

# Child Care

## DES/DCS/First Things First

### Program Summary

#### Program Overview

State-funded child care in Arizona is provided through three 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 2024, we estimate that state agencies will expend \$295.1 million for child care subsidies and other assistance. The agencies have also spent \$577.8 million of the \$1.3 billion from one-time Federal Child Care and Development Fund (CCDF) as of March 2023 which was provided from COVID-19 legislation in 2021.

#### 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 licensed professional child care providers to serve state-funded clients. DES will reimburse non-certified relative providers, such as family members who provide child care for children in DES child care and meet certain requirements.

Any child care center or public school programs in Arizona serving five or more children for compensation must be licensed by the Department of Health Services (DHS). Child group homes, or child care environments based at a provider's home, are eligible for serving 10 children maximum for compensation and must be certified by DHS to provide services. Child care centers are also required to receive annual mandatory inspections by DHS, while child care group homes inspections are bi-annual. There are approximately 2,800 child care providers statewide licensed or certified by DHS, of which roughly 50% contract with DES.

Child care providers are not required to be licensed by DHS if they are home-based providers serving no more than four children or if they are relative providers caring for members of their own family. Home-based providers are instead subject to certification by DES, while relative providers are not subject to certification as long as they are related to the child by blood, marriage, or court decree.

##### Eligibility

Child care assistance from DES is available for families at or below 165% of the Federal Poverty Level (FPL) (\$49,500 for a family of 4 in FY 2023) upon initial application with children 12 years of age or younger and any child in DCS custody. After the initial application, child care services through DCS and DES become available for a maximum of 23 days per month, per child, and authorized for a maximum of 24 months as long as earnings do not exceed 85% of the state median income (\$73,167 for a family of 4 in FY 2023).. Subsidies are also available via ECDHB for children who do not qualify under DES or DCS. The specific eligibility categories are as follows:

- 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.
- 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.

- 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 \$5. 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.
- Teen Parent – One of DES's programs that allows provides child care to eligible families with teenage custodial parents under 20 years of age to complete a high school diploma or its equivalent or engage in remedial education activities that are reasonably related to employment goals.
- Arizona Education Workforce Scholarship Program – One of DES's programs that was made available April 2023 and distributes scholarships for parents working in the fields of child care, publicly funded Pre-K through 12<sup>th</sup> grade schools, and publicly funded charter schools. The scholarships are planned to run through March 31, 2024 and available for participants with the following requirements: 1) children must be 12 or younger, 2) applicants must have a household income of \$65,000 or less, 3) applicant's critical job functions cannot be completed remotely and lack of child care is preventing the parent from performing essential job duties. Accepted applicants are also required to pay the difference between reimbursement rate and provider rate (if applicable) and to select a DES contracted or certified family child care provider.
- 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 300% 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. As of FY 2023, ECDHB accepts applicants within 300% of the 2023 FPL and distributes the available scholarships to eligible families on a first-come, first-serve basis. Prior to FY 2023, the income eligibility limit was 200% FPL.

#### Reimbursement

Child care provider rates for children served by DES and DCS are based on a market survey (MRS) of child care providers conducted by DES every 4 to 5 years. DES provides maximum reimbursement rates based on the 75th percentile of the 2022 MRS for children under age 1, and the 75th percentile of the 2018 MRS for ages 1 through age 12 and will be paid at the daily rate when attending for 15 minutes or more. The maximum rate for child care ranges from \$25.00 per day to \$96.23 depending on the setting and age of the child. The minimum required daily copay rate per child is \$1.00 and \$5.00 for children for whom a copayment is required. In addition to the copayment, subsidy recipients are responsible for paying the difference between the child care provider's rate and the DES reimbursement rate if the provider's charges exceed the maximum allowed by DES.

