

Maintaining Recent Changes in the Child Care Assistance Program

2023 Regular Session, House Joint Resolution 39



Cabinet for Health and Family Services
Department for Community Based Services
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Introduction

During its 2023 Regular Session the Kentucky General Assembly passed House Joint Resolution 39 (HJR 39), which Governor Andy Beshear signed into law on March 16, 2023. The stated purpose of this resolution was to direct executive branch agencies to undertake efforts to address the benefits cliff in Kentucky. The resolution provides that in many states the loss of child care assistance represents one of the largest benefits cliffs for a low-income working family with two children, causing the family to experience a benefit cliff of approximately \$1,500 per month or \$18,000 per year. The Cabinet for Health and Family Services (CHFS), Department for Community Based Services (DCBS), has used funds from the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act, the Coronavirus Response and Relief Supplemental Appropriation (CRRSA) Act, and the American Rescue Plan Act (ARPA) that were specific to child care in Kentucky. These funds have financed significant changes to the Child Care Assistance Program (CCAP) that have substantially reduced the child care benefit cliff. These federal funds will expire in September 2024, and the expiration of these temporary federal programs would serve as a significant barrier to continued participation in the workforce. HJR 39 required CHFS/DCBS to study the annual cost to the state of maintaining changes to CCAP that were implemented between January 1, 2020, and January 1, 2023, funded by federal Coronavirus funding.

The DCBS Division of Child Care is the lead state agency responsible for administering all facets for the federal Child Care and Development Block Grant (CCDBG), which includes providing workforce support to low-income families who are working or attending school. Historically, the child care industry has operated on razor-thin margins, paying employees a low wage with no benefits while providing a critically important service to our most vulnerable population (children age 0 to 5). The state's child care industry faced many hardships during the COVID-19 pandemic such as closures, reduced staff to child ratios, enhanced cleaning practices, loss of qualified workforce to higher paying positions in other industries, and increases in goods and materials necessary to operate. The child care industry in Kentucky has been sustained and supported by an influx in federal relief funding. The greatest majority of these federal relief dollars were distributed in the form of sustainability payments to providers based on their capacity. DCBS has also implemented a number of changes to CCAP payment policies that benefitted both families and providers.

The Child Care Assistance Program (CCAP)

CCAP is a public assistance program for eligible low-income, working families in which their child care provider directly receives part or the entirety of the child's tuition costs from DCBS. The household income of the family affects the amount of assistance received per child and, as with many other public assistance programs, the benefit goes directly to the provider rather than the family themselves. As of September 2023, 35,717

children (20,865 families) were enrolled in the program and more than 1,900 child care providers were receiving payments through the program. In order to qualify for CCAP, an applicant must be working a minimum number of hours, attending school, or participating in a work activity (such as work programs administered by DCBS and required by other public assistance programs).

Changes in Eligibility

DCBS increased the CCAP eligibility criteria from 160% of the federal poverty guidelines (FPG) to 200% FPG in January 2022. In July 2022, DCBS increased the CCAP eligibility criteria again from 200% of the federal poverty guidelines (FPG) to 85% of the state median income (SMI), as provided by the U.S. Census Bureau. Federal American Rescue Plan Act (ARPA) funds specific to child care were used to implement this eligibility threshold increase. Table 1 lists the monthly income amounts related to household size as the current eligibility threshold of 85% SMI. As an example, a household of two (a single parent and child) would previously have been ineligible for child care assistance if the parent’s annual income was more than \$34,836. With the increase to 85% SMI, this same family would now be eligible, as the parent’s annual income eligibility limit is above \$44,916. In this example, through this change the single parent was allowed to make an additional \$10,000 in annual income and still receive financial assistance for child care, which currently costs approximately \$750 per child per month for full-day infant care on average statewide. This higher eligibility amount allows for parents or caregivers to increase their income and continue to receive child care assistance.

Table 1. Monthly Household Eligibility Limits at 85% SMI.

| Family Size | 85% SMI/Monthly |
|-------------|--------------------|
| 2 | \$3,743 |
| 3 | \$4,623 |
| 4 | \$5,504 |
| 5 | \$6,384 |
| 6 | \$7,265 |
| 7 | \$7,430 |
| 8 | \$7,595 |
| Over 8 | Add \$166 for each |

Increasing CCAP eligibility from 200% FPG to 85% SMI has resulted in an additional 4,425 unique children (2,999 unique families) being eligible to receive child care assistance, as shown in Table 2. The department estimates that a General Fund

appropriation of \$20 million per year would be necessary to continue providing assistance at this income threshold.

Table 2. Effect and Cost of Increasing the CCAP Eligibility Threshold to 85% SMI.

| Month - Year | Benefitted from SMI change | | | Total eligible | |
|---------------------|----------------------------|----------------|-----------------------|--------------------|----------------|
| | Number of families | Children count | Expenditures | Number of families | Children count |
| July -22 | 155 | 222 | \$34,695.00 | 2,646 | 4,679 |
| Aug -22 | 225 | 319 | \$182,507.40 | 2,879 | 4,921 |
| Sept -22 | 241 | 342 | \$162,772.08 | 3,114 | 5,314 |
| Oct-22 | 360 | 530 | \$212,677.98 | 3,288 | 5,568 |
| Nov-22 | 483 | 725 | \$518,690.20 | 3,472 | 5,862 |
| Dec-22 | 536 | 801 | \$664,275.26 | 3,564 | 6,081 |
| Jan-23 | 510 | 781 | \$626,077.06 | 3,837 | 6,524 |
| Feb-23 | 537 | 796 | \$542,333.92 | 3,784 | 6,387 |
| Mar-23 | 565 | 828 | \$685,815.46 | 3,943 | 6,619 |
| Apr-23 | 547 | 790 | \$593,616.46 | 4,118 | 6,977 |
| May-23 | 609 | 871 | \$716,247.54 | 4,430 | 7,584 |
| June-23 | 607 | 883 | \$786,798.82 | 4,379 | 7,470 |
| July-23 | 644 | 921 | \$711,602.46 | 4,724 | 8,072 |
| Aug-23 | 661 | 953 | \$730,043.26 | 4,724 | 8,072 |
| Sept-23 | 670 | 975 | \$756,220.20 | 4,318 | 7,380 |
| Total | 7,195 | 10,515 | \$7,889,678.10 | 54,332 | 92,461 |
| Unique Total | 2,999 | 4,425 | \$7,889,678.10 | 20,865 | 35,717 |

