

Department of Legislative Services
 Maryland General Assembly
 2026 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 704 (Delegate Palakovich Carr, *et al.*)
 Appropriations and Ways and Means

Community Eligibility Provision Expansion Program - Establishment

This bill establishes a Community Eligibility Provision (CEP) Expansion Program administered by the Maryland State Department of Education (MSDE). The program provides funding to eligible schools that participate in the federal CEP. The State must pay the difference between the applicable federal paid reimbursement rate and the federal free reimbursement rate for school meal programs. Funding complements, but does not replace, federal CEP funding. Beginning with fiscal 2028, the Governor must include \$10.0 million in the annual budget bill for the program. MSDE must develop a process for local boards of education to participate in the program based on funding availability. **The bill takes effect July 1, 2026.**

Fiscal Summary

State Effect: General fund expenditures increase by \$10.0 million annually beginning in FY 2028. Revenues are not affected. **This bill establishes a mandated appropriation beginning in FY 2028.**

| (\$ in millions) | FY 2027 | FY 2028 | FY 2029 | FY 2030 | FY 2031 |
|------------------|---------|----------|----------|----------|----------|
| Revenues | \$0 | \$0 | \$0 | \$0 | \$0 |
| GF Expenditure | 0 | 10.0 | 10.0 | 10.0 | 10.0 |
| Net Effect | \$0.0 | (\$10.0) | (\$10.0) | (\$10.0) | (\$10.0) |

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

Local Effect: Local school systems receive the majority of \$10.0 million annually, beginning in FY 2028, after accounting for MSDE administrative costs under the program. To the extent CEP participation increases, federal funding for school meals may increase substantially. Local school system expenditures increase correspondingly to any revenues.

Small Business Effect: None.

Analysis

Bill Summary: MSDE must (1) ensure that program funding is distributed based on the concentration of poverty in public schools within a local school board jurisdiction; (2) consider geographic diversity in prioritizing funding; and (3) distribute funds to eligible local boards. It is the intent of the General Assembly that the State, each local board of education, and participating nonpublic schools maximize the use of all available federal and State funds in carrying out requirements of the program. Beginning July 1, 2027, MSDE must annually report to the General Assembly on the outcomes of the program and the amount of school meal debt incurred by students, disaggregated by the individual school, and how the local school system resolved the debt. However, the bill does not specify intended program outcomes.

If any schools within a local school system are eligible to participate in the federal CEP due to an identified student percentage (ISP) of 25% or greater, but elect not to participate, the local school system must include specified information in the annual report. The annual report must be published to MSDE's website in a specified searchable and downloadable format.

Current Law:

Federal School Nutrition Programs and Reimbursement Rates

The School Breakfast Program and the National School Lunch Program are federally assisted meal programs for schools. The School Breakfast Program subsidizes public and participating nonprofit private schools of high school grade or lower and participating residential child care institutions for breakfast meals served to children. Similarly, the National School Lunch Program subsidizes public and participating nonprofit private schools of high school grade or lower and participating residential child care institutions for lunches served to children. In both programs, federal funds pass through MSDE to participating schools and institutions. Information on federal reimbursement rates can be found [here](#).

Community Eligibility Program

The Healthy, Hunger-Free Kids Act of 2010, in part, amended the federal National School Lunch Act to provide an alternative to household applications for free or reduced priced meals (FRPM) in high-poverty local school system and schools. This alternative is CEP. To be eligible, local school systems and schools must meet a minimum level of students directly certified for free meals – the ISP – which must be at least 25% of enrollment in the year prior to implementing the option, agree to serve free lunches and breakfasts to *all* students, and agree to cover with nonfederal funds any costs of providing free meals to all

students above amounts provided in federal assistance. Identified students include those who qualify for free meals without an application, such as children from households receiving Supplemental Nutrition Assistance Program or Temporary Assistance for Needy Families benefits, foster children, homeless students, migrant students, and others categorically eligible.

Reimbursement is based on claiming percentages derived from the percentage of students directly certified as increased by use of a multiplier determined by the U.S. Department of Agriculture (USDA), which has been set at 1.6 since the inception of CEP. A local school system may choose to participate in CEP for all schools in a local school system or only some schools, depending on the eligibility districtwide and of the individual schools and financial considerations based on the anticipated level of federal reimbursement and other nonfederal support that may be available. For example, a school with a 25% student eligibility ISP, yields federal support for the equivalent of 40% (25% multiplied by 1.6), leaving an additional 60% to be covered outside of the federal CEP program. More information on CEP can be found on the [USDA website](#).

