

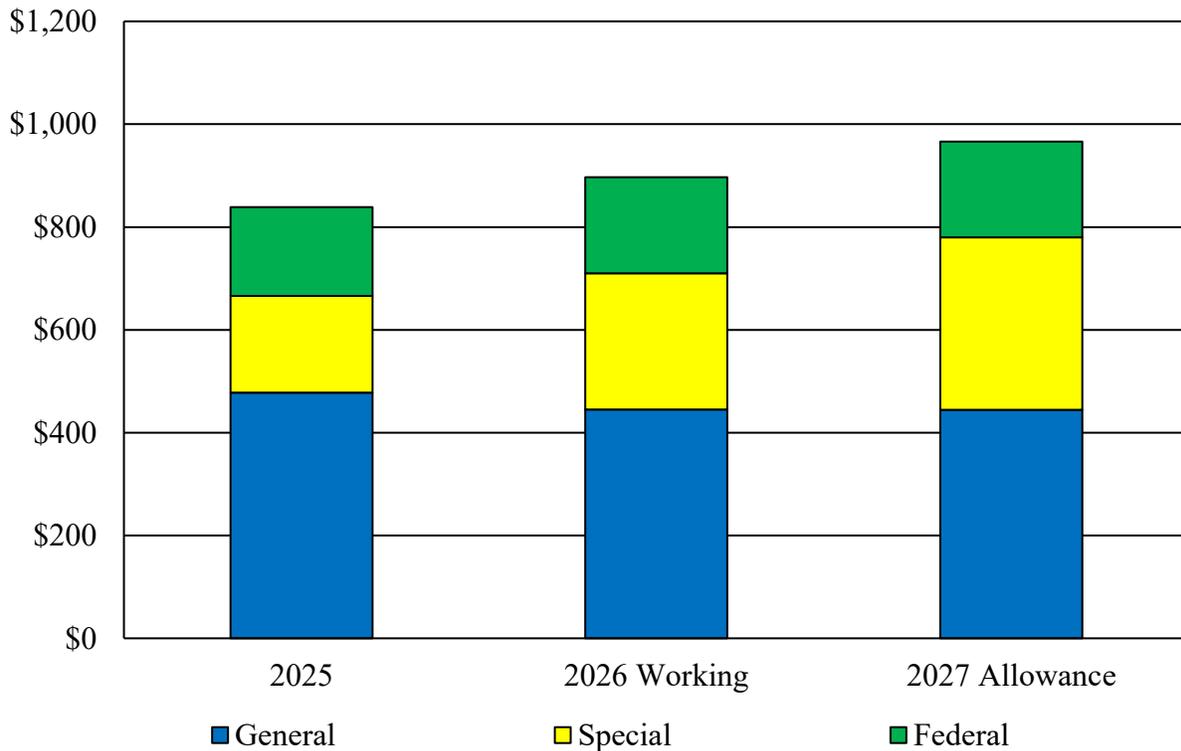
R00A99
Early Childhood Development
Maryland State Department of Education

Executive Summary

The Division of Early Childhood (DEC) within the Maryland State Department of Education (MSDE) administers programs related to child care and early childhood education and regulates child care programs through licensing and credentialing. Early childhood programs include, but are not limited to, the Child Care Scholarship (CCS) program, the Maryland State Prekindergarten Grant program, and the Prekindergarten Expansion Grant program.

Operating Budget Summary

**Fiscal 2027 Budget Increases \$69.1 Million, or 7.7%, to \$966.1 Million
(\$ in Millions)**



Note: The fiscal 2026 working appropriation accounts for deficiencies. The fiscal 2027 statewide salary adjustments are centrally budgeted in the Department of Budget and Management and are not included in this agency's budget.

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- The \$69.1 million increase in the fiscal 2027 allowance compared to the fiscal 2026 working appropriation, after accounting for proposed deficiencies, is mainly due to a \$71 million increase in special funds from the Blueprint for Maryland’s Future (Blueprint) Fund. This includes an \$84.8 million increase in the funding formula for full-day, high-quality prekindergarten distributed through the Maryland State Prekindergarten Grant Program. This increase is partially offset by a \$5.7 million decrease due to the end of a mandate for the Child Care Credential Program.

Key Observations

- ***CCS Program Enrollment Freeze and Ongoing Fiscal Pressures:*** CCS program costs have grown significantly since fiscal 2022, with general funds now supporting the majority of expenditures. Prior to MSDE initiating an enrollment freeze in May 2025, applications increased sharply, driving participation to a record high of 47,811 children and leading MSDE to extend the freeze indefinitely. As a result, nearly 3,800 children are now on a waitlist. Planned reimbursement rate changes, expected to begin affecting expenditures in March 2026, are projected to increase per child costs by approximately \$33 million on an annualized basis, while enrollment remains capped, underscoring ongoing fiscal pressures and the need for continued oversight of expenditures and caseload trends.
- ***Blueprint Early Childhood Programs – Growth in Prekindergarten Funding and Tier II Cost Implications:*** The fiscal 2027 allowance includes \$362.4 million for early childhood programs under the Blueprint program, with the majority supported by the Blueprint special fund, and mandated programs funded at required levels except for Maryland EXCELS bonuses. Chapter 55 of 2023 mandates 10% annual increases in funding for EXCELS bonuses from fiscal 2024 through 2028; however, the fiscal 2027 allowance does not include the required increase. The largest cost driver is the Maryland State Prekindergarten Grant Program, which increases by \$84.8 million over fiscal 2026 due to higher per pupil amounts (\$19,950 in fiscal 2027) and expanded Tier II eligibility to serve families earning up to 600% of federal poverty guidelines (FPG) under a revised sliding scale. The updated Tier II structure reduces the effective family share in several income bands, increasing the combined State and local cost per child. As enrollment expands and per pupil funding grows, the formula represents an increasing share of overall Blueprint early childhood spending.
- ***Pre-K Mixed Delivery Requirements and Continued Waiver Reliance:*** The Blueprint program requires the expansion of full-day, high-quality prekindergarten through a mixed delivery system that includes both public school systems and eligible private providers. Most local education agencies (LEA) continue to rely on waivers for statutory mixed delivery requirements due to not reporting enough publicly funded slots served by private providers. Only four counties met the 10% threshold in the 2024-2025 school year, and only one county met the 20% requirement in the 2025-2026 school year. As participation requirements for private prekindergarten programs increase annually toward 50%, the

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continued reliance on waivers indicates persistent capacity or implementation challenges and raises questions about whether current strategies are sufficient to achieve statutory mixed delivery targets.

- ***Child Care Administration Tracking System (CCATS) Modernization – Project Pause:*** The CCATS modernization project, which has received \$44.1 million in federal funds through fiscal 2026, was paused in November 2025 after procurement challenges and a shift to limited upgrades of the legacy system. The system continues to operate at an annual cost of over \$7 million, and a one year \$6.9 million maintenance extension was requested.

Operating Budget Recommended Actions

1. Add language to reduce the special fund appropriation for Prekindergarten – Aid to Education contingent on legislation.
2. Adopt committee narrative requesting quarterly reports on Child Care Scholarship program enrollment, expenditures, and status of waiting list.

Budget Reconciliation and Financing Act Recommended Actions

1. Delay the expansion of Tier II full-day prekindergarten eligibility and adjust per pupil funding growth to constrain costs.

Updates

- ***CCS Federal Oversight and Payment Model Considerations:*** MSDE reports that the CCS program operates with multiple fraud prevention controls. Due to new federal reporting requirements, there is a lengthened process for drawing down funds. Maryland currently uses an enrollment-based prospective payment model; however, recent federal rulemaking could permit a return to attendance-based payments, which would require additional fiscal modeling and system changes.

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Operating Budget Analysis

Program Description

DEC coordinates the State’s child care and early childhood education system through its three branches: the Office of Child Care; the Early Learning Branch; and the Collaboration and Program Improvement Branch.

The Office of Child Care licenses and monitors child care centers and family child care programs in Maryland through regional licensing offices, administers the CCS program, manages child care workforce development programs, provides technical assistance to child care providers and parents, and administers Maryland EXCELS (the State’s quality rating and improvement program for child care and early childhood education programs).

The Early Learning Branch is responsible for publicly funded prekindergarten and kindergarten policies. It oversees the administration of the Ready for Kindergarten Early Childhood Comprehensive Assessment System, early childhood curriculum guidance, developmental screening for children, professional development, and the Judith P. Hoyer Early Childhood Education Enhancement program.

The Collaboration and Program Improvement Branch issues and administers early care grants and contracts, manages the State’s collaboration with the federal Head Start program and works with State and local early childhood advisory councils to support a comprehensive early childhood infrastructure.

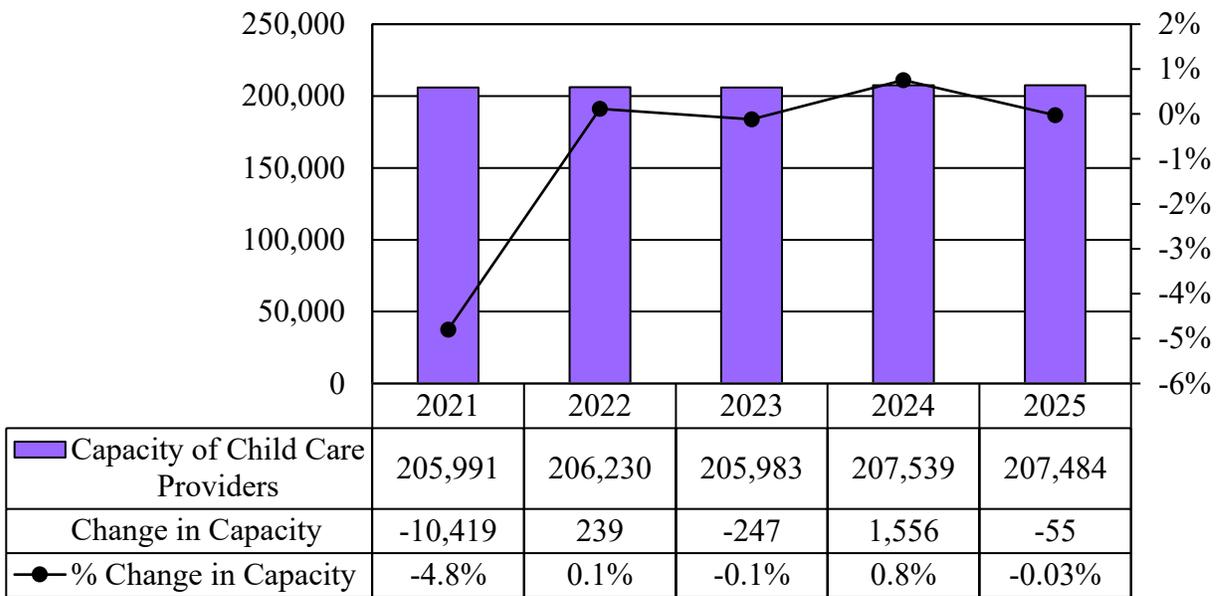
DEC operated under a five-year strategic plan from calendar 2020 through 2025 that identified six goals for enhancing and expanding Maryland’s mixed-delivery system for young children and families, including improving access to services, supporting program quality, strengthening family engagement, facilitating transitions to kindergarten, expanding workforce development, and improving infrastructure and data systems. As that plan concluded in 2025, MSDE has incorporated early childhood priorities into its broader departmentwide strategic plan, “Maryland Momentum,” which aligns with the Blueprint program. Under the Blueprint program’s Early Childhood pillar, the new strategic framework includes measurable objectives related to school readiness and program access. These include increasing kindergarten readiness rates overall and for specific student groups, reducing readiness gaps among student groups, and increasing enrollment of eligible three- and four-year-olds – particularly those from low-income households – in high-quality (Maryland EXCELS Level 3 or higher) full-day prekindergarten programs. Early childhood outcomes are therefore embedded within the department’s broader accountability and performance structure rather than addressed through a standalone DEC plan.

