Agency Recommendation Summary

The Department of Children, Youth, and Families (DCYF) requests $270,834,000 ($268,408,000 General Fund State) in the 2023-2025 Biennial Budget to implement legislation that changes the cost of Working Connections Child Care.

Program Recommendation Summary

010 - Children and Families Services

The Department of Children, Youth, and Families (DCYF) requests $270,834,000 ($268,408,000 General Fund State) in the 2023-2025 Biennial Budget to implement legislation that changes the cost of Working Connections Child Care.

030 - Early Learning

The Department of Children, Youth, and Families (DCYF) requests $270,834,000 ($268,408,000 General Fund State) in the 2023-2025 Biennial Budget to implement legislation that changes the cost of Working Connections Child Care.

090 - Program Support

The Department of Children, Youth, and Families (DCYF) requests $270,834,000 ($268,408,000 General Fund State) in the 2023-2025 Biennial Budget to implement legislation that changes the cost of Working Connections Child Care.

Fiscal Summary

Fiscal Summary *Dollars in Thousands*	**Fiscal Years**		**Biennial**	**Fiscal Years**		**Biennial**
	2024	**2025**	**2023-25**	**2026**	**2027**	**2025-27**
Staffing						
FTEs	0.0	0.0	**0.0**	10.5	26.0	**18.25**
Operating Expenditures						
Fund 001 - 1	$5,963	$5,963	**$11,926**	$5,963	$5,963	**$11,926**
Fund 001 - A	$1,213	$1,213	**$2,426**	$1,213	$1,213	**$2,426**
Fund 001 - 1	$0	$0	**$0**	$147	$364	**$511**
Fund 001 - A	$0	$0	**$0**	$22	$54	**$76**
Fund 001 - 1	$127,966	$128,516	**$256,482**	$175,793	$240,317	**$416,110**
Total Expenditures	**$135,142**	**$135,692**	**$270,834**	**$183,138**	**$247,911**	**$431,049**
Revenue						
001 - 0393	$1,213	$1,213	**$2,426**	$1,213	$1,213	**$2,426**
001 - 0393	$0	$0	**$0**	$22	$54	**$76**
Total Revenue	**$1,213**	**$1,213**	**$2,426**	**$1,235**	**$1,267**	**$2,502**

Decision Package Description

Child care providers are unable to charge necessary rates to support their business while families with low incomes are unable to afford child care to provide their children a safe place to stay while they work. This directly and disproportionally impacts women and people of color. This proposal seeks to address these issues by implementing several legislative requirements addressing provider reimbursement rates and income eligibility for Child Care Subsidy Programs.

In 2021 the Legislature passed the Fair Start for Kids Act (SB 5237), which made historic investments into child care and early learning. The changes to the subsidy system laid out in this bill were incremental, with some new requirements coming online in the 2023-25 biennium, and yet more in the 2025-27 biennium.

RCW 43.216.749 states that child care subsidy base rates must achieve the 85th percentile of the current market rate. When the FSKA passed DCYF was in the middle of conducting a new Market Rate Survey (MRS), so the legislature funded to the 85^{th} percentile of the 2018 Market Rate Survey. Since that time, DCYF has conducted a new MRS in 2021 and the market rates increased significantly. The 2022 Legislature passed SB 5693 Section 229 (5) that provided a one-time rate enhancement of 16% for child care centers for FY23. This increase was funded for FY23 and does not continue beyond FY23. Additionally, SB 5693 Section 229 (5)(e) states, "It is the intent of the legislature to continue to rebase child care provider subsidy base rates to the 85th percentile of market in subsequent fiscal biennia." This proposal is to increase Child Care Subsidy reimbursement rates in the next biennium to the 85^{th} percentile of the 2021 MRS. DCYF proposes moving all center rates to the 85^{th} percentile of the 2021 market rate survey while not decreasing the rate for any rates that were higher than the 85^{th} percentile with the FY23 rate enhancement. The Collective Bargaining Agreement (CBA) with Service Employee International Union (SEIU) 925, which represents the Licensed Family Homes, already includes increasing reimbursement rates to the 85th percentile of the 2021 market rate survey. This will allow families receiving subsidy continued access to high quality child care.

DCYF continues to plan to expand income eligibility provided by the 2021 legislature under RCW 42.216.1368. This further supports families with low income. Under this legislation DCYF will expand income to 75 percent of the State Median Income beginning FY26 and 85 percent of State Median Income for FY28. This is expected to help an additional 4,000 families access child care in the FY26 and FY27 Biennium.

DCYF must also implement a copay increase for some families beginning in FY24 as provided under RCW 43.216.1368. This bill increases family copays from $115 to $165 when the family has income between 50 and 60% of the State Median Income (SMI). This change will keep family copays less than 7% of the gross family income and will impact about 2,000 families. DCYF will implement the new copayment at application and reapplication for families to ensure that family copays are not increased during their eligibility period.