Maryland Meals for Achievement

Maryland Meals for Achievement (MMFA) is a joint effort of MSDE and local boards of education or sponsoring agencies for eligible nonpublic schools. MMFA provides funding for schools that make an in-class (with exceptions for “Grab and Go” meals) breakfast available to all students enrolled in schools in which 40% or more of the students qualify for FRPMs. A school that for one year falls below the 40% FRPM student population eligibility threshold is eligible for MMFA funding in that year. However, the school is no longer eligible for MMFA funding if its percentage of students falls below 40% in a second consecutive year. Under Chapter 628 of 2023, the Governor must include in the annual budget bill \$12.05 million for MMFA. Accordingly, the fiscal 2027 budget as introduced includes \$12.05 million in general funds for MMFA.

Maryland Cares for Kids Act

Under the Maryland Cares for Kids Act (Chapter 560 of 2018), the State is responsible for the student share of the costs of (1) reduced-price breakfasts provided under the federal School Breakfast Program by fiscal 2022 and (2) reduced-price lunches provided under the National School Lunch Program by fiscal 2023. A local board of education or participating nonpublic school is prohibited from charging a student who is eligible for a reduced-price breakfast or a reduced-price lunch, for any portion of the cost of a meal. The fiscal 2027 budget as introduced includes \$1.9 million in general funds for this reduced-price meals program.

State Expenditures: Despite the bill’s effective date, this analysis assumes that expenditures commence in fiscal 2028 (July 1, 2027). General fund expenditures increase by \$10.0 million annually beginning in fiscal 2028, given the \$10.0 million annual funding mandate under the bill and assuming MSDE administrative costs, as described below.

This estimate reflects the cost of hiring a half-time (50%) staff specialist within MSDE’s Office of School and Community Nutrition Programs to administer the reporting requirement and coordination activities resulting from the appropriation, as well as \$10,000 in annual contractual costs to cover claiming and reporting system enhancements. It includes a half-time salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

| | |
|-----------------------------------------|---------------------|
| Position | 0.5 |
| Grants to Public Schools | \$9,924,690 |
| Salary (50%) and Fringe Benefits | 56,849 |
| Contractual Expenses | 10,000 |
| Other Expenses | <u>8,461</u> |
| Total FY 2028 State Expenditures | \$10,000,000 |

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

Local Fiscal Effect: Beginning in fiscal 2028, local school systems receive the majority of \$10.0 million annually provided for the program, after accounting for MSDE costs described above. Local school system expenditures increase accordingly.

The bill appears to establish a funding formula mandate with respect to federal government reimbursement rates, yet also provides MSDE with considerable discretion as to how funding is prioritized and distributed. The bill also requires MSDE to develop a process for local boards to participate in the program, based on funding availability. Because it is not certain what specifically this process will entail, an estimate of program funding by local school system cannot be determined at this time. However, it is assumed that schools and school systems that participate in CEP, with a CEP claiming percentage below 100%, will benefit under the bill because federal funding does not cover the entire federal free meal reimbursement for these schools and school systems.

Information on the number of CEP schools by county can be found on the [MSDE website](#). Eight local school systems in Maryland participate in federal CEP systemwide, including Baltimore City, and Allegany, Baltimore, Caroline, Dorchester, Kent, Somerset, and Wicomico counties. School year 2025-2026 data indicates that 709 schools (about 50% of all public schools), including the SEED school, are CEP sites.

Maximizing the use of all available federal funds likely results in increased CEP participation for school systems that do not already participate districtwide, and thus substantially increased federal funds.

Additional Information

Recent Prior Introductions: Similar legislation has been introduced within the last three years. See HB 1254 and SB 769 of 2025.

Designated Cross File: SB 586 (Senator Guzzone) - Budget and Taxation and Education, Energy, and the Environment.

Information Source(s): Anne Arundel County Public Schools; Frederick County Public Schools; Prince George's County Public Schools; Wicomico County Public Schools; Department of Budget and Management; Maryland State Department of Education; Department of Legislative Services

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jg/clb

Analysis by: Scott P. Gates

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