Performance Analysis: Managing for Results

1. Relatively Stable Licensed Child Care Capacity

As shown in **Exhibit 1**, Maryland’s licensed child care capacity has remained relatively stable in recent fiscal years. Capacity declined from 206,230 slots in fiscal 2022 to 205,983 slots in fiscal 2023, a decrease of 247 slots. Capacity then increased by 1,556 slots in fiscal 2024 to 207,539, before remaining essentially unchanged in fiscal 2025, declining slightly by 55 slots to 207,484.

Exhibit 1
Capacity of Child Care Providers
 (Shown as Licensed Slots)
 Fiscal 2021-2025



Note: Child care capacity is presented as the total number of licensed slots in June of each fiscal year.

Source: Department of Budget and Management; Maryland State Department of Education

MSDE indicated that the increase in fiscal 2024 coincided with several policy and funding developments affecting the early childhood sector. These included early childhood investments associated with the Blueprint program, increases in provider reimbursement rates, and initiatives intended to support provider participation and stability. As examples, the agency cited the Growing Opportunities for Family Child Care initiative, which supported the launch or registration of 88 new family child care programs between January 2023 and January 2024, and

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workforce-related grants totaling approximately \$14.4 million that supported training, credentialing, and apprenticeship models for nearly 200 educators. The agency also referenced child care stabilization grants intended to reduce provider closures, as well as capital investments, including a revolving loan fund that disbursed \$11.5 million in interest-free loans to 67 facilities in fiscal 2023. By contrast, licensed child care capacity remained essentially flat in 2025 as funding conditions changed. One-time federal resources declined, including a reported \$83 million reduction in American Rescue Plan Act (ARPA) funding supporting child care. In addition, federal Child Care and Development Block Grant (CCDBG) funding remained flat.

With respect to provider type, MSDE noted continued declines in the capacity of small family child care homes, which were partially offset by increases in large family child care homes, resulting in relatively stable total capacity. MSDE explained that available data does not allow for a precise distinction between changes attributable to provider openings and closures versus changes in licensed capacity at existing providers. However, **Exhibit 2** shows differing trends across provider types over a longer period. Between July 2016 and July 2025, licensed child care center capacity increased by 2.3%, and capacity among providers operating under letters of compliance increased by 9.8%. Over the same period, capacity among small family child care homes declined by 37.8%, while capacity among large family child care homes increased by 74.1%. As a result, centers account for a larger share of total licensed capacity, while the share attributable to small family child care homes declined.

Exhibit 2
Capacity by Type of Care
Calendar 2016 and 2025

<u>Type of Care</u>	<u>Capacity</u> <u>July</u> <u>2016</u>	<u>Share of</u> <u>Capacity</u> <u>July</u> <u>2016</u>	<u>Capacity</u> <u>July</u> <u>2025</u>	<u>Share of</u> <u>Capacity</u> <u>July</u> <u>2025</u>	<u>Change in Capacity</u> <u>July 2016 to July 2025</u>
Licensed Child Care Center	158,342	71.4%	162,052	77.4%	2.3%
Letter of Compliance	13,827	6.2%	15,181	7.3%	9.8%
Small Family Child Care Home	48,356	21.8%	30,094	14.4%	-37.8%
Large Family Child Care Home	1,183	0.5%	2,060	1.0%	74.1%
Total	221,708	100%	209,387	100%	-5.6%

Source: Maryland State Department of Education

The agency indicated that these offsetting changes across provider types help explain why total licensed capacity has remained relatively stable. The agency also noted that declining birth rates may influence demand for child care over time. Finally, licensed child care capacity is

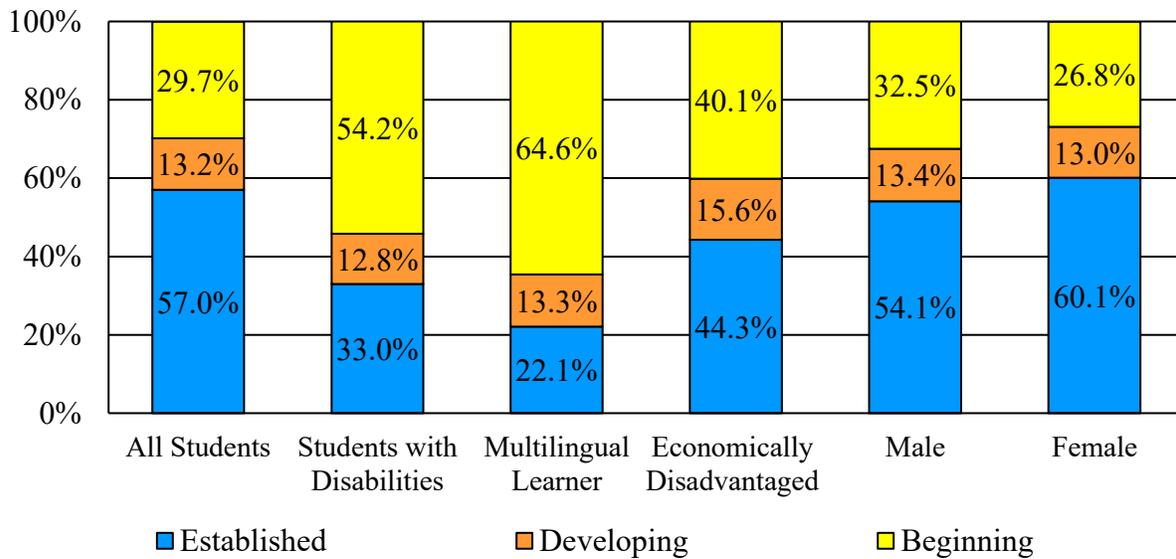
expected to increase beyond current levels, primarily through continued growth in large family child care homes, while noting that this growth may reflect conversions from small family homes and may increase capacity without a corresponding increase in the number of programs.

2. New Kindergarten Readiness Assessment

In February 2024, a study commissioned by MSDE found implicit bias in the Kindergarten Readiness Assessment (KRA) for students from various racial, ethnic, and linguistic backgrounds, and MSDE subsequently placed the assessment on hold statewide. A redesigned KRA was implemented for the first time in the 2025-2026 school year and administered during the fall window from August 1 through October 10, 2025. The new assessment includes measures of early literacy, mathematics, and the Social, Academic, Emotional Behavior Risk Screener, which is a teacher survey.

Exhibit 3 presents early literacy results from the redesigned KRA for the 2025-2026 school year. Statewide, 57% of all students were classified as Established, meaning they met kindergarten readiness expectations in early literacy. An additional 13.2% were classified as Developing, indicating partial mastery of foundational skills, while 29.7% were classified as Beginning, reflecting limited demonstration of readiness skills at the time of assessment.

Exhibit 3
Kindergarten Readiness Assessment
Early Literacy Results
2025-2026 School Year

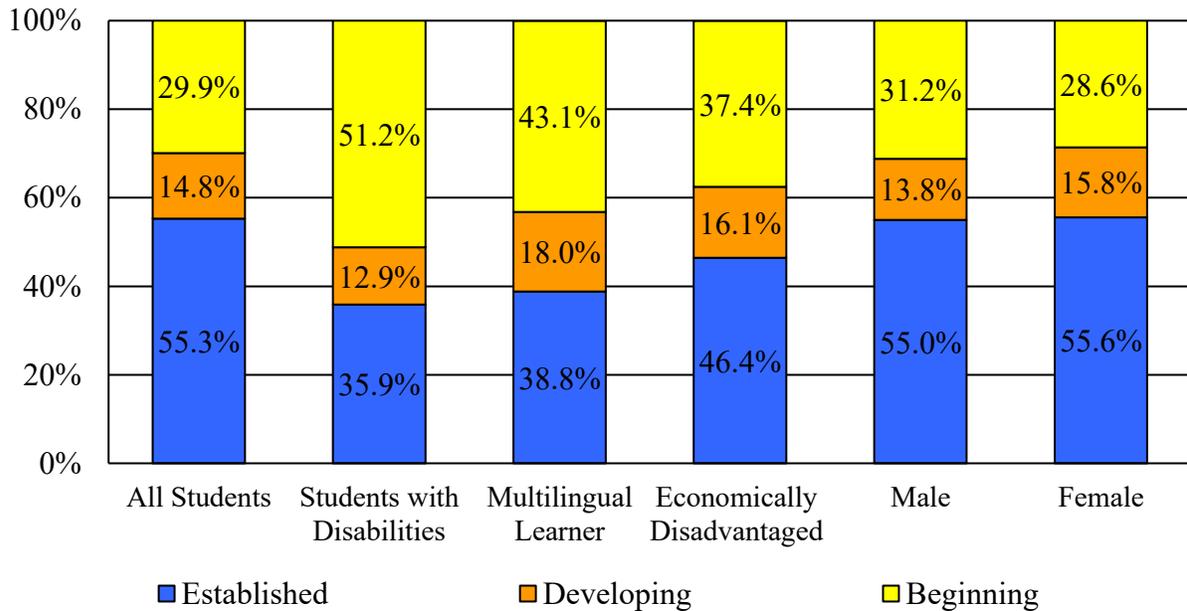


Source: Maryland State Department of Education

The share of students demonstrating Established skills, meaning they met kindergarten readiness expectations, for kindergarten in early literacy differed across student groups. Readiness levels were lower among students with disabilities, with 33.0% meeting early literacy readiness expectations, and among multilingual learners, with 22.1% classified as ready. Among students identified as economically disadvantaged, 44.3% met early literacy readiness expectations. Differences were also observed by gender. Among male students, 54.1% were classified as ready in early literacy, compared with 60.1% of female students.

