

Department of Legislative Services
Maryland General Assembly
2026 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 849 (Delegate Mireku-North, *et al.*)
Ways and Means and Appropriations

Child Care Scholarship Program - Freeze in Enrollment - Exceptions

This bill prohibits a freeze in enrollment in the Child Care Scholarship (CCS) Program from applying to (1) a family or an individual who is enrolled in the Temporary Cash Assistance (TCA) Program; (2) a family or an individual who is enrolled in the federal Temporary Assistance for Needy Families Program; (3) a child who is enrolled in the federal Social Security Income (SSI) Program (or a sibling); (4) an individual who has become unemployed within the past 30 days and would have qualified for the program beforehand; (5) an individual who is employed by the federal, State, or local governments in the State who is involuntarily furloughed from work without pay because of a government shutdown, as specified, and would have qualified for the program beforehand; or (6) an individual who is employed by a child care center, a family child care home, or a large family child care home. These individuals must otherwise meet the criteria for enrollment in the CCS Program (described below). **The bill takes effect July 1, 2026.**

Fiscal Summary

State Effect: Significant increase in general fund expenditures (likely by tens of millions of dollars annually) for the CCS Program beginning in FY 2027 due to the bill's enrollment freeze exceptions, as discussed below. Revenues are not affected.

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

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, the Maryland State Department of Education (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 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: CCS Program expenditures increase significantly beginning in fiscal 2027, as the bill's provisions likely result in a significant influx of families participating in the program that may otherwise not be able to receive services under the enrollment freeze discussed below. As a result, general funds are assumed to be needed to cover the additional costs.

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, 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. Moreover, families can also already bypass the waitlist if a sibling is enrolled in the program. Therefore, there is no material impact from codifying these exemptions.

While it is not possible to assess how many families may qualify to bypass the waitlist under the bill, the number is likely significant. For example, MSDE advises that, in 2022, there were more than 40,000 early child care and education workers in the State. In 2024, there were more than 500,000 public sector workers across federal, State, and local government, who could *potentially* be impacted by a lapse in government funding. Several thousand more individuals may be eligible under the bill's exemption for recently unemployed workers.

Taking into account the potentially significant number of applicants who may be able to bypass the waitlist, MSDE advises that general fund expenditures may increase by as much as \$68 million on an annual basis under one scenario, which assumes an additional 5,000 scholarships are awarded on a monthly basis. MSDE notes that this large expansion in the number of families with children exempt from the waitlist likely means that the waitlist is maintained indefinitely. In order to lower the overall number of participants to sustainable levels, MSDE would need to rely on attrition from existing families, who may unenroll for various reasons over time (*e.g.*, due to the child aging out, moving out of state, or a change in family income or circumstances). MSDE advises, however, that the average monthly attrition rate since the freeze went into effect is less than 2.0%.

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 handle a significant increase in the number of families participating in the CCS Program. 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.

MSDE notes that the above position may not be sufficient should enrollment remain at a consistently elevated level; over the long-term, additional positions may be needed.

Small Business Effect: Private child care providers that qualify as small businesses and accept child care scholarships may benefit from the bill's waitlist exemptions, 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 Human Services; Department of Legislative Services

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