STATE OF RHODE ISLAND
DEPARTMENT OF ADMINISTRATION

OFFICE OF MANAGEMENT & BUDGET

State Budget Office

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State Fiscal Note for Bill Number: *2025-S 0100*

Date of State Budget Office Approval: Tuesday, March 18, 2025
Date Requested: Friday, January 31, 2025
Date Due: Saturday, February 15, 2025

Impact on Expenditures		*Impact on Revenues*	
FY 2025	N/A	FY 2025	N/A
FY 2026	See Below	FY 2026	N/A
FY 2027	See Below	FY 2027	N/A

$2.8m to $21.1 million annually

Explanation by State Budget Office:

This bill would amend RIGL 40-5.2-20(k) to eliminate the sunset date of the provision of subsidized childcare for eligible childcare sector workers, making the provision indefinite instead of ending on July 31, 2025. This bill would also expand the eligibility for the subsidy to include childcare sector workers providing early intervention services to infants and toddlers with developmental disabilities. Lastly, under current law this subsidy provision is limited to workers with a household income less than 300 percent of the federal poverty line, but this bill would eliminate that criterion and replace it with language directing the Department of Human Services (DHS) to evaluate eligibility on a case-by-case basis "using federal affordability guidelines."

Summary of Facts and Assumptions:

The bill takes effect upon passing, which is assumed to be July 1, 2025. For this reason, no fiscal impact is estimated in FY 2025.

Under current law, DHS oversees the Childcare Assistance Program (CCAP) which subsidizes childcare expenses for families who meet several criteria, such as having a household income not exceeding 261 percent of the federal poverty line (FPL). The program had remained at 200 percent of FPL since FY 2023 but was increased as part of legislation passed within the FY 2025 budget effective January 1, 2025 to increase eligibility thresholds outlined above in current law. CCAP participants have their childcare tuition costs covered by the state but must pay a co-pay determined by their income level. From August 1, 2023 to July 31, 2025, DHS is conducting a pilot program that provides subsidized childcare to individuals who work in the childcare sector who meet relevant CCAP criteria but with household incomes up to 300 percent of the FPL. The pilot originally was for one-year but was extended an additional year as part of the FY 2025 budget. Pilot participants, which include all childcare workers already enrolled in CCAP, would also have the cost of their co-pays covered during the pilot. Eligible childcare workers can apply at any point during the pilot period and upon approval will subsequently be provided with twelve consecutive months of free childcare. As the pilot was extended to two-year term, childcare workers can reapply if still meeting eligibility requirements. Given that eligible workers can apply up until July 31, 2025, this implies the expenditures for the pilot can be expected to be incurred through July 31, 2026, in FY 2027.

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DHS testified at the November 2024 Caseload Estimating Conference (CEC) that the pilot actual costs in FY 2024 are $2.6 million and projected to cost $5.3 million in FY 2025, $2.8 million in FY 2026, and $42,087 in FY 2027, for a total lifetime expenditure of $10.7 million. The four-year total expense of the pilot program represents eligible childcare workers entering the program, with some renewing their enrollment for two years, leading to costs that are staggered across fiscal years. For simplicity of analysis, estimates extrapolate renewals to capture unique participation and cost estimates for a twelve-month participation over one fiscal year.

DHS reported that this pilot program has identified a significant number of families who qualify for CCAP normally but had not applied due to lack of awareness about CCAP or other incidental factors. DHS also reports examples of childcare employers withdrawing childcare benefits offered to their workers in response to the availability of the pilot state subsidy program. This bill proposes to make this pilot program permanent, but presumably this population of CCAP-eligible childcare workers will continue their enrollment in the CCAP program regardless of the passage of this bill, especially those who were previously receiving childcare as a benefit of their employment but going forward are no longer offered that option. Therefore, the fiscal impact of the proposal to remove the sunset date of the pilot is limited to the impact of the full costs for individuals with household incomes in between 261 and 300 percent of the FPL and expenses related to covering the co-pays for all participating childcare workers regardless of their household income. This analysis further assumes that there will be no meaningful change in the demographics of the childcare sector workforce through the end of FY 2027, and thus the rate of participation in the pilot program is representative of the rate of participation that can be expected of the program past the pilot period.