Exhibit 4 presents mathematics results from the redesigned KRA. Statewide, 55.3% of all students were classified as ready for kindergarten in mathematics. The share of students demonstrating Established skills varied across student groups. Among students with disabilities, 35.9% met mathematics readiness expectations. Among multilingual learners, 38.8% were classified as ready. For students identified as economically disadvantaged, 46.4% met mathematics readiness expectations. Differences by gender were limited. Among male students, 55.0% were classified as ready in mathematics, compared with 55.6% of female students. **MSDE should explain how the redesigned KRA addresses and mitigates the implicit bias previously identified for students from various racial, ethnic, and linguistic backgrounds, including any changes to assessment design, validation methods, or administration procedures.**

Exhibit 4
Kindergarten Readiness Assessment
Mathematics Results
2025-2026 School Year



Source: Maryland State Department of Education

Exhibit 5 shows that the share of students demonstrating Established readiness varied across LEAs. In early literacy, the highest readiness rates were observed in Carroll (75.2%), Kent (73.3%), and Worcester counties (72.0%), while the lowest rates were reported in Prince George’s (46.3%) and Wicomico counties (33.3%) and Baltimore City (45.4%). In mathematics, the highest shares of students demonstrating Established readiness were reported in Kent (71.0%), Howard (67.2%), and Somerset counties (66.7%). The lowest mathematics readiness rates were observed in St. Mary’s (46.1%) and Wicomico counties (35.3%), and Baltimore City (48.0%).

Exhibit 5
Students with Established Kindergarten Readiness by LEA
School Year 2025-2026

<u>LEA</u>	<u>Early Literacy</u>	<u>Mathematics</u>
Allegany	64.0%	58.7%
Anne Arundel	60.4%	49.2%
Baltimore City	45.4%	48.0%
Baltimore County	53.0%	50.9%
Calvert	66.8%	61.3%
Caroline	53.2%	55.6%
Carroll	75.2%	65.6%
Cecil	63.7%	56.4%
Charles	54.6%	57.4%
Dorchester	56.3%	61.3%
Frederick	62.9%	51.5%
Garrett	58.9%	52.8%
Harford	68.0%	61.6%
Howard	71.2%	67.2%
Kent	73.3%	71.0%
Montgomery	59.7%	61.1%
Prince George’s	46.3%	54.1%
Queen Anne’s	66.5%	60.7%
Saint Mary’s	58.0%	46.1%
Somerset	67.9%	66.7%
Talbot	59.9%	60.2%
Washington	61.7%	61.1%
Wicomico	33.3%	35.3%
Worcester	72.0%	61.8%

LEA: local education agency

Source: Maryland State Department of Education

Fiscal 2026

Proposed Deficiency

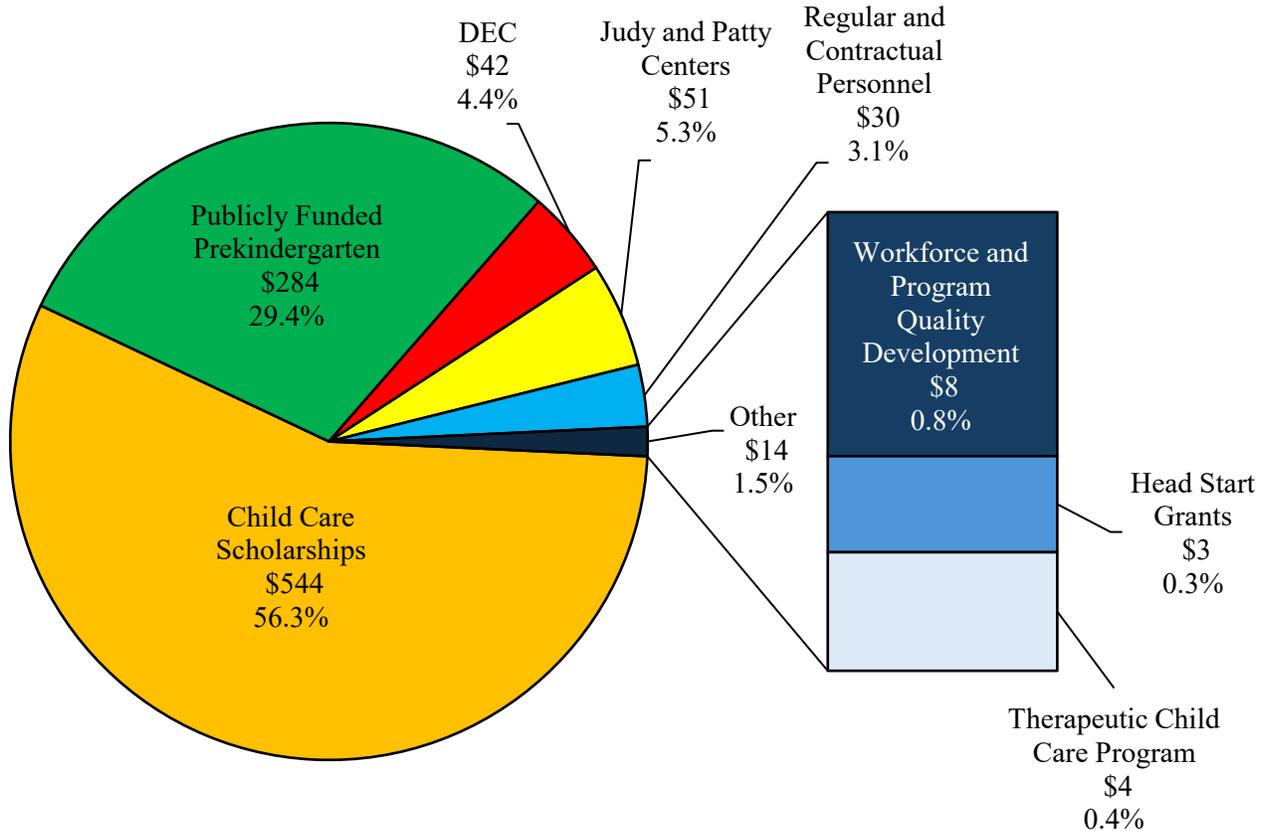
The fiscal 2027 allowance for DEC includes three proposed fiscal 2026 deficiency appropriations totaling \$64,456,064 (\$426,360 in general funds, \$14,965,287 in special funds, and \$49,064,417 in federal funds), which will support:

- \$48,847,835 for the CCS Program to provide additional federal funds. The agency indicated that federal funds available in fiscal 2026 were understated in the legislative appropriation; the deficiency would allow the department to expend the full amount of federal Child Care and Development Fund (CCDF) resources available for direct services;
- \$14,961,750 in Blueprint special funds for private prekindergarten programs to allow MSDE to issue full grant awards to private providers without waiting for receipt of the local share of costs from local governments. The agency indicated that issuing full awards to private providers requires program appropriations equal to both the State and local shares. As counties are billed for the local share in six installments annually, the corresponding Blueprint funds would revert to the Blueprint Fund; and
- \$646,479 for shortfalls related to lower than expected vacancy savings.

Fiscal 2027 Overview of Agency Spending

Exhibit 6 shows the distribution of \$966.1 million in planned spending in the fiscal 2027 allowance for early childhood services and programs under MSDE. A significant portion of the budget (86%) is allocated to directly support low-income children and families in accessing early childhood programs. This includes \$544 million (56.3%) designated for financial assistance for child care distributed through CCS payments and \$284 million (29.4%) in special funds for publicly funded prekindergarten. The spending on publicly funded prekindergarten includes full-day slots funded through the Maryland State Prekindergarten Grant program and Prekindergarten Expansion Grant program. Additionally, MSDE allocates funding for wraparound and supportive services, with a total of \$51 million (5.3%) budgeted for Judith P. Hoyer Center Early Learning Hubs (Judy Centers) and Patty Centers (also known as Family Support Centers).

**Exhibit 6
Overview of Agency Spending
Fiscal 2027 Allowance
(\$ in Millions)**



DEC: Division of Early Childhood
 Judy Center: Judith P. Hoyer Center Early Learning Hub
 Patty Center: Family Support Center

Note: The fiscal 2027 statewide salary adjustments are centrally budgeted in the Department of Budget and Management and are not included in this agency’s budget.

Source: Governor’s Fiscal 2027 Budget Books

Proposed Budget Change

The fiscal 2027 allowance reflects an increase of \$69.1 million, or 7.7%, compared to the fiscal 2026 working appropriation after accounting for proposed deficiencies. As shown in

Exhibit 7, this change is primarily driven by a \$69.9 million increase in prekindergarten formula funding, an increase of \$5.9 million for the mandated expansion of Judy Centers, and a \$2.2 million mandated funding increase in the Therapeutic Child Care Program. These increases are partially offset by a \$5.7 million decrease due to the end of a funding mandate for the Child Care Credential Program and a \$5.8 million decrease in federal funds within DEC to align funding with actual federal awards.

Exhibit 7
Proposed Budget
Maryland State Department of Education – Early Childhood Development
(\$ in Thousands)

How Much It Grows:	General Fund	Special Fund	Federal Fund	Total
Fiscal 2025 Actual	\$477,814	\$188,354	\$172,237	\$838,405
Fiscal 2026 Working	444,890	264,795	187,379	897,064
Fiscal 2027 Allowance	444,258	335,715	186,172	966,146
Fiscal 2026-2027 \$ Change	-\$631	\$70,919	-\$1,207	\$69,082
Fiscal 2026-2027 % Change	-0.14%	26.78%	-0.64%	7.70%
Where It Goes:				<u>Change</u>
Personnel Expenses				
Employee and retiree health insurance				\$1,087
Salary adjustments and associated fringe benefits				889
Deferred compensation match due to statewide change in budgeting				35
Workers’ compensation				11
Turnover rate increase from 6.7% to 6.9%				-37
Blueprint Initiatives				
Maryland State Prekindergarten Grant program to distribute full day formula funding, driven by increased enrollment and per pupil amount, after accounting for a proposed fiscal 2026 deficiency appropriation				69,864
Judy Center expansion (18 additional centers)				5,940
Patty Center expansion (3 additional centers).....				990
Child Care Incentive Grant Program				15
Maryland EXCELS Participation Bonuses				-199
End of funding mandate for the Child Care Credential Program that was established by Chapter 165 of 2024				-5,687
Other Changes				
Mandated funding increase in the Therapeutic Child Care Program in accordance with Chapters 238 and 239 of 2025				2,200

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Where It Goes:	<u>Change</u>
Federal funds in the DEC budget based on the actual federal award, as the prior budgeted amount exceeded the funds received	-5,853
Rent	-178
Other expenses	6
Total	\$69,082

DEC: Division of Early Childhood
 Judy Center: Judith P. Hoyer Center Early Learning Hub
 Patty Center: Family Support Center

Note: Numbers may not sum to total due to rounding. The fiscal 2026 working appropriation accounts for deficiencies. The fiscal 2027 statewide salary adjustments are centrally budgeted in the Department of Budget and Management and are not included in this agency’s budget.

Personnel Data

	FY 25	FY 26	FY 27	FY 26-27
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>
Regular Positions	209.00	211.00	211.50	0.50
Contractual FTEs	<u>13.60</u>	<u>13.00</u>	<u>13.00</u>	<u>0.00</u>
Total Personnel	222.60	224.00	224.50	0.50

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding			
New Positions		14.58	6.90%
Positions and Percentage Vacant as of 12/31/2025		15.00	7.11%
 Vacancies Above Turnover		 0.42	

- The fiscal 2027 allowance includes funding for a net increase of 0.5 positions. This reflects the transfer of 1 full-time, federally funded position from the Division of Special Education into DEC, offset by moving 0.5 position within MSDE to combine it with another position and make it full time. The transferred position supports quality improvement efforts for child care providers, including work related to the Maryland EXCELS program.
- DEC reported 15 vacant positions as of December 31, 2025, which is 0.42 vacancies above the fiscal 2027 budgeted turnover of 6.90%. Of these vacancies, 4 positions have been vacant for more than one year, and the remaining 11 have been vacant for less than a year.

