

LEGISLATIVE FISCAL ESTIMATE

[Second Reprint]

SENATE, No. 2478

STATE OF NEW JERSEY 220th LEGISLATURE

DATED: DECEMBER 12, 2023

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	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>
State Expenditure Increase	Up to \$48 million	Up to \$48 million	Up to \$24 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 an increase of up to approximately \$48 million in annual expenses each year in FY 2025 and FY 2026 and approximately \$24 million in annual expenses in FY 2027 under the Child Care Subsidy Program due to continuing an enrollment-based payment system.
- The OLS notes that the FY 2023 Appropriations Act included \$48 million for a one-year extension of the enrollment-based payment system under the child care subsidy program. Moreover, the policy is currently funded through the end of FY 2024. Therefore, this estimate assumes that the State will incur costs beginning in FY 2025 and ending mid-way through FY 2027, which marks the expiration of this policy under the bill, based on a January 1, 2024 effective date, for providers receiving the subsidy payment on June 30, 2025.
- 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. The \$48 million was distributed to the program's administering vendor in October 2023, 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 \$112 million proposed increase for the Child Care Subsidy Program was intended to support the continuation this policy in FY 2024. Absent this State funding in FY 2025, FY 2026, and FY 2027, 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. Additionally, the bill directs that the policy is to continue for any provider receiving the subsidy payment on June 30, 2025 until the division issues the report required under the bill, which must be submitted to the Governor and the Legislature within three years of the effective date of the bill. Furthermore, the bill allows the division to extend the policy following the issuance of the report.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS concludes that this bill will result in the Division of Family Development in the Department of Human Services incurring an increase of up to approximately \$48 million in annual expenses each year in FY 2025 and FY 2026 and approximately \$24 million in annual expenses in FY 2027 under the Child Care Subsidy Program due to continuing an enrollment-based payment system. The OLS notes that the FY 2023 Appropriations Act included \$48 million for a one-year extension of the enrollment-based payment system under the child care subsidy program. Moreover, the policy is currently funded through the end of FY 2024. Therefore, this estimate assumes that the State will incur costs beginning in FY 2025 and ending mid-way through FY 2027, which marks the expiration of this policy under the bill, based on a January 1, 2024 effective date, for providers receiving the subsidy payment on June 30, 2025. Under the bill, the department may consider extending the payment of enrollment-based subsidies to child care providers beyond the middle of FY 2027; however, this analysis does not provide an estimate for this period as the OLS cannot predict the department's decision regarding the policy at that point.

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. The \$48 million was distributed to the program's administering vendor in October 2023, 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, it is 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 \$112 million proposed increase for the Child Care Subsidy Program was intended to support the continuation of this policy in FY 2024. Absent this State funding in FY 2025, FY 2026, and FY 2027, 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.).