ECDHB provides subsidies differently than DES as their model uses a Cost of Quality Study which implements an increasing scale of reimbursements through the Quality First program. The Quality First program is an initiative ran by ECDHB to work with child care and preschool providers across Arizona to improve the quality of their early learning setting. Approximately 1,000 providers are part of the voluntary program in Arizona. The base reimbursement rates through ECDHB currently range from \$24.00 per day to \$45.21 per day. On a one-time basis, ECDHB increased its base rates through FY 2024 from \$42.40 to \$98.40. The increase is being funded by DES with federal ARPA funds. DES estimates the costs for expanding reimbursement rates will cost the agency around \$22.1 million per year for FY23 and FY24 (with the potential of an additional \$5.2 million per year if non-DES contracted providers elect to contract with DES).

#### Caseloads

In June 2023, 31,358 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.

<b>State Funded Child Care Caseloads</b>				
<b>Agency</b>	<b>June 2022 (Actual)</b>	<b>June 2023 (Actual)</b>	<b>June 2024 (Est.)</b>	<b>FY 2023 Average Monthly Cost</b>
DES				
TANF	509	548	548	\$665
Transitional Child Care	1,381	1,356	1,356	\$692
Low-Income Working	16,254	18,733	18,733	\$706
Teen Parent	11	12	12	\$854
Special Circumstances/Other <sup>1/</sup>	343	1,314	1,400	\$740
ECDHB <sup>2/</sup>	3,120	4,033	4,033	\$728
DCS	<u>3,120</u>	<u>5,296</u>	<u>5,296</u>	\$958
<b>Total Served</b>	<b>24,738</b>	<b>31,358</b>	<b>31,358</b>	

<sup>1/</sup> Special Circumstances/Other includes cases for Emergency Personnel and Return to Work Child Care. Emergency Personnel was added in response to the COVID-19 pandemic to allow child care for essential workers and no longer has any more cases. Return to Work has transitioned to a new program as of April 2023 called the Arizona Education Workforce Scholarship Program and totaled 905 cases in June 2023.

<sup>2/</sup> FY 2024 does not include one-time federal funds to increase the ECDHB rates through FY 2024

The average FY 2023 monthly cost per child ranged from \$665 for TANF to \$958 for DCS. 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.

### Program Funding

Table 2 displays FY 2024 child care spending of \$295.1 million by agency. This funding includes several sources, including \$227.5 million from the federal Child Care and Development Fund Block Grant (CCDF), \$46.3 million from ECDHB, \$14.0 million from other Federal Funds, and \$7.2 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.

In Arizona, many children receive child care through the CCDF dollars, which DES administers the funds for child care subsidies for several purposes. 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 \$10.0 million annually. In addition, the state must put up approximately \$20.0 million in matching funds to draw down the entire CCDF allocation. ECDHB disbursements fulfill both federal conditions. From FY 2011 to FY 2023, ECDHB has provided matching funds of \$374 million which brought in \$513.2 million of CCDF monies. The primary source of revenue for ECDHB’s investments is tobacco tax revenue, which has decreased \$164.8 million in FY 2011 to \$116.5 million in FY 2022 (29% decrease).

DES has not imposed a child care waitlist since July 2019. 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.

**Table 2**

**Estimated Expenditures for Child Care**

<u>Agency</u>	<u>FY 2023</u>	<u>FY 2024 Estimate</u>
DES	\$187,080,200	\$187,080,200
ECDHB	38,366,300	46,300,000
DCS	<u>61,675,400</u>	<u>61,675,400</u>
<b>Total</b>	<b>\$287,121,900</b>	<b>\$295,055,600</b>
<b><u>Fund Sources</u></b>		
CCDF	\$227,596,200	\$227,596,200
ECDHB	38,366,300 <sup>1/</sup>	46,300,000 <sup>2/</sup>
Federal Funds	14,159,400	13,988,400
General Fund	<u>7,000,000</u>	<u>7,171,000 <sup>3/</sup></u>
<b>Total</b>	<b>\$287,121,900</b>	<b>\$295,055,600</b>

<sup>1/</sup> As of August 2023, ECDHB latest FY23 estimate is \$38,366,250.  
<sup>2/</sup> ECDHB estimates \$46,300,000 for scholarships for FY 2024. This amount excludes ECDHB spending of one-time ARPA dollars for child care, which the agency estimates will increase total subsidies by approximately \$22,100,000 in FY 2024.  
<sup>3/</sup> The budget includes an increase of \$171,000 from the General Fund and a corresponding decrease of \$(171,000) from Child Safety Expenditure Authority in FY24 to offset an estimated FY24 decrease in Title IV-E FMAP rate.

