

Department of Legislative Services  
Maryland General Assembly  
2023 Session

FISCAL AND POLICY NOTE  
Third Reader - Revised

House Bill 495  
Ways and Means

(Delegate Solomon, *et al.*)

Budget and Taxation

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Early Childhood Development - Child Care Scholarship Program - Alterations

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This bill generally prohibits the Maryland State Department of Education (MSDE) from making the following alterations to the Child Care Scholarship (CCS) Program in effect as of January 1, 2023: (1) increasing the copayment levels; (2) reducing the reimbursement rates; (3) reducing the income eligibility requirements; or (4) 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 increase the copayment levels, reduce the reimbursement rates, reduce the income eligibility requirements, or implement a freeze in enrollment at any time during the fiscal year. **The bill takes effect July 1, 2023.**

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Fiscal Summary

**State Effect:** No anticipated impact in FY 2024. The bill's impact in any given fiscal year is indeterminate; however, the bill may significantly limit MSDE's ability to respond to changing fiscal circumstances in future years, as discussed below. Revenues are not affected.

**Local Effect:** None.

**Small Business Effect:** Potential meaningful.

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## Analysis

**Current Law:** The CCS Program (formerly known as the Child Care Subsidy 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 Temporary Cash Assistance (TCA) or Supplemental Security Income (SSI). Beginning July 1, 2023, MSDE will establish 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 23, 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 (as discussed below).

For each child needing care, eligible families receive a voucher with the subsidy 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. Subsidy rates are determined by the geographic region, type of provider, and age of the child. For purposes of the program, the State is divided into seven geographic regions. 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 subsidies 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 23, 2023, MSDE also reduced copays for all other participating families to a range of \$1 to \$3 per week.

Registered family child care homes or licensed child care centers are able to serve families receiving child care subsidies. Under certain circumstances, a voucher may be used for informal child care, such as relative care or in-home care, if approved by the State. Child care providers accepting child care scholarships must participate in the Maryland EXCELS program. MSDE determines provider reimbursement rates based on market rate surveys of the geographic regions conducted every two years. Providers who go beyond the State's licensing and registration requirements and meet specified quality standards are also eligible to receive higher payments from the program through a tiered reimbursement system.

According to the Administration of Children and Families under the U.S. Department of Health and Human Services, the benchmark for child care subsidy rates is at least the seventy-fifth percentile of market rates. Chapters 595 and 596 of 2019 required the State to adjust reimbursement rates to a minimum of the sixtieth percentile of the most recent market rate survey beginning in fiscal 2021. MSDE further raised reimbursement rates to the seventieth percentile on May 23, 2022, using supplemental Child Care and Development Block Grant funding allocated during the COVID-19 pandemic.

**State Expenditures:** The CCS Program provided financial assistance with child care tuition to slightly over 16,000 eligible children and over 10,000 families per month on average in fiscal 2022. The fiscal 2024 budget as passed by the General Assembly includes \$58.5 million in general funds and \$105.1 million in federal funds (with an authorization to process a budget amendment during the fiscal year adding \$10.0 million in federal funds, for a total of \$115.1 in federal funds).

As noted above, numerous changes have been made to the CCS Program in recent years, with many related expenditures being supported in part by an influx of federal funds made available through the American Rescue Plan Act. Specifically, due to the severe impact of the COVID-19 pandemic on child care providers, Maryland received \$193.2 million in supplemental Child Care and Development Block Grant funding that could be used on a discretionary basis to support child care providers and improve child care access for families. MSDE allocated approximately \$81.0 million of this funding to the CCS Program to expand income eligibility, among other uses.

The exact impact the aforementioned change will have on CCS Program operations is not known, although it is generally expected to *significantly* increase State expenditures in the coming years. A cost estimate of the impact of *certain* changes – including raising provider reimbursement rates and waiving and reducing copayments – as prepared by MSDE’s research and data analysis vendor for the CCS Program (the Regional Economic Studies Institute at Towson University), advised of expenditures (exclusive to the expansion efforts) totaling \$67.2 million in fiscal 2024 and 2025. While budgeted (or otherwise available) funds are sufficient to support estimated program costs in fiscal 2024, the Department of Legislative Services (DLS) has already advised of concerns regarding the sustainability of the CCS Program expansion beginning in fiscal 2025 when *supplemental* federal funding is no longer available.

In prior years, MSDE has instated enrollment freezes (restricting the ability of families, typically those with the highest income eligibility levels, to participate in the CCS Program) when program costs outpaced the program’s budget. The bill potentially delays the ability of MSDE to implement specified changes (except in limited circumstances) that may otherwise reduce program costs, thereby restricting the State’s flexibility to modify the program to adapt to fiscal circumstances.

Although the bill is not expected to have any impact in fiscal 2024, DLS is unable to provide a precise estimate regarding how the bill may affect State expenditures in later years. Nevertheless, DLS advises the impact of the bill *may* have a significant effect on general fund expenditures.

**Small Business Effect:** Private child care providers that qualify as small businesses and accept child care scholarships may benefit from the bill's limitation on MSDE's ability to make changes to the CCS Program. Specifically, the bill may ensure more stable funding for the program.

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### **Additional Information**

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

**Designated Cross File:** SB 350 (Senator King, *et al.*) - Budget and Taxation.

**Information Source(s):** Department of Budget and Management; Maryland State Department of Education; Regional Economic Studies Institute; Department of Legislative Services

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