Issues

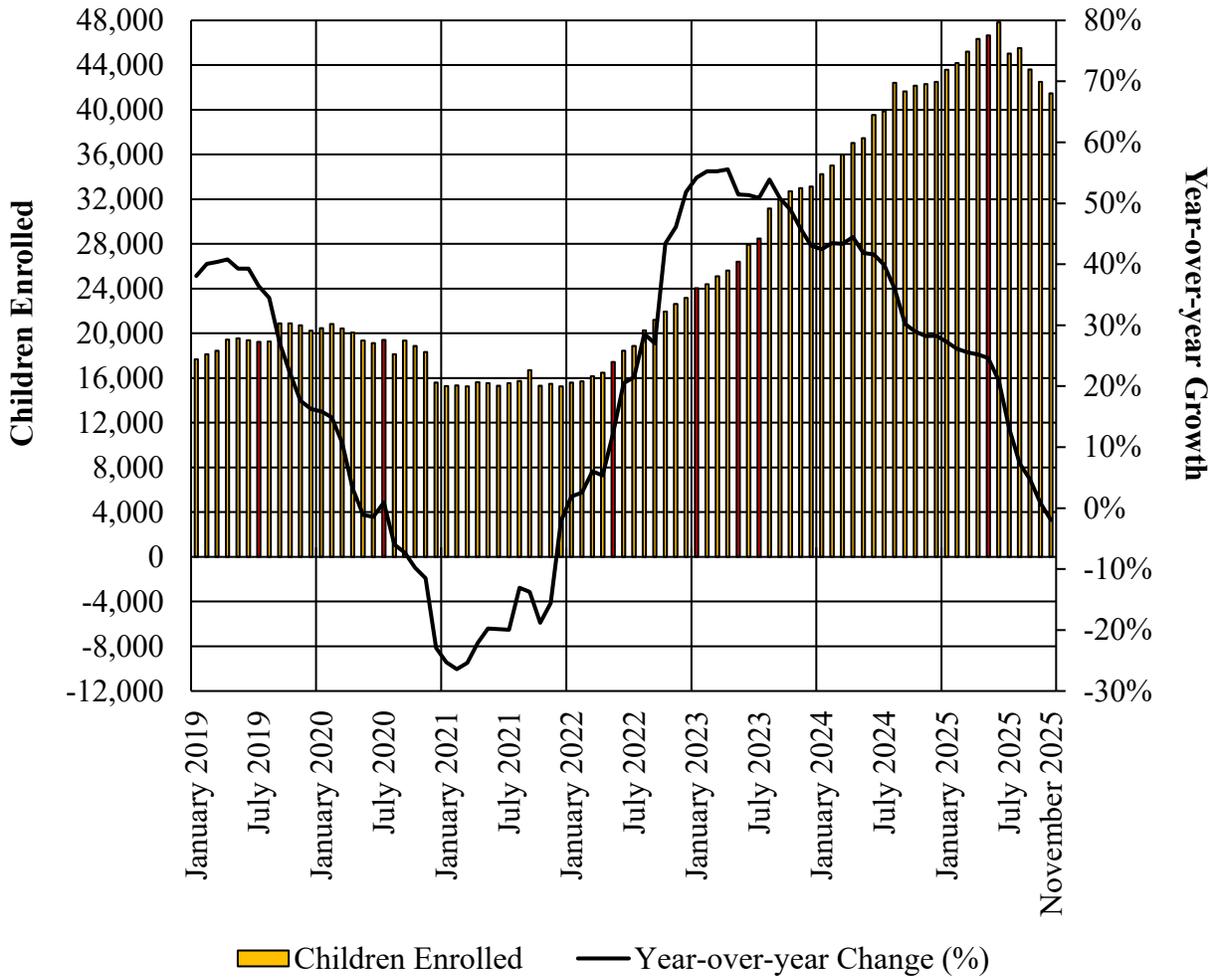
1. Ongoing CCS Program Enrollment Freeze

CCS Program Enrollment Trends

The CCS program provided financial assistance with child care tuition to 43,722 eligible children and over 29,493 families per month on average in fiscal 2025. For each child needing care, participating families receive a voucher that indicates the scholarship rate and assigned copayment (if applicable) that are determined by household income and region, among other factors. Program eligibility is primarily determined by household income, which places the family in an income eligibility scale in categories A through J (category A being lowest income and category J being highest income). For example, a family of four must have an annual income of no more than \$111,936 to qualify for CCS. Participating families use vouchers and their assigned copayment to purchase child care directly from the provider of their choice, and MSDE reimburses the provider for the approved scholarship rate. The family may also be responsible for any remaining balance the difference between the rate charged by the provider and the voucher amount.

As shown in **Exhibit 8**, beginning in January 2022, enrollment increased steadily each month, with growth accelerating year over year. Since September 2022, enrollment has consistently exceeded the prepandemic peak of 20,907 children recorded in October 2019. Enrollment reached a record high of 47,811 children in June 2025 following the announcement of an enrollment freeze effective May 1, 2025.

Exhibit 8
Unduplicated Monthly Count of Children Enrolled in the
Child Care Scholarship Program
January 2019 to November 2025



Note: Enrollment counts in September, October, and November 2025 are preliminary and may change. Bars shaded in red note significant policy changes such as the Maryland State Department of Education raising income eligibility levels in May 2022, reducing copays and increasing reimbursement rates in May 2022, opening the full presumptive eligibility program statewide in July 2023, and the enrollment freeze implemented in May 2025.

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

Program Freeze Status

Due to prior year budget shortfalls, MSDE implemented the enrollment freeze to slow spending growth. The department initially planned to reopen the program to new enrollment in September 2025, though still maintaining overall enrollment within a cap of 40,000 children. However, after the freeze was announced but before it went into effect, application volume rose sharply, remaining above historic levels throughout calendar 2025 and peaking at 2,395 new applications during the week the freeze took effect, approximately 80% higher than the second-highest week on record. Because of this surge and the typical delay between application and enrollment, participation continued to increase, reaching 47,811 children and 31,875 families in June 2025, up from 43,585 children in January 2025. MSDE had originally projected that enrollment would peak at approximately 45,000 and decline to near 40,000 by the fall; however, higher than anticipated eligible applications led the department to extend the freeze indefinitely.

MSDE implemented a waitlist beginning May 1, 2025, and the waitlist is expected to continue growing while the freeze remains in effect. As shown in **Exhibit 9**, as of October 28, 2025, there were 3,745 children from 2,700 families on the waitlist. Of these children, 900 were under the age of two, 1,387 were ages two to five’ and 1,458 were school age, indicating that most children waiting are preschool or school age. The largest numbers of children on the waitlist were in Baltimore (631), Montgomery (680), and Prince George’s counties (756), and Baltimore City (491), while several smaller counties had fewer than 50 children waiting. Although the program is closed to most new applicants, certain families are exempt from the freeze, including those adding a sibling to an existing scholarship and families receiving Temporary Cash Assistance, Head Start services, or Supplemental Security Income benefits. Since the freeze began, 1,735 children have been enrolled under these exemptions, with siblings accounting for 78% of post-freeze enrollments, and new applications accounting for 22%. Additionally, of the newly enrolled students, 63% are from very low-income families (under 30% of the State median income (SMI)).

Exhibit 9
Children on the Child Care Scholarship Waitlist by County and Age Group
As of October 28, 2025

<u>County of Residence</u>	<u>Age Birth to Under Two Years Old</u>	<u>Age Two to Five Years Old</u>	<u>School Age (Five Years Old and Older)</u>	<u>Total Children</u>
Allegany	1	6	9	16
Anne Arundel	62	104	93	259
Baltimore City	132	168	191	491
Baltimore	153	225	253	631
Calvert	5	11	19	35
Caroline	3	7	3	13

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<u>County of Residence</u>	<u>Age Birth to Under Two Years Old</u>	<u>Age Two to Five Years Old</u>	<u>School Age (Five Years Old and Older)</u>	<u>Total Children</u>
Carroll	13	26	22	61
Cecil	11	19	16	46
Charles	31	44	59	134
Dorchester	6	6	3	15
Frederick	23	32	35	90
Garrett	2	2	3	7
Harford	24	33	47	104
Howard	31	40	58	129
Kent	4	2	1	7
Montgomery	141	235	304	680
Prince George’s	189	315	252	756
Queen Anne’s	3	0	1	4
Saint Mary’s	10	15	18	43
Somerset	3	5	2	10
Talbot	2	15	3	20
Washington	25	45	29	99
Wicomico	24	26	32	82
Worcester	2	6	5	13
Total	900	1,387	1,458	3,745

Source: Maryland State Department of Education

MSDE indicated that children and families on the waitlist who do not qualify for an exemption will be served as funding and capacity become available. The agency has reported that the enrollment freeze will remain in place until monthly enrollment reaches approximately 40,000 children, which MSDE identified as the level needed to maintain fiscal stability. Rather than reopening enrollment broadly, MSDE intends to manage participation at or near this target by issuing scholarships to children on the waitlist as current participants disenroll, such as when a child ages out or otherwise exits the program. **MSDE should discuss the estimated timeframe for CCS enrollment to reach 40,000 children and the prioritization method that it will use for taking children off the wait list to replace disenrollments.**

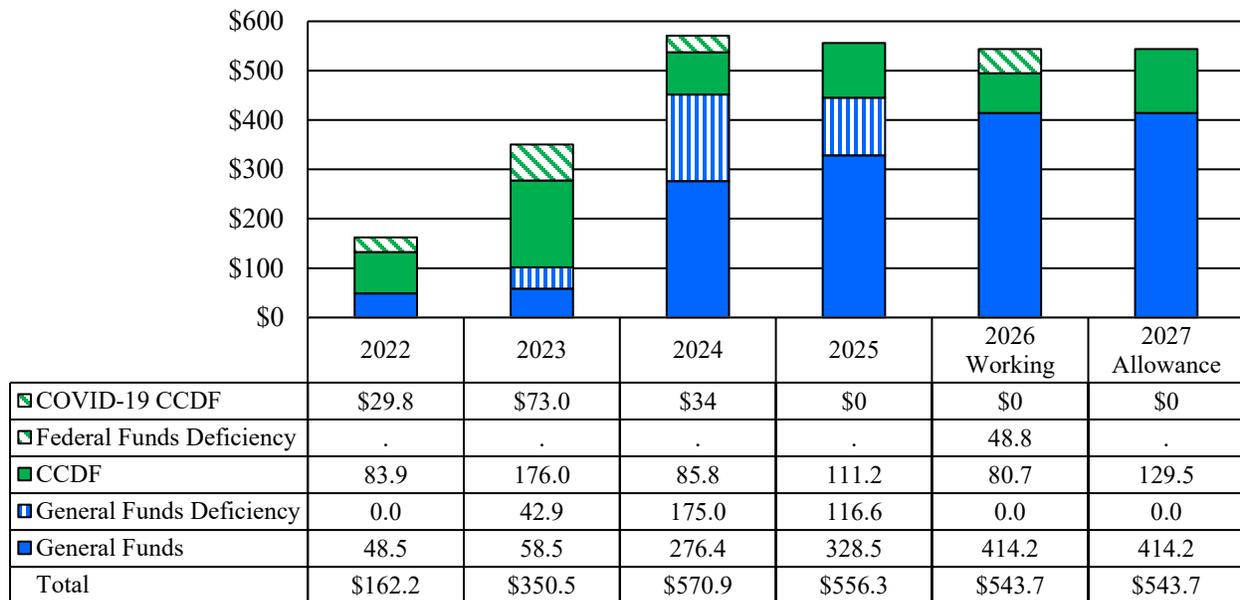
CCS Expenditures

As shown in **Exhibit 10**, total spending on CCS payments increased significantly by \$382 million from fiscal 2022 through the fiscal 2027 allowance. In fiscal 2022 and 2023, federal funds covered a substantial share of program costs, ranging from 70% to 71%. During that period, the annual CCDBG allocation into the CCDF remained the primary funding source for the