Assumptions and Calculations

Expansion, Reduction, Elimination or Alteration of a current program or service:

There is no expansion, reduction, elimination or alteration of the current program.

Detailed Assumptions and Calculations:

DCYF requests $270,829,000 ($263,652,000 GF-S) in the 2023-2025 Biennial Budget to increase subsidy reimbursement rates to the 85^{th} percentile and expand eligibility to 75% SMI beginning in the 2025-27 biennium.

Cost savings due to increasing the copayment from $115 to $165:

- DCYF assumes the cost savings for increasing copayments from $115 to $165 will be $655,000 GF-S in FY24 and $1,214,000 GF-S in FY25.
- DCYF has averaged 2,023 cases with $115 copays from December 2021 through May 2022. The annual savings of moving these cases to $165 will be $1,214,000 ($50 per case per month x 12 months x 2,023 cases).
- These families will transition to $165 copay at reapplication. The roll-out for year one will be 1/12 of cases convert per month (based on even distribution of application and reapplications) which will lead to a savings of $655,000 in FY24.

Anticipated costs due to increasing subsidy reimbursement rates to the 85^{th} percentile of the 2021 Market Rate Survey:

- DCYF assumes an anticipated annual cost of increasing the subsidy reimbursement rates to the 85^{th} percentile to be $135,797,000 ($134,584,000 GF-S) in FY24 and $136,905,000 ($135,692,000 GF-S) in FY25.
- The below chart shows assumptions provided by the Office of Financial Management (OFM) for increasing rates to the 85^{th} percentile for both Licensed Family Homes and Child Care Centers. The Collective Bargaining Agreement (CBA) with Service Employee International Union (SEIU) 925, which represents the Licensed Family Homes, already includes increasing reimbursement rates to the 85^{th} percentile, and costs are not included in this Decision Package.
- There are currently 5 Child Care Center rates that are higher than the 85^{th} percentile. DCYF assumes keeping those rates the same would increase the cost .4% above the OFM assumption.
- The total anticipated annual cost for increasing rates for Child Care Centers is $119,533,000 in FY24 and $120,586,000 in FY25.
- The total anticipated annual cost for Tiered Reimbursement for Child Care Centers is $9,084,000 in FY24 and $9,144,000 in FY 25.
- The total anticipated annual cost for Child Welfare Rates for Child Care Centers is $7,176,000 per fiscal year.
- Increasing subsidy reimbursement rates to the 85^{th} percentile will require BARCODE system updates, performed in partnership with the

Department of Social and Health Services (DSHS), Economic Services Administration (ESA). DCYF assumes system updates will require 40 hours of work performed by an IT Business Analyst Journey and 40 hours of work performed by an IT Application Developer Journey. The total anticipated one- time costs for BARCODE system updates are $6,000 in FY24.

	Licensed Family Homes				
?	FY 2024	FY 2025	2023-25 Biennium	FY 2026	FY 2027
Subsidy rate changes at 85th percentile of 2021 Survey	$47,927,988	$48,301,590	**$96,229,578**	$48,678,105	$49,057,555
Tiered reimbursement changes beginning at Base	$4,375,123	$4,405,409	**$8,780,533**	$4,435,905	$4,466,612
Child Welfare rate changes	$1,236,068	$1,236,068	**$2,472,135**	$1,236,068	$1,236,068
TOTAL	**$53,539,179**	**$53,943,067**	**$107,482,246**	**$54,350,078**	**$54,760,234**

	Child Care Centers				
?	FY 2024	FY 2025	2023-25 Biennium	FY 2026	FY 2027
Subsidy rate changes at 85th percentile of 2021 Survey	$119,056,316	$120,105,277	**$239,161,593**	$121,163,481	$122,231,007
Tiered reimbursement changes beginning at Base	$9,083,574	$9,143,534	**$18,227,108**	$9,203,890	$9,264,644
?	?	?	**?**	?	?
Child Welfare rate changes	$7,176,135	$7,176,135	**$14,352,269**	$7,176,135	$7,176,135
TOTAL	**$135,316,025**	**$136,424,946**	**$271,740,971**	**$137,543,505**	**$138,671,786**

Anticipated costs due to increasing family eligibility to 75% SMI beginning July 1, 2025:

