Department of Legislative Services

Maryland General Assembly
2018 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 430 (Delegate Jones, *et al.*)
Appropriations

Education - Child Care Subsidies - Mandatory Funding Levels

This bill requires the Governor to include funding in the annual State budget, as specified, to support the Child Care Subsidy (CCS) program. **The bill takes effect July 1, 2018.**

Fiscal Summary

State Effect: Federal fund expenditures increase by $25.7 million in FY 2020 reflecting the use of reserved federal funding, as discussed below. A combination of federal and general fund expenditures increase by $31.7 million in FY 2021 and $36.7 million annually thereafter; to the extent new federal revenues are available, as discussed below, the general fund impact is reduced. **This bill establishes a mandated appropriation beginning in FY 2020.**

($ in millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
FF Revenue	$0	$0	-	-	-
FF Expenditure	$0	$25.7	$0	$0	$0
GF/FF Exp.	$0	$0	$31.7	$36.7	$36.7
Net Effect	$0.0	($25.7)	($31.7)	($36.7)	($36.7)

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

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: The Governor must include in the annual State budget an appropriation for the CCS program that is not less than the appropriation for the program in fiscal 2018 or fiscal 2019, whichever is greater. The Governor must appropriate funds in an amount sufficient to raise the program's reimbursement rates for each region to the following *minimum* percentiles of the most recent market rate survey or its equivalent if an alternative methodology defined by the Maryland State Department of Education (MSDE) is used: (1) the thirtieth percentile for fiscal 2020; (2) the forty-fifth percentile for fiscal 2021; and (3) the sixtieth percentile for fiscal 2022 and each fiscal year thereafter.

Current Law/Background: The Child Care and Development Fund (CCDF) serves as the primary source of federal funding to states to help provide child care assistance for low-income families through CCS programs. The Child Care and Development Block Grant Act of 2014 reauthorized the program for the first time since 1996. The reauthorizing legislation shifts the focus from one largely dedicated to enabling low-income parents to work, to an increased emphasis on promoting positive child development and wellness through greater child care quality, safety, and access requirements.

In Maryland, the CCS program is administered by MSDE. For each child needing care, the family receives a voucher that indicates the subsidy rate and the parent's assigned co-payment. The family uses the voucher to purchase child care directly from the provider of their choice. The State pays the subsidy to providers, while the parent pays the required co-payment and any remaining balance between the actual rate charged by the provider and the voucher amount. CCS provider rates are a weekly rate determined by the region, type of provider, and age of the child. For purposes of the program, the State is divided into seven geographical regions. Within each region, rates are also set according to the type of provider and the age of the child.

CCDF regulations require a market rate survey or alternative methodology at least every three years and for rates to be set based on the results. Maryland's CCS rates have historically been set after consideration of actual rates charged by child care centers and family child care homes in each jurisdiction, as reported from market rate surveys. CCDF regulations recommend, but do not require, that the rates be set at the seventy-fifth percentile of current market rates (meaning that only 25% of providers charge rates greater than the subsidy rates). In 2001, 22 states, including Maryland, met this benchmark; as of 2015, only South Dakota met the recommended benchmark. According to the State's fiscal 2016-2018 CCDF plan, CCS rates were set at the ninth percentile, meaning that over 90% of child care providers charge more than the subsidy rate. Two key provisions of the CCDF are providing equal access to child care for children and ensuring parental choice. The U.S. Department of Health and Human Services' Administration for Children and Families (ACF) expressed concern to states that low provider payment rates undermine these principles. MSDE increased reimbursement rates by 2% effective July 1, 2017; according to MSDE, this brought the reimbursement rate up to the twelfth percentile. A rate increase of 8% is planned for July 1, 2018, which will bring the rate up to the twentieth percentile.

Furthermore, although market rate surveys are required to determine how payment rates compare to the federal benchmark of 75%, ACF notes that providers have indicated that they do not charge prices that reflect the full cost of providing quality services, because parents would be unable to pay them. As a result, the published prices reflected in market rate surveys are not always adequate to cover a provider's full costs, particularly when accounting for high-quality care, leading providers to assert that they are partially subsidizing the cost of child care. Accordingly, the reauthorization also allows states to use an alternative methodology, such as a cost estimation model, instead of a market rate survey.

Chapters 209 and 210 of 2017 required MSDE to report specified information to the Joint Committee on Children, Youth, and Families, and the Senate Budget and Taxation and House Appropriations Committees, including how potential changes to the program may impact families and providers. In addition to impacts on current subsidy providers, as discussed below, the report noted that increased reimbursement rates may encourage more providers to accept families using child care vouchers, improving access and choice for families. In addition, many child care providers require families to pay the difference between the State reimbursement rate, the State-assigned family co-pay, and the rate charged to nonsubsidy families. If reimbursement rates increase, these additional costs that are now passed on to the families decrease, resulting in lower out-of-pocket expenses for families. However, if reimbursement rate increases do not correspond with additional funding for the program, the number of families able to be served may decrease.

State Expenditures: The total appropriation for the CCS program in fiscal 2018 was $100.8 million, of which $43.5 million was general funds and $57.2 million was federal funds. The proposed fiscal 2019 State budget includes $90.7 million in total funds for the CCS program ($47.1 million federal funds/$43.5 million general funds). Accordingly, to meet the minimum appropriation in the bill, at least $100.8 million must be included in the annual State budget beginning in fiscal 2020.

The bill also requires funding adequate to raise reimbursement rates to specified minimum percentiles beginning in fiscal 2020. MSDE advises that increasing rates to the thirtieth percentile requires total funding of $112 million. For purposes of this estimate, it is assumed that absent this bill, general funds of $43.5 million would have been included in the budget each year. MSDE also advises that *new* federal funds each year generally support approximately $42.8 million of the program's annual expenditures. However, MSDE has routinely been carrying over unused federal funds to the following State fiscal year. Accordingly, the Department of Legislative Services (DLS) assumes that at least $25.7 million in reserved federal funding will still be available in fiscal 2020, thus negating the need for increased general funds in that year to meet the bill's requirements.

According to MSDE, increasing rates to the forty-fifth percentile in fiscal 2021 requires funding of $118 million; increasing rates to the sixtieth percentile in fiscal 2022 requires $123 million. This represents a total funding increase of $31.7 million in fiscal 2021 and $36.7 million in fiscal 2022 and thereafter. To meet the required funding level in each year, it is assumed that a combination of *new* federal and general funds will be necessary. General fund expenditures are likely to increase, potentially significantly, as soon as fiscal 2021. Given the spend down of federal reserves to meet the fiscal 2020 mandated funding in the bill, it is assumed that significant federal reserves are not available to support the program in fiscal 2021 and beyond. However, to the extent that additional CCDF revenues are provided through the federal budget, federal funds may support a portion of the required increases.

DLS also notes that as provider rates increase, the program becomes more attractive to parents and providers, which may increase participation. The impact of any such increase is not reflected in this fiscal estimate.

Small Business Effect: Child care providers receive increased reimbursement rates from the State, and may experience increased overall revenues.

Additional Information

Prior Introductions: None.

Cross File: SB 379 (Senator King, *et al.*) - Budget and Taxation.

Information Source(s): Maryland State Department of Education; Department of Budget and Management; Department of Legislative Services

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