It is projected that the pilot will support 816 unique children over its lifetime. DHS reports that there are 48 children participating in the pilot program with household incomes between 261 and 300 percent of the FPL. The November 2024 CEC adopted the assumption that child care expenses would be $11,390 per child in FY 2026, but this total excludes the cost of the co-pay. Based on projected co-pay costs as provided by DHS, the average co-pay per child is assumed to be approximately $866 per year. Therefore, the copay and tuition costs of the 261-300% FPL population currently participating in the pilot are approximately $588,288 over twelve-month participation. Total co-pays for the 0-261% FPL population, of which is assumed to be 768 children, in the pilot is approximately $665,088 over twelve-months. Therefore, the fiscal impact of this bill's elimination of the sunset date of the program will be the assumed pilot cost of $1.3 million annually representing just the full costs for individuals with household incomes in between 261 and 300 percent of the FPL and expenses related to covering the co-pays for all participating childcare workers regardless of their household income.

This bill would also extend the subsidized childcare to childcare workers who provide early intervention (EI) services to infants and toddlers with developmental disabilities – workers who were not eligible to apply to the pilot program. DHS has estimated that approximately 219 such EI workers would constitute a full staffing of the EI workforce in Rhode Island, so this analysis assumes a typical year will have 219 EI workers who may qualify for the subsidy. This analysis further assumes the EI worker population will have similar demographics, eligibility, and uptake percentages in the subsidy program as have been observed in the childcare workers population in the pilot program thus far.

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In the DHS CEC testimony, the agency reports that as of September 2024, 662 unique pilot program applications were received and processed, 187 of which were denied or cancelled, implying that the acceptance rate of applications is 71.8 percent. DHS estimates the childcare workforce to be comprised of approximately 6,500 individuals, implying approximately 10.4 percent of the workforce applied for the pilot program. This analysis likewise assumes that, in the event of this bill's passage, 10.4 percent of the EI workforce will apply for the subsidized childcare and 71.8 percent of those applications will be accepted into the subsidy program. Given the EI workforce population of 219, it is estimated that 23 EI workers will apply and 17 of them will be accepted into the program. DHS further testified that the number of children per application averages around 1.20. Assuming that ratio holds true for the EI worker population, that means the 17 EI workers estimated to be accepted into the subsidy program will be associated with 20 total children. Using the same cost estimates for child care workers as EI workers would costs $245,120 annually of which consists of $17,320 in co-pays and $227,800 tuition costs.

This bill also redefines the income eligibility thresholds of the pilot program. Under current RIGL, to be eligible for the subsidy a childcare worker must have a household income no greater than 300 percent of the FPL. This bill strikes any reference to the FPL and instead defines eligibility with the following language: "Eligibility for child care assistance for these children will fall under the federal Child Care Development Funds definition of a 'protected population' and would be determined on a case-by-case basis by the department using federal affordability guidelines." DHS has signaled technical and implementation concerns with this language as it is unclear what "federal affordability guidelines" refers to. Per DHS, a "protected population" under the federal Child Care Development Funds definition would likely be interpreted as all individuals working in the childcare sector. Without further clarity on the definition of "federal affordability guidelines," DHS may need to interpret this language as eliminating any income based eligibility criteria and open up the subsidy provision to all eligible workers regardless of their household income which complicates the ability to estimate the fiscal impact. For the purposes of this analysis, the Budget Office assumes that if the intent of this bill is to maintain means-testing eligibility, DHS will be able to achieve clarity on the "federal affordability guidelines" bill language and any new means-testing criteria that is effectuated will result in approximately the same participation rate in the subsidy program as has been witnessed in the pilot program thus far.

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However, if eliminating means-testing from the eligibility of the childcare subsidy is the intent of this bill, the estimated fiscal impact of the bill's passage increases significantly. Of the 662 unique pilot program applications received and processed to date, 12.9 percent of them were rejected due to the applicant not meeting the household income requirements. It is assumed that the minimum fiscal impact of removing the means-testing from this program would be that those rejected applications are instead accepted, revising the acceptance rate into the program from 71.8 percent to 84.7 percent. As noted previously, DHS estimates the childcare workforce to be comprised of approximately 6,500 individuals, implying approximately 10.4 percent of the workforce applied for the pilot program. It is likely that many of the workers who elected to not apply did so because they knew they would not meet the household income criteria. DHS does not collect data on the household makeup of childcare workers that did not apply for the pilot program, so it cannot be determined how the number of applications may increase should the income eligibility criteria be eliminated. This analysis attempts to provide a range estimate for this impact.

