

Child Care DES/DCS/First Things First Program Summary

Program Overview

State-funded child care in Arizona is provided through 3 agencies: the Department of Economic Security (DES), the Department of Child Safety (DCS) and the Early Childhood Development and Health Board (ECDHB), otherwise known as “First Things First.” In FY 2020 the state will spend an estimated \$244.1 million on child care subsidies and other assistance.

Background

Administration

DES and ECDHB administer child care subsidies and other assistance in Arizona. DCS contracts with DES to operate its Child Care program. Instead of providing child care themselves, DES and ECDHB pay regulated professional child care providers to serve state-funded clients. DES also pays non-certified relative providers, such as family members, who provide child care for children in DES child care and meet certain requirements. The Department of Health Services ensures that certified child care providers meet certain standards.

Caseloads

In June 2019, 36,455 children received some level of state-funded child care, as displayed in *Table 1*. Clients in Temporary Assistance for Needy Families (TANF), Transitional programs are statutorily entitled to child care services under A.R.S. §46-803. Children referred by DCS are also eligible for care under A.R.S. §46-803. The state, therefore, is required to provide subsidies to families in these categories. Families in the Low-Income Working and ECDHB categories are not entitled to services and receive child care only to the extent that funding is available.

Table 1

State Funded Child Care Caseloads				
Agency	June 2018	June 2019	June 2020 (Est.)	FY 2019 Average Monthly Cost
DES				
<i>TANF</i>	1,852	1,834	2,300	\$365
<i>Transitional Child Care</i>	4,690	4,186	5,000	\$377
<i>Low-Income Working</i>	14,900	17,330	20,500 ^{1/}	\$360
ECDHB	3,719	4,349	5,900	\$584
DCS	<u>9,194</u>	<u>8,756</u>	<u>8,700</u>	\$425
Total Served	34,355	36,455	42,400	

^{1/} DES estimates they will serve an additional 5,000 children in FY 2020 with additional CCDF monies. This estimate includes those additional 5,000 children.

The average FY 2019 monthly cost per child ranged from \$360 for Low-Income Working to \$584 for ECDHB scholarships. The average monthly cost is only the state share and does not include a family’s co-payment contribution, if any. A co-payment is required to defray the state’s cost of child care for the low-income working and transitional child care populations. The variance in the average monthly cost is based on a range of factors, including the average number of days served each month, age of the child, the type of child care provider utilized, and whether a co-payment is required. Each type of child care subsidy is described below:

- TANF - The TANF Cash Benefits program provides financial assistance to needy families at or below 36% of the 1992 Federal Poverty Level (FPL), or \$5,022 for a family of 4. Families that qualify for TANF Cash Benefits also receive state-funded child care with no co-payment requirement.
- Transitional Child Care - Families that are no longer receiving TANF Cash Benefits qualify for Transitional Child Care. Transitional Child Care is available to families with incomes at or below 165% of FPL for 24 months. Transitional Child Care recipients are required to make co-payments similar to the Low-Income Working

category. Unlike the Low-Income Working category, there is no co-payment required for Transitional Child Care recipients beyond the third child in the family.

- **Low-Income Working** - Families at or below 165% of the FPL may apply for the Low-Income Working child care subsidy. Families in this category make a co-payment that is based on their FPL. The co-payment per day ranges from \$1 to \$10. Due to funding reductions, the low-income working population has declined from a high of 27,394 children in FY 2008 to an estimated 15,501 in FY 2019. As part of the funding reductions in FY 2009, DES also instituted a Low-Income Working child care waiting list in cases where the demand for child care subsidies exceeds the availability of funds. As of June 2019, DES has suspended the use of a waitlist. The Low-Income Working child care lifetime limit for each child is 60 months.
- **ECDHB** - One of ECDHB's primary functions has been providing fully funded child care and preschool scholarships. Because preschool is often considered a form of child care, preschool scholarships are included in this analysis. To qualify for ECDHB child care, families must 1) have an income at or below 200% of FPL; 2) have children ages birth through age 5; 3) include parents who are employed; 4) accept a DES child care subsidy if it is available; and 5) not be receiving duplicate child care funding through other programs.
- **DCS** - This program provides child care subsidies for children in the state's child welfare system, both foster children in the state's custody and children who are residing in their own home and receiving DCS services. Children who qualify for the DCS subsidy are not subject to a co-payment.