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CCS program. MSDE also used supplemental CCDBG funding provided under the ARPA to support programmatic changes from fiscal 2022 through 2024. These one-time funds were intended to make child care more affordable and accessible and to address broader child care system needs. The programmatic changes included reducing family copayments to \$1 to \$3 per week beginning in May 2022; waiving copayments for participants in certain public benefits programs, including the Supplemental Nutrition Assistance Program and the Special Supplemental Nutrition Program for Women, Infants, and Children, as required by Chapters 525 and 526 of 2022; increasing income eligibility from 65% to 75% of SMI; raising provider reimbursement rates from the sixtieth to the seventieth percentile of market rates; introducing advance enrollment-based provider payments in January 2023; and implementing a fast-track application process (presumptive eligibility) effective July 1, 2023.

Exhibit 10
Child Care Scholarship Expenditures by Fund Source
Fiscal 2022-2027
(\$ in Millions)



CCDF: Child Care and Development Fund

Note: This exhibit reflects only spending on child care scholarships and does not include COVID-19 CCDF distributed as stabilization grants or CCDF spent on other early childhood system improvements. Other CCDF funding budgeted under the Division of Early Childhood for administrative costs is also excluded.

Source: Department of Budget and Management; Maryland State Department of Education; Department of Legislative Services

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Due to the ongoing costs associated with programmatic changes, enrollment growth, and the expiration of ARPA funding, CCS expenditures began to exceed available federal resources in fiscal 2023. Beginning in fiscal 2024 and continuing through the fiscal 2027 allowance, general funds cover, on average, approximately 78% of total program expenses, reflecting a shift in the primary funding source for the program.

The fiscal 2027 allowance also includes a proposed federal fund deficiency of \$48.8 million to utilize all available federal funds to cover the unexpected enrollment growth leading up to the enrollment freeze. The fiscal 2026 legislative appropriation understated the amount of CCDF federal funds available, which allows for the entire shortfall to be covered with federal grant funding rather than needing additional State funds. According to MSDE, the increase reflects adjustments to align the appropriation with the actual federal grant award, ensure sufficient funding to meet the federal requirement that at least 70% of CCDF resources be spent on direct services, and account for carryover funds from the prior year. MSDE indicated that the total federal grant award increased to approximately \$185 million in fiscal 2026 and is anticipated to increase again in fiscal 2027 based on recently enacted federal appropriations. The department also noted that CCDF awards are issued quarterly and in multiple components, which makes estimating available funding more complex. The fiscal 2027 allowance reflects funding at a level similar to the fiscal 2026 working appropriation after accounting for this adjustment.

Updated Provider Reimbursement Rates

CCDF regulations require states to conduct a market rate survey or use an alternative methodology at least every three years to inform child care subsidy reimbursement rates. Maryland statute further requires reimbursement rates to be set at least at the sixtieth percentile of the most recent market rate survey. MSDE completed the 2024 Maryland Market Rate Survey (MRS) and Narrow Cost Analysis, the first update since calendar 2021. According to MSDE, the updated survey reflects rising child care costs associated with pandemic-related disruptions, workforce shortages, and inflationary pressures on wages and operating expenses.

In calendar 2026, MSDE plans to reset CCS reimbursement rates from the seventieth percentile of the prior MRS to the mandated sixtieth percentile of the 2024 MRS in alignment with State law and the fiscal 2026 budget. Returning rates to the sixtieth percentile partially offsets the spending growth from increasing provider rates to the higher 2025 MRS results. MSDE indicated that the rate change is expected to begin affecting expenditures in March 2026, resulting in a partial-year impact in fiscal 2026. MSDE estimates the cost impact at approximately \$2.75 million per month, or \$33 million on an annualized basis. According to MSDE, the fiscal 2027 allowance does not fully incorporate the updated reimbursement rates, which indicates that the CCS program is again underfunded, potentially by \$33 million. **Considering the State’s fiscal outlook and recent shortfalls within the CCS program that led to the implementation of an enrollment freeze, MSDE should comment on the reason that these known costs were excluded from the budget and how it will work with the Department of Budget and Management (DBM) to address the potential shortfall of \$33 million. Lastly, the Department of Legislative Services (DLS) recommends adopting committee narrative**

requesting quarterly reports on CCS program expenditures, enrollment, and the status of the waiting list.

2. Early Childhood Programs under the Blueprint Program

The Blueprint program education reform effort established in Chapter 36 of 2021, as amended by Chapter 55 of 2021, included several initiatives and mandates that expand early childhood programs and gradually phase in from fiscal 2023 through 2030. **Appendix 3** details early childhood provisions in Chapter 36 and fiscal 2026 and 2027 Blueprint mandates by program.

The fiscal 2027 allowance includes \$362.4 million in total funds for Blueprint mandates supporting early childhood programs, with the majority (\$332 million) budgeted as special funds from the Blueprint Fund. All early childhood programs expanded or funded through Chapter 36 meet their mandated funding levels in the fiscal 2027 allowance. However, the Maryland Child Care Credential Program does not receive funds, as funding for the program is not mandated in fiscal 2027. Chapter 165 of 2024 extended mandated funding for this program beyond fiscal 2024 by requiring the Governor to appropriate an amount in fiscal 2026 only that is at least equal to the amount appropriated in fiscal 2024 (\$5,687,000). **MSDE should comment on how the absence of funding will affect implementation of the Maryland Child Care Credential Program, including whether new credential applications will be processed and whether existing participants will continue to receive credential payments.**

Funding for Blueprint program initiatives related to early childhood programs falls into the following four programs/categories:

- ***Maryland State Prekindergarten Grant Program:*** Chapter 36 established a new funding formula for voluntary prekindergarten for three- and four-year-old children from low-income families. The formula is jointly funded by the State and local governments, with per pupil funding levels increasing from \$14,473 in fiscal 2026 to \$19,950 in fiscal 2027 and 2028; in fiscal 2029, and each year thereafter, the per pupil amount is set as the prior fiscal year amount increased by an inflation adjustment, as established by the Budget Reconciliation and Financing Act (BRFA) of 2024. MSDE established the Maryland State Prekindergarten Grant program to distribute formula funding to local school systems and private programs.
- ***Prekindergarten Expansion Grant Program:*** MSDE has distributed competitive prekindergarten expansion grants to qualified public and private providers serving families with incomes at or below 300% FPG, children with disabilities, and English learners since fiscal 2015. Chapter 36 extended the Prekindergarten Expansion Grant program through fiscal 2025. Chapter 165 of 2024 extended the fiscal year by which funds appropriated to the Prekindergarten Expansion Grant Program must be consolidated into the publicly funded full-day prekindergarten program over four fiscal years from fiscal 2026 to 2030. The appropriations to the fund must be at least equal to the total amount of all funds received by the Expansion Grant Program in the prior fiscal year.

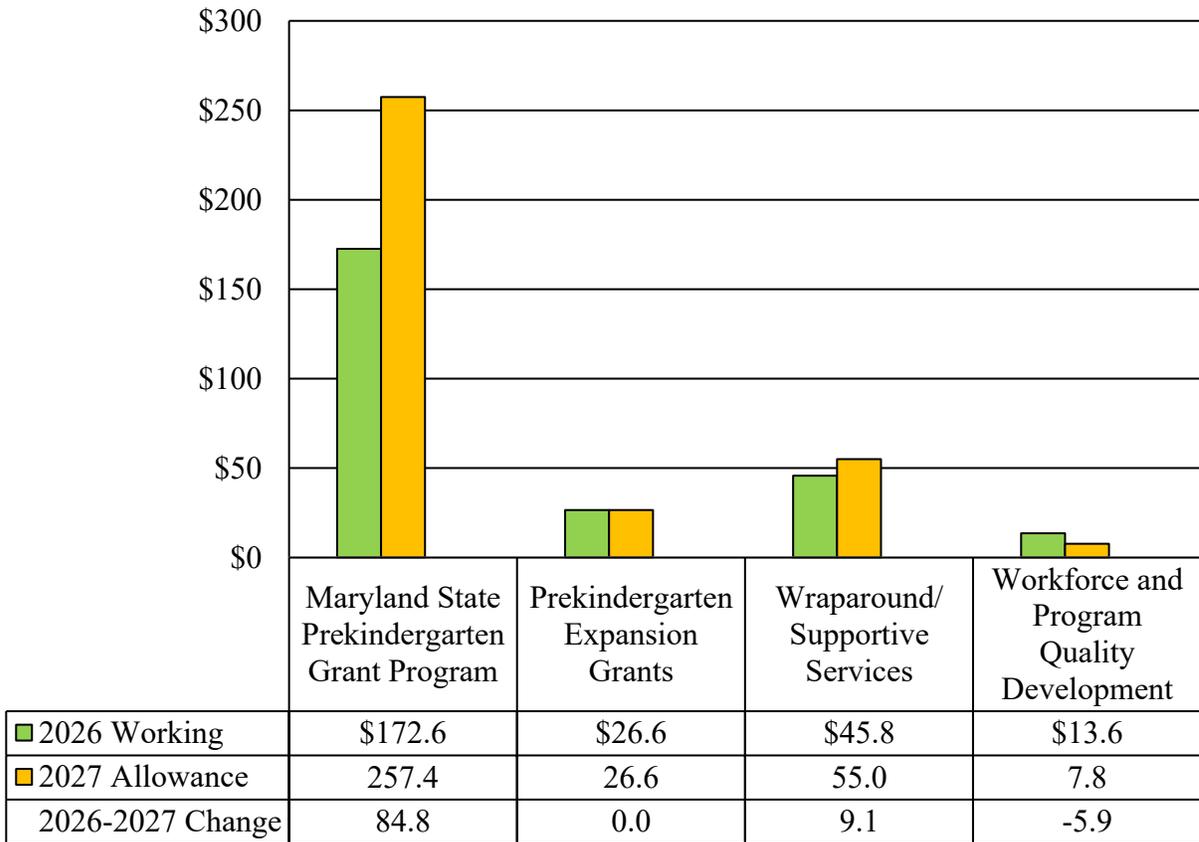
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- ***Wraparound/Supportive Services:*** Chapter 36 expands the number of Judy Centers and Patty Centers, which offer early childhood education programs, comprehensive support services, and educational and health-related services for young children and their families. Additionally, Chapter 36 increases funding for the Maryland Infants and Toddlers Program, which provides a system of comprehensive community-based intervention services to young children up to age three who have developmental delays and disabilities.
- ***Workforce and Program Quality Development:*** Chapter 36 codified existing early childhood professional development programs, such as the Child Care Incentive Grant Program, and required certain funding levels and increases that vary across the initiatives. MSDE must also designate a primary contact employee for early child care to assist child care providers in improving their EXCELS rating and applying for funding and accreditation. In addition, Chapter 55 of 2021 mandates 10% annual increases in funding for the Maryland EXCELS Quality Improvement Bonus Program from fiscal 2024 through 2028. However, the fiscal 2027 allowance for this program does not include funding reflecting the required 10% increase, rather the allowance decreases by \$199,287 compared to the fiscal 2026 working appropriation. In fiscal 2027 the mandated funding increase is \$665,500 for a total of \$7.32 million. **MSDE should comment on how it will work with DBM to fully fund the mandated appropriation for the Maryland EXCELS Quality Improvement Bonus Program.**

