

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.” For FY 2022 state agencies were appropriated \$1.5 billion for child care subsidies and other assistance. This amount includes \$1.3 billion in additional one-time Federal Child Care and Development Fund (CCDF) monies provided from federal COVID-19 legislation.

Background

Administration

DES and ECDHB administer child care subsidies and other assistance in Arizona. DCS contracts with DES to administer child care subsidies for children in the child welfare system. 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 (DHS) ensures that certified child care providers meet certain standards.

Caseloads

In June 2021, 35,352 children received some level of state-funded child care, as displayed in *Table 1*. Clients in Temporary Assistance for Needy Families (TANF) and 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 2020 (Actual) | June 2021 (Actual) | June 2022 (Est.) ^{1/} | FY 2021 Average Monthly Cost |
| DES | | | | |
| TANF | 1,613 | 610 | 595 | \$503 |
| Transitional Child Care | 4,081 | 1,540 | 1,432 | \$517 |
| Low-Income Working | 26,982 | 14,014 | 17,429 ^{1/} | \$531 |
| Emergency Personnel ^{2/} | N/A | 6,764 | - | \$614 |
| Return to Work Child Care | N/A | N/A | 10,700 ^{3/} | - |
| Child Care for Students | N/A | N/A | - ^{4/} | - |
| ECDHB | 8,043 | 5,920 | 4,800 ^{5/} | \$580 |
| DCS | <u>9,094</u> | <u>6,504</u> | <u>6,862</u> | \$580 |
| Total Served | 49,813 | 35,352 | 41,818 ^{3/} | |

^{1/} June 2022 caseload estimates include increased caseloads as a result of additional funding from federal COVID legislation.

^{2/} The Emergency Personnel category was added as a result of the COVID-19 pandemic

^{3/} Return to Work Child Care is estimated to serve 10,700 families during a 3-month period. No estimate of the number of children served is available.

^{4/} No estimate available.

^{5/} ECDHB estimates between 4,800 and 6,500 children will be served in June 2022.

The average FY 2021 monthly cost per child ranged from \$503 for TANF to \$614 for Emergency Personnel clients. 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. Additional funding provided by federal COVID related legislation also increased average monthly costs. 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. 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.
- Emergency Personnel - The Emergency Personnel category was added as a response to the COVID-19 pandemic. This category includes children served under the Arizona Enrichment Centers program and the Essential Workers Child Care Relief (EWCCR) program. The Arizona Enrichment Centers Program provided child care for first responders, health care workers, public sector workers deemed essential, grocery store employees and food bank workers. This program ran from April 2020 through August 2020. The EWCCR program provides child care to essential workers in health care, first responders, individuals in essential government operations, grocery store workers, food bank workers, and individuals working in licensed or certified child care programs. The EWCCR program also has other requirements such as household income not to exceed \$65,000 annually, the parent must not have access to child care or in person school services for their child, and job functions cannot be completed remotely. The EWCCR program started in December 2020 and is still accepting applicants as of August 2021.
- Return to Work Child Care - The FY 2022 budget includes \$30.2 million in CCDF monies provided through federal COVID legislation for Return to Work Child Care. This program provides child care assistance for families transitioning off unemployment insurance benefits. The Executive estimates that this program will serve approximately 10,700 families during a 3-month period. We do not currently have an estimate of the number of children who will be served through this program.
- Child Care for Students - Of the total CCDF appropriation in DES for FY 2022, the Executive allocated \$45.0 million in CCDF monies provided through federal COVID legislation for child care for students. This 3-year pilot program will provide child care to low-income parents who are seeking degrees in early childhood education, K-12 education, or nursing. We do not currently have an estimate of the number of children who will be served through this program.
- 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 2022 child care spending of \$1.5 billion by agency. This funding includes a number of sources, including \$1.4 billion from the federal Child Care and Development Fund Block Grant (CCDF), \$34.0 million from ECDHB, \$14.2 million from other Federal Funds, and \$7.0 million from the General Fund.

DES spends \$12.2 million on child care administration that is included in the total in *Table 2*. Administrative costs for ECDHB are also included in the numbers in *Table 2*.

Prior to FY 2021, 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. In FY 2021, child care spending was \$389.8 million across DES, DCS, and ECDHB with a monthly average of 35,352 child care clients per month.

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.

Table 2

Appropriated Funding for Child Care

| Agency | FY 2021 | FY 2022 Estimate |
|----------------------------|-----------------------------|----------------------------------|
| DES | \$304,470,100 ^{1/} | \$1,285,880,000 ^{2/} |
| ECDHB | 41,236,100 ^{3/} | 34,000,000 ^{4/} |
| DCS | <u>56,559,400</u> | <u>152,075,400</u> ^{5/} |
| Total | \$402,265,600 | \$1,471,955,400 |
| <u>Fund Sources</u> | | |
| CCDF | \$339,870,100 | \$1,416,796,000 ^{2/} |
| ECDHB | 41,236,100 ^{3/} | 34,000,000 ^{4/} |
| Federal Funds | 14,159,400 | 14,159,400 |
| General Fund | <u>7,000,000</u> | <u>7,000,000</u> |
| Total | \$402,265,600 | \$1,471,955,400 |

^{1/} In addition to the \$181,557,800 appropriated in the FY 2021 budget, DES received a FY 2021 supplemental of \$122,912,300 in the FY 2022 budget.

