



February 10, 2024

SUMMARY OF BILL: Requires the Department of Human Services (DHS) to perform an annual cost estimation model of day care rates to determine an amount to be paid as reimbursement on behalf of low-income families for the provision of child care by a day care center, family day care home, or group day care home.

FISCAL IMPACT:

Other Fiscal Impact – Due to the unknown outcome of the cost estimation model, the extent to which child care reimbursement rates may increase or decrease in FY25-26 and subsequent years cannot be reasonably estimated.

Assumptions:

- Pursuant to the proposed legislation, a cost estimation model is a method of determining the costs of day care that incorporates data and a set of assumptions to estimate expected costs that would be incurred by child care providers under different scenarios, and considers several factors that account for the cost of service delivery and other variations in cost.
- Tennessee Code Annotated § 71-1-130 requires DHS to, from the market rate study or utilizing an alternative methodology which includes cost of quality studies and cost estimation models, annually determine an amount to be paid as reimbursement on behalf of low-income families, for the provision of child care by a day care center, family day care home, or group day care home.
- The department has historically opted to utilize market rate studies, focused primarily on the cost to parents, as opposed to alternative methodologies that focus on child care provider expenses.
- Federal Child Care Development Fund regulations require states to conduct a narrow cost analysis, analyzing the cost to child care providers of implementing health safety, quality, and staffing requirements and the cost of higher-quality care, in order to provide additional information to consider when setting payment rates. Therefore, cost data is already a factor in DHS' reimbursement rate determination.
- DHS currently contracts with the Boyd Center for Business and Economic Research at the University of Tennessee to determine the most appropriate structure for estimating child care market rates as well as to conduct market rate studies and narrow cost analyses. DHS will continue to utilize this contract to perform a cost estimation model without a significant increase in state or federal expenditures.

- Federal regulations require alternative methodologies used to replace market rate surveys to be submitted for approval to the Administration for Children and Families by July 1 for use in the upcoming federal fiscal year, which begins October 1.
- Given the amount of new research required to accomplish the proposed legislation, it is assumed the new methodology for reimbursement rates would go into effect October 1, 2025.
- Due to the unknown outcome of the cost estimation model, it cannot be reasonably estimated the extent to which child care reimbursement rates may increase or decrease in FY25-26 and subsequent years.
- Of the \$342,813,717 in federal funding in the Child Care Development Fund available to DHS in federal FY22-23, \$78,852,274 was unused, with \$74,611,806 carried forward to federal FY23-24. The budgeted amount to be received in FY23-24 was \$205,435,800.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink that reads "Krista Lee Carsner". The signature is written in a cursive, flowing style.

Krista Lee Carsner, Executive Director

/cd