Fiscal 2027 Prekindergarten Formula Funding Increases by \$84.8 Million Compared to the Fiscal 2026 Working Appropriation

As shown in **Exhibit 11**, the largest early childhood education expansion within the Blueprint program is the funding formula for full-day, high-quality prekindergarten distributed through the Maryland State Prekindergarten Grant Program. This program constitutes 67% and 74% of the overall early childhood spending under the Blueprint program in the fiscal 2026 working appropriation and fiscal 2027 allowance, respectively. **Appendix 4** provides a breakdown of fiscal 2026 and 2027 prekindergarten formula funding allocated by local school system.

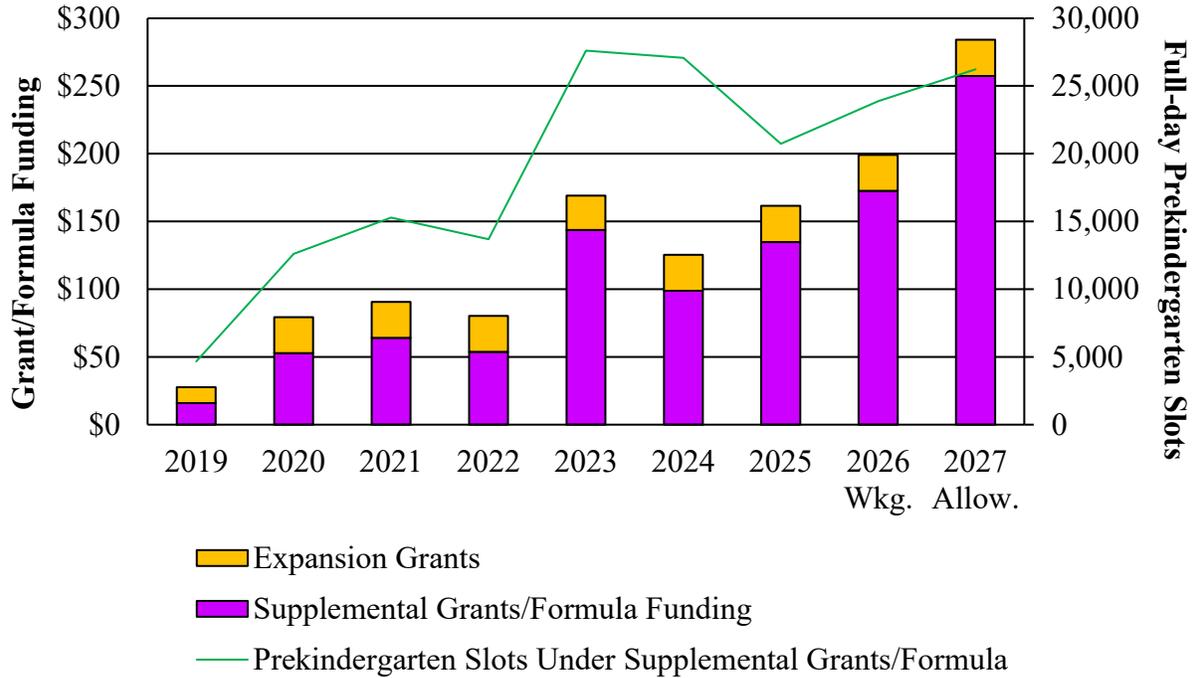
Exhibit 11
Early Childhood Funding under the Blueprint for Maryland’s Future
Fiscal 2026-2027
(\$ in Millions)



Source: Governor’s Fiscal 2027 Budget Books

Exhibit 12 presents funding levels and enrollment for publicly funded full-day prekindergarten slots beginning in fiscal 2019. From fiscal 2018 to 2022, MSDE provided funding for full-day services through Prekindergarten Supplemental Grants, established by Chapters 6 and 607 of 2017 and later amended by Chapter 771 of 2019. These grants were awarded to local school systems based on the number of four-year-old students enrolled in public programs.

**Exhibit 12
Prekindergarten State Funding and Enrollment
Fiscal 2019-2027
(\$ in Millions)**



Note: Fiscal 2019 to 2022 actual expenditures show Prekindergarten Supplemental and Prekindergarten Expansion grants. The fiscal 2023, 2024 and 2025 actual expenditure; fiscal 2026 working appropriation; and fiscal 2027 allowance show Prekindergarten Expansion grants and prekindergarten formula funding distributed through the Maryland State Prekindergarten Grant program.

Source: Governor’s Fiscal 2027 Budget Books; Department of Legislative Services

Chapter 36, as amended by Chapter 55 of 2021, introduced a phased-in timeline starting in fiscal 2023, shifting prekindergarten funding to a formula-based approach. Under this model, MSDE and local school systems jointly fund full-day prekindergarten for three- and four-year-old children from families earning up to 300% of FPG, referred to as Tier I children. Funding is available for both public and private programs. Local school systems faced challenges in reporting prekindergarten enrollment by income tiers to calculate formula funding for fiscal 2023, specifically for families with incomes below 300% of FPG. As a result, State formula funding totaling \$144.1 million was calculated based on overall prekindergarten enrollment figures, serving as a transitional measure due to the absence of income tier data collection.

The BRFA of 2024 imposed new income-based limitations on prekindergarten eligibility. For the 2024-2025 school year, prekindergarten was restricted to Tier I students, while in the

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2025-2026 school year, eligibility expands to families earning up to 360% of FPG, with a sliding scale for family copayments beginning at 301% of FPG. Under current law, eligibility is scheduled to expand further to families earning up to 600% of FPG beginning in the 2026-2027 school year. Although students above 300% of the federal poverty level could enroll in prekindergarten prior to the 2025-2026 school year, providers did not receive State formula funding for those students until fiscal 2026. The fiscal 2026 working appropriation includes \$173 million for the prekindergarten formula, and the fiscal 2027 allowance includes \$257 million. These appropriations support 23,894 children in fiscal 2026, including 23,329 Tier I students and 565 Tier II students, and 26,240 children in fiscal 2027, including 24,383 Tier I students and 1,857 Tier II students, in public and private prekindergarten slots.

The Office of Legislative Audits (OLA) released a fiscal compliance audit of MSDE dated January 16, 2026, for the period of June 1, 2021, through July 15, 2024, and found that the agency did not verify the accuracy of LEAs' eligibility determinations for prekindergarten students funded through the Blueprint program. Beginning in fiscal 2023, Blueprint funding supported prekindergarten students from qualifying families, and in fiscal 2024, MSDE expended approximately \$98.9 million for 17,177 students. Although LEAs were required to maintain documentation to support household income eligibility, MSDE did not independently review these determinations. Audit testing at one LEA disclosed that 5 of 20 student files lacked sufficient documentation to fully support eligibility, indicating that funding may have been improperly received. OLA recommended that MSDE establish procedures to review documentation to ensure the accuracy of eligibility determinations made by LEAs for prekindergarten funding. In its response, MSDE agreed with the recommendation and indicated that, beginning with the fiscal 2025 State Aid audit, procedures for testing income eligibility determinations were performed although documentation was not complete. MSDE further responded that commencing with the fiscal 2026 State Aid audit cycle, the audit program was revised to require complete documentation of testing performed for income eligibility determinations and that this change was implemented for LEAs audited in fiscal 2026. Additional findings and recommendations from the January 2026 OLA audit are discussed in the analysis for R00A01 – MSDE Headquarters.

Tier II Prekindergarten Sliding Scale Revision

MSDE and the State Board of Education revised the Tier II full-day prekindergarten sliding scale beginning with fiscal 2027. As shown in **Exhibit 13**, the five income bands between 301% and 600% of the FPG were revised. The revised bands and applies a graduated family contribution ranging from 1% to 7% of annual household income. The family share is calculated as a percentage of income within each FPG band, and the remaining amount is financed by the State and local school systems. Compared to prior Tier II assumptions, the revised scale lowers the effective family share relative to the higher per pupil amount and increases the combined State and local share per Tier II student. The largest increases occur in the higher income bands, where the previous scale required families to cover a substantially greater portion of total costs. As a result, the fiscal impact of the Tier II program is higher on a per student basis under the revised scale, even before accounting for changes in enrollment levels. **MSDE should provide an explanation for revising the Tier II sliding scale and quantify the resulting change in total State and local costs compared to the prior structure.**

Exhibit 13
Tier II Prekindergarten Sliding Scale Revision
Fiscal 2027

Federal Poverty Level	Annual Income Range (Family of Four)	Family Share (% of Income)	Previous Scale – Estimated Annual Family Share (Per Pupil)*	Revised Scale – Estimated Annual Family Share (Per Pupil)*	Previous Scale – Public Share (State + Local) Per Pupil	Revised Scale – Public Share (State + Local) Per Pupil	Difference
301% to 360%	\$96,772 to \$115,740	1%	\$1,407	\$1,062	\$18,543	\$18,888	\$345
361% to 420%	116,062 to 135,030	2%	3,326	2,511	16,624	17,439	815
421% to 480%	135,352 to 154,320	4%	7,672	5,793	12,278	14,157	1,879
481% to 540%	154,642 to 173,610	6%	13,041	9,848	6,909	10,102	3,193
541% to 600%	173,932 to 192,900	7%	17,003	12,839	2,947	7,111	4,164

*These figures represent the midpoint family contribution within each federal poverty level band.

Note: The 2025 federal poverty level for a family of four is \$32,150. Based on a fiscal 2027 per-pupil amount of \$19,950.

