

Fiscal Note

BILL # HB 2227

SPONSOR: Gress

PREPARED BY: Chandler Coiner

TITLE: ~~child care monies; eligible organizations (NOW: eligible organizations; registration; childcare monies)~~

STATUS: As Amended by Senate APPROP

Description

The bill, as amended by the Senate Appropriations Committee, requires the Department of Economic Security (DES) to amend its Child Care Development Fund (CCDF) State Plan to allow out-of-school time program providers (OST providers) to receive child care subsidies through the CCDF Block Grant. It would also require the Department of Health Services (DHS) to register OST providers if they meet certain criteria and are seeking to receive the federally-funded child care subsidies.

Estimated Impact

We estimate the bill would cost \$4 million from the CCDF Block Grant due to an increase in caseloads. The magnitude of the increase would depend on several factors, including the number of new providers that would be eligible for funding and how their costs compare to child care providers that are currently subsidized. It would also depend on the rate structure that DES would implement, which we cannot determine in advance.

We anticipate, however, that DES would be able to cover the spending increase within its existing appropriation, as the CCDF appropriation currently exceeds DES' actual child care subsidy expenses. DES spent only \$151.9 million from the CCDF Block Grant in FY 2022, while it was appropriated \$187.1 million.

DES estimates the bill would cost \$79 million due to an additional 8,069 children being served. We think the department's estimates of the number of new children served and the cost per child are likely overstated.

DES estimates \$505,000 in one-time costs for updating its child care system and updating policies. It also estimates \$127,000 in annual certification costs.

Analysis

Federal CCDF Block Grant monies fund the state's child care assistance program, which subsidizes the costs of child care for low-income families. The state's CCDF State Plan for FFY 2022 through 2024, which is an agreement between the state and the federal government that defines the parameters of the program, does not generally allow for center-based, non-licensed providers to receive child care assistance.

OST providers administer before-and-after school and summer programs for school-aged youth (6-12 years old) and are not licensed to provide child care by DHS. The bill would allow the OST providers to receive CCDF Block Grant monies despite their license-exempt status. They would instead register with DHS and have to meet certain criteria. The federal government would need to approve the revised plan before OST providers could receive the subsidies.

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Because the bill would provide families receiving child care assistance an additional option of where to place their school-aged children, some children may shift to the OST provider setting. However, because the OST provider subsidy rate would be determined by DES, we cannot estimate the net impact for this cohort in advance. The fiscal impact would also depend on the mix of settings the children would be shifting from and the magnitude of the shift. For these reasons, we do not have the data necessary to evaluate the impact and assume there is no net cost for currently participating children.

Additionally, we believe there would be new children receiving child care assistance due to the bill. According to the DES child care provider directory, there are currently 1,293 facilities in Arizona that serve school-aged children from 3 p.m. to 6 p.m. on weekdays. Based on information reported by advocates of the bill, we estimate that the total number of contracted child care providers for school-aged children could increase by 10% above this number.

According to DES' 2018 Child Care Market Rate Survey, 28% of full-time and part-time daily child care attendance in Arizona is school-aged children. Applying the 10% growth rate in OST providers, we estimate the increase in caseloads would result in a 2.8% increase in overall costs. This increase may be overstated to the extent that part-time subsidies are lower than full-time subsidies given that school-aged children are less likely to attend full time than younger children.

Within DES, spending on child care assistance was \$151.9 million Total Funds in FY 2022. Applying the 2.8% increase, we estimate the bill could cost an additional \$4 million from the CCDF Block Grant.

For its cost estimate of \$79 million, DES assumes 8,069 additional children would receive subsidies for 280 days of the year at \$35 per day, which is the current subsidy rate for full-time care for school-aged children at licensed centers in Maricopa County.

We think the department's estimate of the fiscal impact is likely overstated. The 8,069 additional children would represent a 44% increase in child care caseloads, while the number of providers would only increase by an estimated 10%. Additionally, the DES numbers assume average monthly spending per newly-eligible child of \$816 per month (\$35 per day X 280 days)/12 months = \$816). By comparison, actual average monthly subsidy spending per child is only \$492.

Local Government Impact

None

4/14/23