LEGISLATIVE FISCAL ESTIMATE

[First Reprint]

ASSEMBLY, No. 4177

STATE OF NEW JERSEY
220th LEGISLATURE

DATED: AUGUST 9, 2022

SUMMARY

Synopsis: Extends duration of law requiring certain provider subsidy payments for child care services be based on enrollment.

Type of Impact: State expenditure increase.

Agencies Affected: Division of Family Development, Department of Human Services.

Office of Legislative Services Estimate

Fiscal Impact	**34-Month Period**
State Expenditure Increase	Indeterminate

- The Office of Legislative Services (OLS) concludes that this bill will result in the Division of Family Development (DFD) in the Department of Human Services (DHS) incurring an indeterminate increase in expenses under the Child Care Subsidy Program due to continuing an enrollment-based payment system beyond June 30, 2022, the expiration date for the existing policy codified in law, through June 30, 2025. The OLS notes that in May of 2022, the DHS announced the continuation of this policy, absent of a legislative mandate and upon the identification of additional discretionary funds, through August of 2022. As such, this bill will incur costs for the State from September 1, 2022 through June 30, 2025 – a 34-month period.

- The OLS lacks the data to quantify this increase but notes that the distribution of ages of children served under the Child Care Subsidy Program will be a significant cost-driver in this initiative, as infants generally receive the highest subsidy payment and school-aged children receive the lowest subsidy payment. To the extent that the department uses federal COVID-19 assistance funds to implement this policy, the costs incurred by the bill will be reduced.

- The OLS also estimates that the department will experience costs to comply with the reporting requirements of the bill, and notes that P.L.2021, c.324, in concurrence with the Governor's recommendations, appropriated $400,000 to complete the initial study required pursuant to that law.

BILL DESCRIPTION

This bill extends the applicability of P.L.2021, c.324, which requires that subsidy payments to licensed child care providers be based on enrollment of students who are eligible for child care services, rather than on attendance. As originally enacted, P.L.2021, c.324 would have expired on June 30, 2022. This bill instead provides that the provisions of P.L.2021, c.324 will continue in effect for an additional three years, and will expire instead on June 30, 2025.

P.L.2021, c.324 currently directs the Division of Family Development in the Department of Human Services to submit a report to the Governor and the Legislature on the study conducted under the provisions of P.L.2021, c.324 within 12 months following the effective date of that law. This bill provides that, in addition to that initial report, the division will be required to submit a final report within three years following the effective date of this bill.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS concludes that this bill will result in the DFD in the DHS incurring an indeterminate increase in expenses under the Child Care Subsidy Program due to continuing an enrollment-based payment system beyond June 30, 2022, the expiration date for the existing policy codified in law, through June 30, 2025. The OLS notes that in May of 2022, the DHS announced the continuation of this policy, absent of a legislative mandate and upon the identification of additional discretionary funds, through August of 2022. As such, this bill will incur costs for the State from September 1, 2022 through June 30, 2025 – a 34-month period.

Since March 2020, in response to the COVID-19 pandemic, the DHS has paid child care providers based on enrollment rather than attendance using various sources of federal COVID-19 assistance funds, such as the Coronavirus Relief Fund and the Consolidated Appropriations Act. The OLS does not have access to data on the cost of this policy over the course of its implementation, but notes that as there have been improvements in pandemic conditions, the cost of this policy has likely decreased as enrollment and attendance numbers become more aligned.

To the extent that the department can continue to use federal COVID-19 assistance funds, the costs incurred by the bill will be reduced. Specifically, the division received $267.3 million in supplementary discretionary funds under the Child Care and Development Block Grant program as part of the federal American Rescue Plan of 2021. These funds may be used for activities allowed under the Child Care and Development Fund, which include the provision of child care services, activities to improve the quality of child care, and administrative costs. Under federal law, these funds must be obligated by September 30, 2023 and spent by September 20, 2024. As of June 8, 2022, $225.7 million of these discretionary funds are unexpended or unencumbered. As these federal funds are required to be encumbered before the policy under the bill expires, the OLS assumes that federal COVID assistance could partially offset the State costs of this bill, rather than eliminate the costs.

According to its responses to FY 2023 OLS Discussion Points, the DHS intends to use these funds for the following: maintaining supplemental payments to providers for children receiving assistance through the state's child care assistance program; continuing to provide child care assistance for parents who do not meet work requirements due to work hours' fluctuation at redetermination of benefits; and implementing financial incentives to increase the number of child care providers that offer non-traditional evening and weekend hours. To the extent that the discretionary funds under the Child Care and Development Block Grant program are used to implement the bill's provisions, the above efforts may be disrupted or require State funding.

The OLS lacks the data to quantify this increase but notes that the distribution of ages of children served under the Child Care Subsidy Program will be a significant cost-driver in this initiative, as infants generally receive the highest subsidy payment and school-aged children receive the lowest subsidy payment. Other factors include the number of providers within the Grow NJ Kids program, which received a higher per child subsidy rate in exchange for participating in the State's Quality Rating and Improvement System.

The OLS also estimates that the department will experience costs to comply with the reporting requirements of the bill, and notes that the P.L.2021, c.324, in concurrence with the Governor's recommendations, appropriated $400,000 to complete the initial study required pursuant to that law.

Section:	*Human Services*
Analyst:	*Sarah Schmidt* *Lead Research Analyst*
Approved:	*Thomas Koenig* *Legislative Budget and Finance Officer*

This legislative fiscal estimate has been produced by the Office of Legislative Services due to the failure of the Executive Branch to respond to our request for a fiscal note.

This fiscal estimate has been prepared pursuant to P.L.1980, c.67 (C.52:13B-6 et seq.).