- DCYF assumes an anticipated annual cost of increasing the subsidy eligibility to the75% SMI to be $83,512,000 GF-S in FY26 and $23,513,000 GF-S in FY27.
- WWU research, showing the unmet need for children in new income groups, shows the State of Washington has 41,183 children in families from 60-75% SMI and 22,919 children in families from 75-85% SMI.
- DCYF assumes an average of 1.8 children per household. This translates to 22,879 households who gain eligibility with income between 60 and 75% SMI, and 12,733 families who have income between 75 and 85% SMI.
- DCYF assumes that 15% of eligible families will participate in the program. This is 3,432 families added to the caseload for households between 60 and 75% SMI and 1,910 families added to the caseload for households between 75 and 85% SMI beginning in FY26 and FY27.
- DCYF must also offer a second-tier eligibility for households to meet federal requirements. DCYF will extend Tier 2 eligibility to 80% SMI for families who reapply timely and who have gone over 75% SMI. DCYF assumes that participation in Tier 2 will be consistent with current Tier 2 participation and add 422 families per month.
- DCYF assumes the monthly per cap is $1,645.89 for all families and that the average copay is $66.81.
- The anticipated monthly cost for families in the 60-75% SMI group is $1,794.08 (1794.08 = $1,645.89 monthly per cap + ($215 copay-$66.81 average copay)).
- The anticipated monthly cost for families in the 75-85% SMI group is $1,899.08 ($1,899.09 = $1,645.89 monthly per cap + ($320 copay -$66.81 average copay)).
- The total anticipated annual cost to move the income limit to 75% SMI is $83,504,000.
    - $73,887,000 (3,432 families x 12 months x $1,794.08 cost per family month)
    - $9,617,000 (422 Tier 2 eligible families x 12 months x $1,899.08 cost per family month)

- DCYF assumes that FY26 will take a 12 month ramp up for newly eligible families between 60 and 75% SMI. The 12-month ramp up will add 1/12 of the caseload each month which is 54% of the expected annual cost. The anticipated annual cost for FY26 is $45,092,000.
- Increasing subsidy reimbursement family eligibility to the 75% SMI will require BARCODE system updates, performed in partnership with DSHS ESA. DCYF assumes system updates will require 40 hours of work performed by an IT Business Analyst Journey and 80 hours of work performed by an IT Application Developer Journey. The total anticipated one- time costs for BARCODE system updates are $9,000 in FY26.
- The total anticipated annual cost for moving families to 85% SMI is $43,527,000 (1,910 families x 12 months x $1,899.09 cost per family month) in FY27.
- DCYF assumes that FY27 will have a 12 month ramp up for newly eligible families between 75 and 85% SMI. The 12-month ramp up will add 1/12 of the caseload each month to lead to 54% of the expected annual cost each month which is 54% of the expected annual cost. The anticipated annual cost for FY27 is $23,505,000.
- Tier 2 eligibility is not needed as eligibility is set to 85% SMI.
- Increasing subsidy reimbursement rates to 85% SMI will require BARCODE system updates, performed in partnership with DSHS ESA. DCYF assumes system updates will require 40 hours of work performed by an IT Business Analyst Journey and 80 hours of work performed by an IT Application Developer Journey. The total anticipated one- time costs for BARCODE system updates are $9,000 in FY27.
- FY28 will include the full caseload of $83,504,000 for 75% SMI and $73,887,000 for 85% SMI, for an expected cost of $127,031,000.

Office of Administrative Hearings Appeals

- DCYF assumes the total cost of appeals will be $18,000 GF-S in FY26 and $38,000 GF-S in FY27.
- DCYF partners with the Office of Administrative Hearings (OAH) for appeals. The work in this decision package will increase appeals referrals to OAH.
- DCYF assumes that there will be 30 new appeals referrals in FY26 and 60 new appeals referrals in FY27 and beyond.

Workforce Assumptions:

Workforce costs are directly tied to the caseload increase beginning in FY26. An increase of 3,432 cases for moving families to 75% SMI and 1,910 cases for moving families to 85% SMI.
2,083 cases will be added in FY26, 2,804 cases in FY27, and 879 cases in FY28. DCYF staffs WCCC at 1 PBS3 staff per 200 cases, 1 PBS4 staff per 11 PBS3, and 1 PBS5 staff per 12 PBS3/4 staff.

- 9.0 Public Benefit Specialist 3s in FY 2026 - $776,000 per year
- 13.0 Public Benefit Specialist 3s in FY 2027 - $1,121,000 per year
- 0.75 Public Benefit Specialist 4s in FY 2026 - $67,000 per year
- 1.25 Public Benefit Specialist 4s in FY 2027 - $112,000 per year
- 0.75 Public Benefit Specialist 5s in FY 2026 - $72,000 per year
- 1.25 Public Benefit Specialist 5s in FY 2027 - $120,000 per year
- DCYF assumes a standard annual cost of $18,900 in FY 2026 and $46,800 in FY 2027 for goods and services ($3,900 per FTE).
- DCYF assumes a standard annual cost of $25,000 in FY 2026 and $62,000 in FY 2027 for travel ($2,400 per FTE).
- DCYF assumes one time cost of $76,000 in FY 2026 and $112,000 in FY 2027 for capital outlays ($7,200 per FTE).