DCBS implemented another change in CCAP eligibility on October 24, 2022. DCBS designated child care employees as a protected population under Child Care and Development Fund (CCDF), meaning that child care employees could have their entire household income waived for the purposes of determining eligibility for CCAP, for the purpose of allowing child care employees to easily meet CCAP eligibility requirements. This benefit acts as a recruitment and retention tool for child care centers and homes that have faced staffing issues. As of September 3, 2023, 5,661 additional children (3,233 families) have been eligible for CCAP through this initiative. To date, DCBS has used approximately \$22 million in federal funds to provide this benefit. DCBS estimates that a

General Fund appropriation of \$15 million per year would be necessary to continue providing this benefit to child care employees.

Transitioning Out of the Program

Experts agree that one of the greatest benefit cliffs a household experiences when their incomes increase is with child care. The average cost of child care in Kentucky is \$750 per child per month. A family with multiple children in child care that no longer qualifies for CCAP encounters a situation where it is suddenly required to pay thousands of dollars out-of-pocket or leave the workforce because it can no longer afford child care. DCBS used ARPA funds to provide transitional child care assistance to household who became ineligible to continue receiving CCAP due to exceeding income guidelines. In March 2022, DCBS implemented a new CCAP transitional exit program in which DCBS utilized federal funding to continue paying 50% of the rate of a family’s child care for three months while they adjust to receiving less assistance rather than suddenly receiving no child care assistance. This transition out of the program was well-received and in September 2022, the transitional period was extended to six months.

Table 3 shows the number of children and families who have benefitted from this initiative and the cost. DCBS will not be able to continue this program after September 30, 2024, when ARPA funds expire. The department estimates that a General Fund appropriation of \$750,000 per year is necessary to continue this six-month transition period out of the program.

Table 3. Effect and Cost of Providing Transitional CCAP Exit.

| Transitional Child Care | | | |
|-------------------------|--------------------|----------------|--------------|
| Date | Number of families | Children count | Expenditures |
| Apr-22 | 13 | 21 | \$5,168.00 |
| May-22 | 29 | 44 | \$14,227.00 |
| Jun-22 | 33 | 52 | \$15,255.00 |
| Jul-22 | 37 | 61 | \$16,396.00 |
| Aug-22 | 50 | 83 | \$25,183.00 |
| Sep-22 | 61 | 99 | \$28,741.00 |
| Oct-22 | 89 | 137 | \$40,986.00 |
| Nov-22 | 100 | 154 | \$48,009.00 |
| Dec-22 | 110 | 173 | \$53,150.00 |
| Jan-23 | 111 | 175 | \$55,564.00 |

| | | | |
|--------------|--------------|--------------|---------------------|
| Feb-23 | 116 | 185 | \$52,484.00 |
| Mar-23 | 115 | 186 | \$60,078.00 |
| Apr-23 | 120 | 193 | \$56,189.00 |
| May-23 | 129 | 208 | \$78,712.00 |
| Jun-23 | 113 | 166 | \$61,743.00 |
| Jul-23 | 132 | 200 | \$69,106.00 |
| Aug-23 | 139 | 217 | \$76,614.00 |
| Sep-23 | 154 | 243 | \$105,723.80 |
| Total | 1,651 | 2,597 | \$863,328.80 |

Increased Payments to Child Care Providers

At the onset of the COVID-19 pandemic, Kentucky child care providers participating in CCAP were reimbursed by DCBS at the 40th percentile of the Market Rate Survey (MRS). In July 2021, the provider reimbursement rate was increased to the 80th percentile of the MRS, meaning that child care providers participating in the program received a large increase in the payment provided by DCBS. While the Child Care and Development Block Grant (CCDBG) has focused on getting provider rates to the 50th percentile of the MRS, the federal Office of Child Care is now encouraging states to strive to maintain provider reimbursement rates at least at the 75th percentile of the MRS. Once federal funding is exhausted or expires, DCBS estimates that a General Fund appropriation of \$20 million per year is necessary to continue reimbursing providers at this increased rate.

DCBS recently began reimbursing child care providers participating in CCAP at enrollment numbers versus attendance numbers. This gives child care providers a consistent payment to expect, unaffected by attendance issues such as illness, much like they have with private pay families. Providers must have qualified staff, supplies, and materials to operate daily based on their enrollment regardless of whether children are absent or not. Providers require private pay families to pay for their child’s care even if the child is absent. Continuing to reimburse providers for the care of CCAP-eligible children based on enrollment is a further incentive for providers to participate in CCAP and accept children enrolled in CCAP in their child care center or home. Once federal funding has expired, DCBS estimates that a General Fund appropriation of \$10 million per year is necessary to continue reimbursing providers at enrollment versus attendance.

Conclusion

Child care is an industry that supports all other industries. CHFS/DCBS has spent millions of federal dollars to assist child care providers and low-income families, helping

the child care industry and allowing more Kentuckians to be in the workforce. The sustainment of these payment practices is imperative for Kentucky to maintain its current number of child care providers and to recruit new providers so that families have access to child care across the Commonwealth.