10, 2020
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