

LEGISLATIVE FISCAL ESTIMATE

[Second Reprint]

ASSEMBLY, No. 4177

STATE OF NEW JERSEY

220th LEGISLATURE

SUMMARY

DATED: MAY 26, 2023

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

Type of Impact: Potential State expenditure increase.

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

Office of Legislative Services Estimate

Fiscal Impact	<u>12-Month Period</u>
Potential State Expenditure Increase	Up to \$48 million

- The Office of Legislative Services (OLS) concludes that this bill will result in the Division of Family Development in the Department of Human Services incurring a potential increase of up to \$48 million in expenses under the Child Care Subsidy Program due to continuing an enrollment-based payment system through June 30, 2025. The OLS notes that the department, in response to FY 2024 OLS Discussion Point Questions, indicated the continuation of this policy, absent a legislative mandate, through June 2024. As such, this bill will incur costs for the State from July 1, 2024 through June 30, 2025 – a 12-month period.
- The OLS does not have access to data on the existing cost of this policy, but notes that the FY 2023 Appropriations Act allocated \$48 million from the federal Coronavirus State Fiscal Recovery Fund grant for the purpose of this initiative. As of May 22, 2023, these funds have yet to be disbursed, and the OLS assumes that this allocation will be used to support the bill's provisions in FY 2024. In FY 2025, the State would need to shift these federal dollars to another federal or State source.
- The Department of Human Services indicated during the FY 2024 Budget Process that an undisclosed amount of the \$100 million proposed increase for the Child Care Subsidy Program is intended to continue this policy in FY 2024. Absent this proposed State funding in FY 2024 and FY 2025, this estimate will increase by an indeterminate amount.

- 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, to provide that the provisions of the law continue until June 30, 2025, instead of expiring on June 30, 2022 as provided for in existing law.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS concludes that this bill will result in the Division of Family Development incurring a potential increase of up to \$48 million 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 the department, in response to FY 2024 OLS Discussion Point Questions, indicated the continuation of this policy, absent a legislative mandate, through June 2024. As such, this bill will incur costs for the State from July 1, 2024 through June 30, 2025 – a 12-month period.

Since March 2020, in response to the COVID-19 pandemic, the Department of Human Services 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 the FY 2023 Appropriations Act allocated \$48 million from the State's flexible \$6.24 billion federal Coronavirus State Fiscal Recovery Fund grant, which the State received under the American Rescue Plan Act of 2021, for the purpose of this policy. As of May 22, 2023, these funds have yet to be disbursed, and the OLS assumes that this allocation will be used to support the bill's provisions in FY 2024.

In FY 2025, the State would need to shift these federal dollars to another source. To the extent that the department can continue to use federal COVID-19 assistance funds, the State costs incurred by the bill will be reduced. For example, 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 May 22, 2023, \$83.8 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. It is also possible that additional funds from the federal Coronavirus State Fiscal Recovery Fund grant will be allocated for the purposes of this bill. All stimulus funds from this source must be obligated by December 31, 2024 and expended by December 31, 2026.

The OLS 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. To the extent that these factors have changed since the \$48 million federal allocation under the FY 2023 Appropriations Act, the annual State cost of this bill may increase or decrease. In addition, the Department of Human Services indicated during the FY 2024 Budget Process that an undisclosed amount of the \$100 million proposed increase for the Child Care Subsidy Program is intended to continue this policy in FY 2024. Absent this proposed State funding in FY 2024 and FY 2025, the estimate under this bill will increase by an indeterminate amount.

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

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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.).