Source: Maryland State Department of Education

While expanding access to early education is a priority, these changes pose significant budgetary pressures. The combination of eligibility growth and rising per pupil costs would require substantial new State funding at a time when fiscal constraints are an ongoing concern. **To ensure a more sustainable implementation of full-day prekindergarten, DLS recommends modifications to the statutory requirements (1) to maintain the current 360% FPG eligibility cap through fiscal 2027031 instead of expanding to 600% FPG in fiscal 2027 and (2) to reduce the scheduled per pupil funding increase in fiscal 2027 by setting the amount at \$17,211 per student instead of \$19,950, before resuming the planned increases in subsequent years. The proposed \$17,211 amount would still represent an increase over the fiscal 2026 per pupil funding level but would moderate the growth relative to the amount currently scheduled in statute. The \$17,211 figure reflects a midpoint between the fiscal 2026 funding level and the planned fiscal 2027 amount before resuming the scheduled increases in subsequent years. DLS also recommends a reduction of \$52,574,885 that is contingent on the enactment of a provision limiting the expansion of Tier II full-day prekindergarten eligibility and adjusting per pupil funding growth to constrain costs.**

3. Expansion of the Pre-K Mixed Delivery System and Continued Reliance on Public Prekindergarten slots

The Blueprint program requires the expansion of full-day, high-quality prekindergarten through a mixed delivery system that includes both public school systems and eligible private providers. Eligible private providers include child care centers, family child care homes, Head Start programs, and other community-based programs that meet State quality standards. However, only private providers that choose to participate in the State’s publicly funded prekindergarten program – and agree to meet additional programmatic and funding requirements – count toward the statutory participation thresholds.

The mixed delivery model is intended to expand overall prekindergarten capacity, provide families with programmatic choice, and leverage existing early childhood education infrastructure. Statute establishes minimum private-provider participation thresholds. Beginning in the 2024-2025 school year, at least 10% of prekindergarten slots in each county were required to be provided by eligible private providers, increasing by 10 percentage points annually until reaching 50% in the 2028-2029 school year, and thereafter.

Most LEAs continue to require waivers from statutory private-provider participation requirements. As shown in **Exhibit 14**, MSDE reported that in the 2024-2025 school year, when counties were required to meet a 10% private-provider threshold, only four counties met or exceeded the requirement. In the 2025-2026 school year, when the requirement increased to 20%, only Montgomery County met the statutory threshold. Overall, MSDE indicated that 20 of 24 LEAs required a waiver in the 2024-2025 school year, and 23 of 24 required a waiver in 2025-2026 school year. Notably, 4 LEAs in the 2024-2025 school year and 3 LEAs in the 2025-2026 school year reported that no private providers received grant funding through the State prekindergarten formula.

Exhibit 14
Percentage of Prekindergarten Slots in Eligible Private Provider Programs by
County
School Year 2024-2025 and 2025-2026

<u>County</u>	<u>2024-2025</u> <u>(10% Requirement)</u>	<u>2025-2026</u> <u>(20% Requirement)</u>
Allegany	1.30%	1.20%
Anne Arundel	5.20%	2.70%
Baltimore County	5.70%	9.00%
Calvert	1.20%	3.20%
Caroline	10.10%	5.30%
Carroll	13.40%	11.70%
Cecil	2.90%	10.60%
Charles	2.50%	6.30%
Dorchester	1.20%	5.40%
Frederick	6.20%	6.00%
Garrett	0.00%	10.60%
Harford	9.30%	11.50%
Howard	17.40%	10.70%
Kent	1.00%	0.00%
Montgomery	13.10%	24.70%
Prince George's	6.10%	8.40%
Queen Anne's	4.20%	0.80%
St. Mary's	0.00%	0.00%
Somerset	0.00%	0.00%
Talbot	0.00%	8.60%
Washington	3.00%	5.50%
Wicomico	9.60%	8.90%
Worcester	7.60%	6.10%
Baltimore City	7.60%	10.70%

Note: Percentages shown in bold reflect the jurisdictions that met statutory mixed delivery requirements for the share of publicly funded prekindergarten slots served by private providers.

Source: Maryland State Department of Education

The continued reliance on waivers reflects that many private providers statewide do not participate in publicly funded prekindergarten programs. To better understand this gap, MSDE, in partnership with the Department of Commerce, conducted a blind survey of child care providers in calendar 2024 to identify barriers to participation in publicly funded prekindergarten. Reported barriers included concerns about funding levels relative to operating costs, staffing shortages, and regulatory and administrative requirements associated with participation, which hinder provider participation in publicly funded prekindergarten.

MSDE should discuss the efforts currently underway to expand eligible private-provider capacity and indicate whether it anticipates improved compliance among LEAs, as the required share of publicly funded prekindergarten slots in private programs increases in future school years.

4. CCATS Modernization Project – Project Pause and Funding Status

The CCATS Migration Project remains listed in the fiscal 2026 Major Information Technology Development Project Mid-Year Report. Through fiscal 2026, the project received approximately \$44.1 million in federal funding. Total actual and planned costs through fiscal 2026 are reported at approximately \$27.2 million.

MSDE initially began efforts in calendar 2018-2019 to replace the legacy CCATS system with a modernized child care administration platform and identified Colorado’s CCDF-funded system as a potential solution. The procurement was paused during the COVID-19 pandemic and later restarted in 2022. However, after a pre-bid protest and subsequent review by the Maryland State Board of Contract Appeals, MSDE withdrew the solicitation and did not proceed with the system replacement.

Instead, MSDE amended the existing contract to implement a targeted upgrade to the legacy CCATS system. Federal funds were used to automate the scholarship application process, develop parent and provider portals, and implement policy changes, including presumptive eligibility and advance payment. The project was expected to be completed in January 2026.

In November 2025, MSDE paused the project to reassess scope, business rules, and system requirements in light of potential federal regulatory changes and maintenance costs. The legacy CCATS system continues to operate, with annual maintenance and operations costs averaging slightly over \$7 million. In January 2026, MSDE requested a one-year maintenance contract extension totaling \$6.9 million. The project did not receive funding in the fiscal 2027 allowance. MSDE has indicated that it expects to determine next steps for the project in early to mid-spring 2026. **MSDE should clarify whether ongoing operational and maintenance funding for the existing CCATS system is included in the fiscal 2027 allowance and identify the amount and fund source supporting continued system operations.**

Operating Recommended Actions

1. Add the following language on the special fund appropriation:

, provided that this appropriation made for the purpose of the prekindergarten funding formula shall be reduced by \$52,574,885 contingent on the enactment of legislation to limit the expansion of Tier II full-day prekindergarten eligibility and adjust per pupil funding growth.

Explanation: The expansion of full-day prekindergarten is a key initiative aimed at increasing access to early childhood education. To ensure a more sustainable funding trajectory while maintaining the core objectives of the program, this recommended action modifies the rate of expansion by capping Tier II eligibility at 360% FPG rather than expanding to 600% of the federal poverty level starting in fiscal 2027 as required under current law and reduces the per pupil funding increase for fiscal 2027, setting it at \$17,211 instead of \$19,950, before aligning with inflationary increases in subsequent years.

2. **Child Care Scholarship (CCS) Program Quarterly Reports:** The Maryland State Department of Education (MSDE) has implemented a series of significant changes under the CCS program. These changes, along with increasing program enrollment, have contributed to higher costs and shortfalls in fiscal 2023 through 2026. In response to these financial pressures, the department has implemented an enrollment freeze as a cost-saving measure to control program expenditures and align them with available funding. The committees request that MSDE submit quarterly reports with the following information:

- monthly CCS expenditures by fund;
- fiscal 2027 year-to-date spending and annualized cost estimates, noting the adequacy of remaining State and federal fund sources;
- the number of scholarships awarded by income eligibility category by month, total expenditures for those scholarships, and average cost per child;
- updates on the CCS waiting list including which income categories are impacted, how many children and families have applied for CCS benefits and been added to the waiting list by county and family income levels;
- information on outreach efforts to families on the waiting list, including how families are notified of their status, any actions required to maintain eligibility, and strategies used to ensure families remain informed during the enrollment freeze;

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- the number of children and families removed from the waiting list and subsequently enrolled in the program, disaggregated by county and family income level, including the average length of time on the waiting list prior to enrollment; and
- the total available federal funds updated quarterly including carry over balances from prior years.

In its September 2026 report, MSDE should include actual data for the CCS program in the final quarter of fiscal 2026 and aggregate fiscal 2026 data. All reports should provide data on a monthly basis for fiscal 2027 year to date.

Information Request	Author	Due Date
CCS quarterly expenditure reports	MSDE	September 15, 2026 December 15, 2026 March 15, 2027 June 15, 2027

Budget Reconciliation and Financing Act Recommended Actions

1. **Constrain Full-day Prekindergarten Formula Growth and Upper Income Limit:** The expansion of full-day prekindergarten is a key initiative aimed at increasing access to early childhood education. However, the current statutory framework significantly increases both eligibility and per pupil funding levels at a time of limited resources. Without adjustments, eligibility for Tier II students will expand from 360% of the federal poverty guidelines (FPG) in fiscal 2026 to 600% FPG in fiscal 2027 and beyond. Additionally, per pupil funding is set to rise sharply from \$14,473 in fiscal 2026 to \$19,950 in fiscal 2027, with inflationary increases thereafter.

To ensure a more sustainable funding trajectory while maintaining the core objectives of the program, this recommended action modifies the rate of expansion by capping Tier II eligibility at 360% FPG through for fiscal 2027 and tempering the per pupil funding increase in fiscal 2027.

Recommended Action: Amend statute to limit the expansion of Tier II full-day prekindergarten eligibility and adjust per pupil funding growth to constrain costs:.

Rationale: To mitigate the fiscal impact of these provisions, this action:

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1. **Caps Tier II eligibility at 360% FPG for fiscal 2027** rather than expanding to 600% of the federal poverty level starting in fiscal 2027 as required under current law.
2. **Reduces the per pupil funding increase for fiscal 2027**, setting it at \$17,211 instead of \$19,950, before aligning with inflationary increases in subsequent years.

Fiscal Impact: These changes result in a reduction in State aid for full-day prekindergarten and associated education funding programs, with a fiscal 2027 savings of \$52,574,885.

By capping Tier II eligibility for fiscal 2027 and moderating the per pupil funding increase, this action generates near term Blueprint savings and delays a decision about program expansion to fiscal 2028 when Blueprint affordability will become a larger issue due to mandated costs far exceeding projected Blueprint revenues.

Updates

1. CCS – Federal Reporting and Payment Model

In light of recent child care fraud investigations in Minnesota and subsequent federal scrutiny of CCDF expenditures, MSDE provided information regarding internal controls within the CCS program, new federal reporting requirements, and potential implications for Maryland’s payment model and operations to assess Maryland’s exposure to similar risks and to evaluate the fiscal and operational impact of evolving federal requirements.