^{2/} The FY 2022 budget includes a base CCDF appropriation increase of \$17,985,200 in addition to \$1,086,612,800 in one-time federal COVID funding.

^{3/} As of August 2021, ECDB does not have final FY 2021 numbers.

^{4/} ECDHB estimates between \$34,000,000 and \$44,750,000 in scholarships for FY 2022.

^{5/} The FY 2022 budget includes a base CCDF appropriation increase of \$5,116,000 in addition to \$90,400,000 in one-time federal COVID funding.

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.

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.

Federal COVID Legislation

Federal legislation associated with the COVID-19 pandemic provided a total of \$1.3 billion in CCDF funding to child care in Arizona. Funding was provided from the following legislation:

- \$88.0 million from the Coronavirus Aid, Relief, and Economic Security (CARES) Act
- \$248.6 million from the Consolidated Appropriations Act (CAA) of 2021
- \$968.6 million from the American Rescue Plan Act (ARPA)
 - \$596.4 million in stabilization funding
 - \$372.2 million in discretionary funding

The \$88.0 million from the CARES Act was appropriated as a FY 2021 supplemental for DES by Laws 2021, Chapter 18. Laws 2021, Chapter 18 appropriated a total of \$92.7 million which includes the \$88.0 million provided by the CARES Act in addition to \$4.7 million from the department's previous CCDF reserve balance.

The remaining \$1.2 billion was appropriated in the FY 2022 budget as follows:

- \$1.1 billion to DES
- \$90.4 million to DCS
- \$1.0 million to DHS
- \$9.0 million from the DES subaccount in the Automation Projects Fund to the Department of Administration

While all federal COVID CCDF monies were appropriated to agencies in either FY 2021 or FY 2022, DES does not anticipate spending monies in FY 2022. *Table 3* displays the detailed FY 2021 - FY 2024 spending plan for the monies.

Table 3

Federal COVID CCDF Appropriations (\$ in Millions)

| | <u>FY 2021</u> | <u>FY 2022</u> | <u>FY 2023</u> | <u>FY 2024</u> | <u>Total</u> |
|--|----------------|----------------|----------------|----------------|--------------------|
| Additional Recipients | | | | | |
| Continued Suspension of the Waitlist | | \$13.0 | \$13.0 | \$13.0 | \$39.0 |
| Return to Work Program | \$30.2 | | | | 30.2 |
| Child Care for Students: those seeking education to achieve financial self-sufficiency and low-income students seeking degrees in education or nursing. | | 25.0 | 25.0 | 25.0 | 75.0 |
| More Benefits | | | | | |
| Full-Day Rates for DCS Children | | 6.8 | 7.0 | 7.1 | 20.9 |
| Imagination Library Program: to distribute free books to children from birth to age 5. | | 2.0 | | | 2.0 |
| Increased Reimbursements | | | | | |
| Bring DES & DCS to 50 th Percentile of Max Rates | | 19.4 | 21.2 | 22.7 | 63.3 |
| Bring DES Infants and Toddlers to 75 th Percentile of Max Rates | | 6.9 | 7.2 | 7.4 | 21.5 |
| Bring DCS Rates to 75 th Percentile of Max Rates | | 9.5 | 9.7 | 9.9 | 29.1 |
| Increased Tiered Reimbursements | | 27.6 | 29.3 | 28.3 | 85.2 |
| Quality | | | | | |
| Quality First Program: address quality first waiting list, recruit providers serving certain populations, and provide Early Childhood Mental Health Consult services to DCS programs | | 15.4 | 27.4 | 30.6 | 73.4 |
| Establish an Accreditation System for School-Age Providers | | 2.0 | 1.5 | 1.0 | 4.5 |
| Assist Providers in Receiving National Accreditation | | 3.3 | | | 3.3 |
| Invest in the State's Early Literacy Policy Framework including building educator capacity, literacy coaching and high-quality early childhood programming. | | 23.6 | 23.6 | | 47.2 |
| Fund Health and Safety Certifications | | 0.9 | | | 0.9 |
| System Updates | | | | | |
| DHS Licensing Modernization | | 1.0 | | | 1.0 |
| DES Payment System Modernization (APF) | | 9.0 | | | 9.0 |
| Strategic Planning & Evaluation | | 1.1 | 0.3 | 0.3 | 1.7 |
| DES Staff and Operations Costs | | 5.2 | 3.1 | 3.1 | 11.4 |
| Provider Grants | | | | | |
| Provider Grant Program | | 548.9 | | | 548.9 |
| Preschool Development Grants: improve and expand curriculum | | 7.5 | 15.0 | 22.5 | 45.0 |
| Limited Capital and Technology Grants | | 25.0 | | | 25.0 |
| Reserves ^{1/} | | | | <u>79.8</u> | <u>79.8</u> |
| Total Allocations | \$30.2 | \$753.1 | \$183.3 | \$250.7 | \$1,217.3 |

^{1/} The full reserve amount of \$79.8 million is placed in the FY 2024 total. This may differ from the actual allocation based on what the reserve amount is used for.