Strategic and Performance Outcomes

Strategic Framework:

This proposal supports the agency goals of creating a high-quality integrated B-8 system and eliminate racial disproportionality and advance racial equity by addressing issues impacting both supply and demand issues with child care. This proposal supports providers who are also disproportionally women and women of color, by increasing reimbursement rates. This will increase the number of providers and spaces available within programs to subsidy. More families will be eligible for subsidy as well, allowing families with low-income increased choice in high quality child care.

Creating and maintaining an equitable high-quality integrated B-8 system further supports the Governor's Results Washington goal areas of Prosperous Economy, World Class Education, and Healthy and Safe Communities by providing families with safe and loving places for their children while they work. These children will participate in high quality early learning environments that will support their own development, creating a strong foundation for their future as well.

Performance Outcomes:

DCYF expects to increase the number of licensed child care providers participating in child care subsidy by increasing rates. DCYF also expects that providers will be able to increase the number of spaces dedicated to children receiving subsidy. This is necessary as caseloads are expanded under the Fair Start for Kids Act.

Equity Impacts

Community outreach and engagement:

Robust stakeholder engagement, ELAC, ELAA, SEIU 925, providers, EL advocates, parent groups.

Women and BIPOC communities are over represented in both the families receiving child care subsidy and child care providers. Increasing the Child Care Subsidy reimbursement rate increases access to high quality child care while providing more equitable reimbursement to providers who care for children receiving subsidy. Additionally, increasing income eligibility to 75% SMI further extends access to high quality care for children whose parents would otherwise not be able to afford child care. Increasing family copays for families in the 50-60% SMI range will slightly increase family cost, but further decreases the cliff effect of families losing eligibility. The copay is still 7% or less of family income in this income bracket.

Disproportional Impact Considerations:

Women and BIPOC communities are over represented in both the families receiving child care subsidy and child care providers. Increases access to high quality child care while providing more equitable reimbursement to providers who care for children receiving subsidy.

Target Populations or Communities:

Child care providers and families utilizing state subsidized care.

Other Collateral Connections

Puget Sound Recovery:

Not applicable

State Workforce Impacts:

DCYF staff process provider rate changes annually. This is no change in work for employees of Washington. However, compensation is a mandatory subject of bargaining with Service Employee International Union (SEIU) 925 that represents licensed family home providers. Provider subsidy rates are included in the Collective Bargaining Agreement.

Intergovernmental:

Tribal, County, and City governments that offer their own child care subsidy programs will be indirectly impacted by way of rate differences. Rates for other subsidy programs are independent of each other but they are influenced by the State's reimbursement rates.

Additionally other programs may change their eligibility to allow families access Working Connections Child Care. This allows for other programs to expand to populations not eligible under the State's Child Care Subsidy Programs.

Stakeholder Response:

Child Care Subsidy providers and stakeholders are very supportive of these changes. Providers and stakeholders have shared a desire to move to a cost of care-based reimbursement model to support increased investments into workforce in future years. DCYF has shared these ideas with the Early Learning Advisory Committee, Provider Supports, Early Learning Action Alliance, the Early Care and Education Consortium, representatives of school-age providers and School's Out Washington, OneAmerica, ECEAP directors, Parent Ambassadors, Indian Policy Early Learning Committee, SEIU 925, CCA of WA, and Washington Association of ECEAP and Head Start.

State Facilities Impacts:

Not applicable

Changes from Current Law:

DCYF must make rule changes in chapter 110.15. These include:

110.15.0005 to change income eligibility110.15.0075 to add copay levels

110.15.0200 and 0205 to adjust provider reimbursement rates

Legal or Administrative Mandates:

Not Applicable

IT Addendum

Does this Decision Package include funding for any IT-related costs, including hardware, software, (including cloud-based services), contracts or IT staff?

No

Objects of Expenditure

Objects of Expenditure *Dollars in Thousands*	Fiscal Years		Biennial	Fiscal Years		Biennial
	2024	**2025**	**2023-25**	**2026**	**2027**	**2025-27**
Obj. N	$7,176	$7,176	**$14,352**	$7,176	$7,176	**$14,352**
Obj. A	$0	$0	**$0**	$656	$1,625	**$2,281**
Obj. B	$0	$0	**$0**	$260	$645	**$905**
Obj. E	$0	$0	**$0**	$37	$85	**$122**
Obj. G	$0	$0	**$0**	$25	$62	**$87**
Obj. J	$0	$0	**$0**	$76	$112	**$188**
Obj. N	$127,960	$128,516	**$256,476**	$174,730	$237,779	**$412,509**
Obj. S	$6	$0	**$6**	$9	$9	**$18**
Obj. T	$0	$0	**$0**	$169	$418	**$587**

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