Fraud Prevention and Internal Controls

MSDE reports that CCS payments are supported by layered system controls and organizational safeguards. Payments are issued only to licensed providers that have accepted an authorized scholarship through CCATS, which maintains audit trails and automated checks for eligibility, attendance, and payment inconsistencies. Oversight measures include invoice and attendance audits (including review of at least 25% of provider invoices), cross-program data matching, two-step attendance verification, and annual unannounced licensing inspections. Improper payments are addressed through true-up adjustments, repayment agreements, or referral to the Central Collection Unit if not resolved within 90 days.

New Federal Reporting Requirements

Following the Minnesota investigation, the U.S. Department of Health and Human Services (HHS) implemented a new reporting process for CCDF recipients. Under this process, MSDE must submit additional documentation prior to drawing down federal funds, including detailed expenditure information, estimated number of children served, and attestations that fraud detection and verification controls are in place. MSDE reported that recent drawdown requests have taken longer to process than in the past, although the agency expects minimal operational disruption if no additional requirements are imposed.

Payment Model and Federal Rulemaking

Maryland currently operates an enrollment-based prospective payment model implemented on January 1, 2023. Payments are based on enrollment snapshots, followed by reconciliation adjustments through a “true-up” process. Attendance does not affect payment unless a child is absent for more than 60 consecutive days, although attendance verification remains part of the invoice process. On January 5, 2026, HHS issued a notice of proposed rulemaking that would remove the federal requirement that states pay prospectively based on enrollment. If finalized, this would provide states greater flexibility to return to attendance-based or arrears-based payment models. MSDE indicated that any transition would require additional fiscal modeling, system updates, and operational planning.

Appendix 1
2025 Joint Chairmen’s Report Responses from Agency

The 2025 *Joint Chairmen’s Report* (JCR) requested that MSDE prepare 1 report. Electronic copies of the full JCR responses can be found on the DLS Library website.

- ***CCS Program Quarterly Reports:*** MSDE provided two of four quarterly reports detailing CCS program enrollment and spending trends. The remaining quarterly reports are due March 15, 2026, and June 15, 2026. Further discussion of this data can be found in Issue 1 of this analysis.

Appendix 2
Early Childhood Mandates Under Chapter 36 (Blueprint)
Fiscal 2026-2027
(\$ in Millions)

<u>Early Childhood Program</u>	<u>2026 Working</u>	<u>2027 Allowance</u>	<u>2026-2027 Change</u>	<u>Chapter 36 Mandates As Amended by Chapter 55 and Chapter 165 of 2024</u>
Publicly Funded Prekindergarten				
Full-day Prekindergarten Formula Grants ¹	\$172.618	\$257.443	\$84.826	Children from families with household incomes at or below 300% of federal poverty guidelines may receive funding for publicly funded prekindergarten services in fiscal 2025. Eligibility expands to children from families with household incomes up to 600% of federal poverty guidelines in fiscal 2027. The per pupil funding amount increases from \$14,473 in fiscal 2026 to \$19,950 in fiscal 2027.
Prekindergarten Expansion Grants	26.644	26.644	0.000	From fiscal 2026 to 2030, the appropriations to the fund must be at least equal to the total amount of all funds received in the prior fiscal year.
Subtotal	\$199.262	\$284.087	\$84.826	
Wraparound/Supportive Services				
Infants and Toddlers Program ¹	\$18.100	\$19.242 ²	\$1.142	The fiscal 2027 allowance provides \$19.2 million for the Maryland Infants and Toddlers Program.
Judy Centers	36.816	42.756 ²	5.940	The State shall fund 9 additional Judy Centers per year from fiscal 2021 through 2025 (funded at \$330,000 per center) and is required to fund for 118 additional centers annually in fiscal 2026 through 2030, culminating in 135 new Judy Centers by fiscal 2030.
Patty Centers	7.512	8.502	0.990	The State shall fund three additional Patty Centers per year from fiscal 2022 through 2029 (funded at \$330,000 per center).
Subtotal	\$62.428	\$70.500	\$8.072	

<u>Early Childhood Program</u>	<u>2026 Working</u>	<u>2027 Allowance</u>	<u>2026-2027 Change</u>	<u>Chapter 36 Mandates As Amended by Chapter 55 and Chapter 165 of 2024</u>
Workforce/Program Quality Development				
Maryland Child Care Credential Program	\$5.687	\$0.000	-\$5.687	End of mandate for funding increases in the Child Care Credential Program.
EXCELS provider bonuses	6.655	6.456	-0.199	From fiscal 2023 through 2028, funding for EXCELS bonuses will increase by 10% over the prior fiscal year.
Child Care Accreditation Support Fund	1.000	1.000	0.000	The Governor shall appropriate at least \$1.0 million beginning in fiscal 2021.
Child Care Incentive Grant Program	0.146	0.161	0.015	From fiscal 2022 through 2030, funding for this program shall increase 10% over the prior year.
Early childhood primary contact	0.148	0.161 ²	0.012	MSDE shall designate a primary contact employee for early child care in the Office of Child Care. This position is 55% general funded and 45% Blueprint funded.
Subtotal	\$13.636	\$7.777	-\$5.859	
Total	\$275.326	\$362.365	\$87.039	

MSDE: Maryland State Department of Education

¹ Budgeted under R00A02.07.

² Fully or partially supported with general funds

Appendix 3
Formula Funding Distributed through the Maryland State Prekindergarten
Grant Program and Prekindergarten Expansion Grant Program by
Local School System
Fiscal 2025-2027

<u>Local School System</u>	Formula Funding			
	2025 Prekindergarten Expansion Grant Allocations	2026 Working	2027 Allowance	Change
Allegany	\$0	\$3,154,866	\$4,664,911	\$1,510,045
Anne Arundel	260,060	12,212,422	14,455,786	2,243,364
Baltimore City	2,756,636	34,099,941	49,800,172	15,700,231
Baltimore	2,145,495	14,313,335	24,141,035	9,827,700
Calvert	1,040,240	1,605,376	2,929,239	1,323,863
Caroline	1,768,408	3,901,947	6,008,248	2,106,301
Carroll	2,405,555	2,614,280	4,047,436	1,433,156
Cecil	130,030	3,917,018	6,198,796	2,281,778
Charles	494,114	7,705,003	12,492,719	4,787,716
Dorchester	390,090	2,683,129	3,934,309	1,251,180
Frederick	5,708,317	8,776,296	12,481,338	3,705,042
Garrett	260,060	838,596	1,197,072	358,476
Harford	1,560,360	5,241,317	9,216,866	3,975,549
Howard	793,183	4,730,850	7,317,526	2,586,676
Kent	0	318,939	406,635	87,696
Montgomery	3,107,717	9,688,678	16,986,991	7,298,313
Prince George's	598,138	30,654,325	44,424,210	13,769,885
Queen Anne's	1,196,276	1,130,272	1,452,836	322,564
St. Mary's	325,075	3,383,524	4,609,997	1,226,473
Somerset	0	2,865,473	3,800,176	934,703
Talbot	0	729,643	1,098,897	369,254
Washington	0	8,013,388	11,550,604	3,537,216
Wicomico	0	8,720,075	12,225,056	3,504,981
Worcester	1,703,393	1,318,996	2,002,473	683,477
Total	\$26,643,147	\$172,617,689	\$257,443,328	\$84,825,639

Source: Governor's Fiscal 2027 Budget Books; Maryland State Department of Education

Appendix 4
Object/Fund Difference Report
Maryland State Department of Education – Early Childhood Development

<u>Object/Fund</u>	<u>FY 25 Actual</u>	<u>FY 26 Wrk Approp</u>	<u>FY 27 Allowance</u>	<u>FY 26 - 27 \$ Change</u>	<u>% Change</u>
Positions					
01 Regular	209.00	211.00	211.50	0.50	0.2%
02 Contractual	13.60	13.00	13.00	0.00	0.0%
Total Positions	222.60	224.00	224.50	0.50	0.2%
Objects					
01 Salaries, Wages, and Fringe Benefits	\$22,463,486	\$26,711,224	\$28,695,507	\$1,984,283	7.4%
02 Technical and Special Fees	1,378,370	1,589,344	1,609,422	20,078	1.3%
03 Communications	210,738	139,957	139,957	0	0.0%
04 Travel	125,922	120,362	120,362	0	0.0%
06 Fuel and Utilities	16,667	55,000	55,000	0	0.0%
07 Motor Vehicle Operation and Maintenance	14,754	25,094	25,138	44	0.2%
08 Contractual Services	37,075,916	19,739,921	13,873,053	-5,866,868	-29.7%
09 Supplies and Materials	55,880	50,043	50,043	0	0.0%
10 Equipment – Replacement	3,641	227,175	227,175	0	0.0%
11 Equipment – Additional	49,777	132	132	0	0.0%
12 Grants, Subsidies, and Contributions	776,150,942	847,153,066	920,275,309	73,122,243	8.6%
13 Fixed Charges	857,756	1,252,674	1,074,513	-178,161	-14.2%
14 Land and Structures	1,179	0	0	0	N/A
Total Objects	\$838,405,028	\$897,063,992	\$966,145,611	\$69,081,619	7.7%
Funds					
01 General Funds	\$477,814,337	\$444,889,611	\$444,258,396	-\$631,215	-0.1%
03 Special Funds	188,354,113	264,795,331	335,714,812	70,919,481	26.8%
05 Federal Funds	172,236,578	187,379,050	186,172,403	-1,206,647	-0.6%
Total Funds	\$838,405,028	\$897,063,992	\$966,145,611	\$69,081,619	7.7%

Note: The fiscal 2026 appropriation includes proposed deficiency appropriations. The fiscal 2027 allowance does not include statewide salary adjustments budgeted within the Department of Budget and Management.

Appendix 5
Fiscal Summary
Maryland State Department of Education – Early Childhood Development

<u>Program/Unit</u>	<u>FY 25 Actual</u>	<u>FY 26 Wrk Approp</u>	<u>FY 27 Allowance</u>	<u>FY 26 - 27 \$ Change</u>	<u>% Change</u>
04 Division of Early Childhood	\$79,329,682	\$76,776,378	\$72,735,754	-\$4,040,624	-5.3%
06 Prekindergarten	156,518,381	214,223,439	284,087,328	69,863,889	32.6%
57 At-Risk Early Childhood Grants	37,562,323	45,827,930	54,957,930	9,130,000	19.9%
58 Head Start	2,830,038	3,000,000	3,000,000	0	0.0%
59 Child Care Assistance Grants	562,164,604	557,236,245	551,364,599	-5,871,646	-1.1%
Total Expenditures	\$838,405,028	\$897,063,992	\$966,145,611	\$69,081,619	7.7%
General Funds	\$477,814,337	\$444,889,611	\$444,258,396	-\$631,215	-0.1%
Special Funds	188,354,113	264,795,331	335,714,812	70,919,481	26.8%
Federal Funds	172,236,578	187,379,050	186,172,403	-1,206,647	-0.6%
Total Appropriations	\$838,405,028	\$897,063,992	\$966,145,611	\$69,081,619	7.7%

Note: The fiscal 2026 appropriation includes proposed deficiency appropriations. The fiscal 2027 allowance does not include statewide salary adjustments budgeted within the Department of Budget and Management.