Program Funding

Table 2 displays FY 2020 child care spending of \$244.1 million by agency. This funding includes a number of sources, including \$181.2 million from the federal Child Care and Development Fund Block Grant (CCDF), \$41.7 million from ECDHB, \$14.2 million from other Federal Funds, and \$7.0 million from the General Fund.

DES spends \$12.1 million on child care administration that is not included in the \$244.1 million total in Table 2, but administrative costs for ECDHB are included. The DES total does include \$8.8 million of quality set-aside spending that is not used for subsidies.

Table 2		
Child Care Funding		
<u>Agency</u>	<u>FY 2019</u>	<u>FY 2020 Estimate</u>
DES	\$98,396,600	\$146,796,600
ECDHB	42,674,700 ^{1/}	41,725,000
DCS	<u>45,159,400</u>	<u>55,559,400</u>
Total	\$186,230,700	\$244,081,000
<u>Fund Sources</u>		
CCDF	\$125,396,600	\$181,196,600 ^{2/}
ECDHB	42,674,700 ^{1/}	41,725,000
Federal Funds	11,159,400	14,159,400
General Fund	<u>7,000,000</u>	<u>7,000,000</u>
Total	\$186,230,700	\$244,081,000

^{1/} As of August 2019, ECDB does not have final FY 2019 numbers.
^{2/} The FY 2020 funds include \$55.8 million in additional funds. Due to the timing of the appropriations, the \$55.8 million in supplemental funds from FY 2019 are displayed under the FY 2020 estimate.

The high point in child care spending occurred in FY 2008 when the state spent \$201.6 million on a monthly average of 45,367 child care clients. In FY 2008, child care spending was concentrated in DES because it was responsible for child welfare functions now housed in DCS and ECDHB was still developing their programs.

Since FY 2011, ECDHB child care expenditures have been used to meet federal child care funding requirements. The maintenance-of-effort requirement for federal CCDF is state child care spending of about \$10 million annually. In addition, the state must put up approximately \$20 million in matching funds to draw down the entire CCDF allocation. ECDHB disbursements fulfill both of these federal conditions.

As part of the federal Consolidated Appropriations Act of 2018, the federal government appropriated additional CCDF funding in Federal FY 2018 and Federal FY 2019, increasing Arizona's allocation by \$55.8 million annually. In May 2019, the Legislature approved \$55.8 million as a supplemental for FY 2019 and appropriated \$55.8 million for FY 2020. Of this amount, \$7.4 million was appropriated to DCS and \$48.4 million was appropriated to DES. The Legislature made the supplemental FY 2019 funding nonlapsing through FY 2020 and the FY 2020 appropriations are available through the end of FY 2021.

Effective June 2019, DES increased provider rates for DES and DCS child care subsidies from the 75th percentile of the 2000 market survey rates to the 25th percentile of the 2018 market survey rates. DES estimates the adjustment will bring the average monthly DCS subsidy to \$477 and the DES subsidy to \$444, a 17.5% and 23.3% increase respectively.

In addition to increasing the provider rates for child care subsidies, DES plans to serve approximately 5,000 additional children over the course of FY 2020. As of July 2019, DES suspended the child care waitlist, and families who were eligible for child care assistance could begin services immediately. When there is a waiting list, it does not specify who is actively seeking child care as opposed to who is on the waiting list, but may no longer be eligible or in need of child care assistance. When it is necessary, the waiting list begins with families who make 110% of FPL; all individuals under this level currently receive child care assistance immediately.