

Department of Legislative Services  
 Maryland General Assembly  
 2023 Session

FISCAL AND POLICY NOTE  
 First Reader

House Bill 881 (Delegate Queen)  
 Ways and Means

Early Learning Collaboratives - Established and Tax Credit for Contributions

This bill authorizes public and private prekindergarten providers to form early learning collaboratives and authorizes a credit against the State income tax for contributions to an early learning collaborative. The Maryland State Department of Education (MSDE) must issue tax credit certificates to eligible taxpayers on a first-come, first-served basis and may not issue more than \$16 million in tax credit certificates in any taxable year. **The bill takes effect July 1, 2023, and the income tax credit provisions apply to tax year 2023 and beyond.**

Fiscal Summary

**State Effect:** General fund revenues decrease by up to \$16.0 million annually beginning in FY 2024. To the extent credits are claimed against the corporate income tax, Higher Education Investment Fund (HEIF) revenues and Transportation Trust Fund (TTF) revenues and expenditures are also affected (not shown below). General fund expenditures for the Comptroller’s Office may increase by \$63,000 in FY 2024 only; in addition, Blueprint for Maryland’s Future Fund (BMFF) expenditures may increase beginning in FY 2025, as discussed below.

(\$ in millions)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
GF Revenue	(\$16.0)	(\$16.0)	(\$16.0)	(\$16.0)	(\$16.0)
GF Expenditure	\$0.1	\$0	\$0	\$0	\$0
SF Expenditure	\$0	-	-	-	-
Net Effect	(\$16.1)	(-)	(-)	(-)	(-)

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

**Local Effect:** Local highway user revenues decrease beginning in FY 2024 to the extent credits are claimed against the corporate income tax. Local expenditures for prekindergarten funding may increase beginning as early as FY 2025, as discussed below.

In addition, public prekindergarten providers benefit to the extent the bill generates monetary contributions to early learning collaboratives.

**Small Business Effect:** Minimal.

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## Analysis

### Current Law/Bill Summary:

#### *Maryland State Prekindergarten Grant Program*

*Expansion of Full-Day Prekindergarten:* Chapter 36 of 2021, as amended by Chapter 55 of 2021, expanded publicly funded full-day prekindergarten by:

- establishing a new funding formula for voluntary prekindergarten for three- and four-year-old children from lower-income families. The formula is jointly funded by the State and local governments and phases in over fiscal 2023 through 2030; and
- generally requiring that at least 30% of publicly funded prekindergarten slots are provided in private programs during the 2022-2023 school year, with this share increasing each year until at least 50% of slots are provided in private programs in the 2026-2027 school year and beyond.

*Program Quality Requirements:* Publicly funded prekindergarten programs must ensure program quality by maintaining specified structural elements beginning in the 2025-2026 school year. These elements include high staff qualifications, professional development opportunities for staff, a maximum student to classroom personnel ratio of 10 to 1, and maximum class sizes of 20 students, among other requirements. Both public and private programs must also achieve and publish specified minimum rating levels in the Maryland EXCELS program. Publicly funded programs that do not achieve a level five rating in the EXCELS program must submit a plan to MSDE for achieving a level five rating within five years and must reach that rating within five years of becoming eligible for funding.

#### *Under the Bill: Authorization for Early Learning Collaboratives*

*In General:* Under the bill, public and private prekindergarten providers may apply to MSDE for approval as an early learning collaborative. The purpose of an early learning collaborative is to enable public and private providers to join together to meet existing program quality requirements applicable to publicly funded prekindergarten programs, as discussed above. The bill makes various conforming changes to provisions of existing law

relating to the distribution of State and local funding, achievement of minimum quality ratings, and required memoranda of understanding with MSDE.

An early learning collaborative must consist of one eligible public provider and one Ulysses Currie Head Start Program and may include one or more private providers of a community-based early learning program that (1) are licensed in the State and (2) do not charge more tuition for full-day prekindergarten than the cost of quality, as defined under existing law. Each prospective early learning collaborative must designate a lead member to (1) submit an application to MSDE for approval as an early learning collaborative; (2) be the fiscal agent for purposes of receiving and distributing contributions made to the collaborative; and (3) ensure each member of the collaborative is compliant with program quality requirements.

*Monetary Contributions:* An individual may make a monetary contribution to a lead member of an early learning collaborative to support the costs of the collaborative. A lead member that receives a contribution must provide a receipt to the person making the contribution and distribute the contribution equally among the members of the collaborative. An individual who makes a contribution to an early learning collaborative may be eligible for a credit against State income tax, as discussed below.

#### *Under the Bill: Income Tax Credit for Contributions to Early Learning Collaboratives*

A taxpayer may claim a credit against the State income tax for a contribution made to an early learning collaborative, not to exceed \$1 million in a taxable year. To claim the credit, a taxpayer must submit an application to MSDE, which must issue tax credit certificates to eligible taxpayers on a first-come, first-served basis. MSDE may not issue more than \$16 million in tax credit certificates in any taxable year. By January 31 annually, MSDE must report to the Comptroller on tax credits issued during the prior taxable year.

**State Revenues:** As discussed above, the bill authorizes a State income tax credit for contributions to an early learning collaborative; MSDE may issue up to \$16 million in tax credit certificates annually. Thus, general fund revenues decrease by up to \$16 million annually due to credits claimed against the State income tax. To the extent credits are claimed against the corporate income tax, a portion of foregone tax revenues will reduce HEIF and TTF revenues.

#### **State Expenditures:**

##### *General Fund*

Based on analyses of similar legislation, it is estimated that general fund expenditures for the Comptroller's Office may increase by \$63,000 in fiscal 2024 for one-time changes to

the Comptroller's tax systems necessary to implement the State income tax credit established under the bill.

### *Blueprint for Maryland's Future Fund*

To the extent the bill's authorization for the formation of early learning collaboratives results in an increase in the number of prekindergarten providers eligible for public funding, BMFF expenditures for the State share of such funding increase beginning as early as fiscal 2025. However, any such effect cannot be reliably predicted, as it depends on the number of providers that opt to form early learning collaboratives, the number of prekindergarten slots available to lower-income children eligible for funding, and the extent to which providers would be eligible for funding in the absence of the bill.

### *Transportation Trust Fund*

A portion of TTF revenues from the corporate income tax is used to provide capital transportation grants to local governments (local highway user revenues). Thus, TTF expenditures for highway user revenue grants to local governments decrease beginning in fiscal 2024 to the extent credits are claimed against the corporate income tax.

**Local Fiscal Effect:** Local highway user revenues decrease beginning in fiscal 2024, to the extent credits are claimed against the corporate income tax. In addition, public prekindergarten providers benefit to the extent the bill generates monetary contributions to early learning collaboratives.

To the extent the bill's authorization for the formation of early learning collaboratives results in an increase in the number of prekindergarten providers eligible for public funding, local expenditures for the county share of such funding increase beginning as early as fiscal 2025. In addition, MSDE advises that, to the extent the bill accelerates an increase in the proportion of eligible private providers, as envisioned under the Blueprint for Maryland's Future, the bill may accelerate the shifting of Blueprint funding for prekindergarten programs from local education agencies to private providers. Any such effect cannot be reliably predicted at this time.

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## **Additional Information**

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

**Designated Cross File:** None.

**Information Source(s):** Comptroller's Office; Maryland State Department of Education; Anne Arundel County Public Schools; Department of Legislative Services

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Analysis by: Elizabeth J. Allison

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