**Federal Funding**

Federal legislation associated with the COVID-19 pandemic provided a total of \$1.3 billion in CCDF funding to child care in Arizona. The funding is distributed through the Coronavirus Aid, Relief, and Economic Security Act (CARES), Coronavirus Response and Relief Supplemental Appropriations Act (CRSSA), and the American Rescue Plan Act (ARPA). 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 2023. The one-time child care subsidies were required to be obligated by September 30, 2022 and liquidated by September 30, 2023. *Table 3* displays the detailed spending plan for the monies as of March, 2023.

**Table 3 (in millions)**

	<u>Spent</u>	<u>Planned</u>	<u>Remaining</u>
<b><u>CARES Act</u></b>			
Arizona Enrichment Centers Scholarships	\$17.10	\$17.10	\$-
Arizona Enrichment Centers Supplies	0.02	0.02	-
YMCA/Boys & Girls Club Contracts	3.50	3.50	-
COVID-19 Provider Training	0.04	0.04	-
Child Care COVID-19 Grant Program	35.60	35.60	-
Essential Workers Child Care Relief Scholarships Program	22.90	22.90	-
Child Care Workers Retention and Recruitment Grant	8.90	8.90	-
<b>FUND TOTAL</b>	<b>88.06</b>	<b>88.06</b>	<b>-</b>
<b><u>CRSSA/ARPA Discretionary</u></b>			
<i>Expanding Access to Child Care</i>			
Increase ADES/ADCS Rate to Hybrid 50 <sup>th</sup> /75 <sup>th</sup> Percentile	43.70	102.20	58.50
Child Care for Returning Workers	1.40	1.40	-
Extension of Essential Work Child Care Relief	12.40	12.40	-
YMCA Summer Programming	3.50	3.50	-
Expand Quality First Scholarships	1.70	42.20	40.50
ADES Rate Increase for Infants	-	13.80	13.80
Arizona Education Workforce Scholarship Program	-	5.50	5.50
<i>Investments in Quality Systems</i>			
Expand FTF Quality First Program/Childhood Mental Health	7.30	34.20	26.90
Establish Quality for School-Age Programs	-	0.50	0.50
Increase Enhanced Quality Reimbursement Rates	-	48.30	48.30
DHS Licensing Modernization	1.00	1.00	-
Connecting Data to State Systems	1.70	9.00	7.30
ECE Data and Financing Strategic Planning/Eval.	0.90	1.90	1.00
Administration Infrastructure	2.50	10.70	8.20
ECE Apprenticeship Program	-	12.70	12.70
Reducing Cost of Licensing Fees	5.00	12.00	7.00
Professional Development Strategies	-	2.00	2.00
Enhanced QF Provider Incentives	-	28.00	28.00
Child Care Health Consultation Pilot	-	2.00	2.00
MRS Incentive Payment	0.80	0.80	-
<i>Educational Supports</i>			
Child Care for Full-Time Students	23.40	64.60	41.20
Accelerate Early Childhood Literacy	0.50	15.90	15.40
Preschool Development Grants	0.40	47.00	46.60
Expand Imagination Library Programs	1.40	2.00	0.60
<i>Child Care Network Stabilization</i>			
Provider Grant Program Continued	-	13.90	13.90
Provider Grant Program	-	35.00	35.00
Child Care Stabilization Grant	-	99.00	99.00
<b>FUND TOTAL</b>	<b>107.60</b>	<b>621.50</b>	<b>513.90</b>
<b><u>ARPA Stabilization Programs/Initiatives</u></b>			
Provider Grant Program	381.90	566.40	184.50
Child Care Limited Capital and Technology Grants	0.20	30.00	29.80
<b>FUND TOTAL</b>	<b>382.10</b>	<b>596.40</b>	<b>214.30</b>
<b>Total Allocations</b>	<b>577.76</b>	<b>1,305.96</b>	<b>728.20</b>

Prepared by Mitchell Wenzel, Fiscal Analyst