HB 248

Department of Legislative Services

Maryland General Assembly
2019 Session

FISCAL AND POLICY NOTE
Third Reader

House Bill 248 (Delegate Jones, *et al.*)
Appropriations Budget and Taxation

Education - Child Care Subsidies - Mandatory Funding Level

This bill accelerates by one year a mandated appropriation for the Child Care Subsidy (CCS) program by requiring the Governor to appropriate funds for fiscal 2021 and each fiscal year thereafter in an amount sufficient to raise the program's provider reimbursement rates to a minimum of the sixtieth percentile of the most recent market rate survey or its equivalent. **The bill takes effect July 1, 2019.**

Fiscal Summary

State Effect: Federal fund expenditures increase by a total of $9.4 million in FY 2021. General fund expenditures increase beginning in fiscal 2022, as discussed below, to cover CCS expenditures. Revenues are not affected. **This bill increases a mandated appropriation for FY 2021.**

($ in millions)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Revenues	$0	$0	$0	$0	$0
GF Expenditure	0	0	-	-	-
FF Expenditure	0	9.4	0	0	0
Net Effect	$0.0	($9.4)	$0.0	$0.0	$0.0

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

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Current Law/Background:

Child Care Subsidy Program – in General

The CCS program provides financial assistance with child care costs to eligible low-income families. In Maryland, the CCS program is administered by the Maryland State Department of Education (MSDE) and supported with general funds and the federal Child Care and Development Block Grant (referred to as the Child Care Development Fund (CCDF)). 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. In fiscal 2018, an average of 13,381 children per month received CCS assistance. However, an emergency regulation that took effect August 1, 2018, substantially increased the income eligibility levels for all household sizes from approximately 32% to 65% of the State median income (SMI).

Provider Reimbursement Rates

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).

Although market rate surveys are required to determine how payment rates compare to the federal benchmark of 75%, 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, states are allowed to use an alternative methodology, such as a cost estimation model, instead of a market rate survey.

On average, the State's reimbursement rate was in the eleventh percentile of the market rate in fiscal 2018. MSDE has gradually raised reimbursement rates; in the most recent CCS expenditure quarterly report, MSDE reported that the average reimbursement rate was in the twenty-fourth percentile in the first quarter of fiscal 2019. Furthermore, pursuant to Chapters 563 and 564 of 2018, the Governor must, from all fund sources, 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 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.

Increased Federal Support for CCS

The federal fiscal 2018 omnibus spending bill increased federal funding for the Child Care and Development Block Grant (CCDBG) by $2.4 billion. MSDE attributes $28.8 million additional federal funds in federal fiscal 2018 to this change. The two-year federal budget deal reached in February 2018 also increased CCDBG funds by $2.9 billion in federal fiscal 2019. If fully funded, this increases federal funds to Maryland by an estimated $36.0 million beginning in fiscal 2020.

State Expenditures: Based on the most recent comprehensive analysis available from MSDE, total expenditures for the CCS program in fiscal 2021 are estimated at $122.1 million, which accounts for provider rate increases to the forty-fifth percentile and eligibility at 65% of SMI. Total expenditures of $131.5 million in fiscal 2021 were estimated if provider rates were instead increased to the sixtieth percentile as required by this bill. Based on those projections, *total* CCS expenditures increase by $9.4 million in fiscal 2021 due to the bill. The Department of Legislative Services (DLS) and MSDE estimate that carryover federal funds will be available to cover this cost in fiscal 2021.

Beginning in fiscal 2022, however, DLS estimates that additional general funds will be required to cover the total CCS expenditures. While *total* expenditures for fiscal 2022 and beyond are not impacted by this bill (since MSDE is already required to raise provider rates to the sixtieth percentile in fiscal 2022), the acceleration of the provider rates may affect how quickly and to what extent general funds are needed to meet program requirements. DLS notes that the fiscal and policy notes for Chapters 563 and 564 already anticipated the use of the additional federal funds to support the provider rate increases as mandated by the 2018 legislation. Federal funds were also assumed to be available to support a significant portion of the costs associated with expanded income eligibility as set forth in the 2018 regulation. In addition, the availability of significant carryover funding from prior years was anticipated; MSDE advises that $9.7 million in unexpended federal funds will be available to carryover at the end of fiscal 2019 (previously the estimate was $27.2 million). Estimates for both of these impacts also relied on the increased federal commitment to CCDBG continuing after federal fiscal 2019. Federal funds have also been used for nondirect services, such as paying providers for summer and quality enhancements and parent registration reimbursements.

As shown in **Exhibit 1**, DLS estimates that $3.7 million in general funds will be needed to support total CCS expenditures in fiscal 2022. This accounts for the ongoing cost associated with increasing provider rates to the sixtieth percentile as well as increased income eligibility and faster-than-projected use of unexpended federal funds, which reduces the amount of carryover funding available. By fiscal 2024, an estimated $16.9 million in general funds will be needed to support the total CCS program.

Given the myriad of recent changes to the CCS program, both operationally (such as the recent expansion of eligibility) and administratively (such as the cancellation of MSDE's contract with the organization that previously performed forecasting analysis for the program), both DLS and MSDE advise that it is difficult to confidently predict how additional changes, such as the one proposed by this bill, impact program costs. While the amount of the general fund increase directly attributable to this bill cannot be reliably isolated due to the other changes in the program, a portion of the general fund expenditures is related to increasing provider rates to the sixtieth percentile. As discussed above, these estimates assume that the higher CCDBG authorization continues, providing Maryland with $36 million in additional federal fund revenues annually to support the expanded CCS program. To the extent these revenues are less in any given year, general fund expenditures increase further.

Exhibit 1
Additional Child Care Subsidy Program Expenditures

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
New Federal Funds	$36,000,000	$36,000,000	$36,000,000	$36,000,000	$36,000,000
Impact of Increased Eligibility and Higher Provider Rates	34,132,335	31,472,734	36,623,073	41,742,866	42,577,723
Cost of Provider Rate 60th Percentile (SB 181/HB 248 accelerates to FY 2021)		9,381,959	9,777,572	10,170,838	10,374,255
Surplus/Shortfall After Using New Federal Funds	1,867,665	(4,854,693)	(10,400,645)	(15,913,704)	(16,951,978)
Carryover from Prior Fiscal Year	9,700,000	11,567,665	6,712,972	0	0
General Fund Impact	**$0**	**$0**	**($3,687,673)**	**($15,913,704)**	**($16,951,978)**

Fiscal 2020 reflects the allowance in the budget; fiscal 2021-2023 reflect the most recent estimates available from MSDE; fiscal 2024 assumes 2% cost increase.
Beginning in fiscal 2021, assumed carryover funding from prior fiscal year assumes that no carryover is available from federal funds received prior to fiscal 2019.

Small Business Effect: Child care providers receive increased reimbursement rates from the State, and may experience increased overall revenues in fiscal 2021.

Additional Information

Prior Introductions: None.

Cross File: SB 181 (Senator King, *et al.*) - Budget and Taxation.

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

Fiscal Note History: First Reader - February 4, 2019
md/rhh Third Reader - February 15, 2019

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