For a lower bound of the range estimate, it is assumed that the application rate will not change and the only impact will be from the application acceptance rate increasing to 84.7 percent. Because the additional 12.9 percent of applications now accepted are all, by definition, from households with income greater than 300 percent of the poverty line, the cost of providing the subsidy to these workers would include the full childcare cost and not be limited to the cost of the co-pay. This leads to accepting 86 additional childcare workers and 2 additional EI workers into the subsidy program, which at 1.20 children per worker as provided in CEC testimony and $12,256 per child ($11,390 tuition plus $866 co-pay costs) leads to an increased fiscal impact of $1.3 million per fiscal year [88 workers * 1.2 children * $12,256]. When this impact is summed with the previously calculated impacts of eliminating the sunset date of the pilot program and extending the subsidy to EI workers, the total fiscal impact of the passage of this bill is estimated at $2.8 million annually.

For an upper bound of this range estimate, it is assumed that the application rate does change, and the program will experience an influx of applications from individuals with household income higher than 300 percent of the FPL who otherwise did not apply for the pilot program because they self-identified as ineligible. This analysis assumes that for the average RI household, 300 percent of the poverty line is equal to an annual household income of $75,000. Per DHS CEC testimony, 16.2 percent of applications received for the pilot program were from applicants with annual household income greater than $75,000. According to data from the US Census's 2022 American Community Survey (ACS), 66.7 percent of Rhode Island family households had an annual household income greater than $75,000. This analysis assumes that the removal of the income eligibility criteria will inspire the influx of enough applications for the subsidy program from higher income individuals that the income distribution demographics of the applicant pool eventually resemble the income distribution demographics of Rhode Island family households overall. It is assumed that all eligible workers with annual household incomes under $75,000 already applied to the pilot program and therefore the number of applicants from that income range will remain constant, and the influx of applications from workers with annual household incomes greater than $75,000 will be enough that the applications from this latter group make up 66.7 percent of the applicant pool.

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It is estimated that the total number of applications projected for the pilot program is 948 and the total applications estimated for the EI worker population is 23, which totals to 971 applications annually. Going by the DHS estimate that 16.2 percent of these applications originated from workers with annual household incomes greater than $75,000, that implies of the total 971 applications, 157 will come from workers with income higher than $75,000 and 814 from workers with income lower than $75,000. If an additional 1,472 applications from workers with higher income were submitted, that would bring the total applications to 2,443, of which 1,629 of them would be from applicants with income over $75,000. This new total would mean 66.7 percent of the applicant pool was workers with income over $75,000, matching the income distribution reported by the US Census. Assuming 84.7 percent of these 1,472 new applications are accepted, that results in 1,247 additional workers enrolled into the subsidy program. At 1.20 children per worker and $12,256 per child (inclusive of co-pay and tuition), this leads to an increased fiscal impact of $18.3 million per fiscal year [1,247 workers * 1.20 children * $12,256]. When this impact is summed with the previously calculated impacts of eliminating the sunset date of the pilot program, extending the subsidy to EI workers, and accepting the applications previously denied due to not meeting income criteria, the total fiscal impact of the passage of this bill is estimated at $21.1 million annually.

It is worth noting that in the upper bound scenario, the 2,443 total applications for a combined childcare and EI workforce of 6,719 is a participation rate of 36.4 percent. It is likely that a significant proportion of the 6,719 total workers do not have children of the age where subsidized childcare would be relevant to them, which may explain a relatively low participation rate. However, free childcare is a valuable benefit, and it's reasonable to predict that over time more workers with children of relevant age will self-select into the childcare and EI workforce to take advantage of this benefit. Per US Census data, in 2022 there were approximately 68,000 households in Rhode Island with at least one child under the age of 13. While the transition may take many years, it's not inconceivable that 6,719 of those households eventually elect to join the childcare and EI workforce; and should all 6,719 workers apply to the subsidy program, given the 84.7% acceptance rate, 1.20 children per worker, and $12,256 annual cost per child, the estimated cost of the subsidy program would be $83.7 million per year. This analysis does not consider this $83.7 million figure to be a reasonable estimate for the fiscal impact of this bill, but it illustrates that the ceiling for expenditures related to removing means-testing from this program is potentially very high.

Adhering to the methodology used previously, 350 percent of the FPL would equate an annual income of approximately $87,500, but neither DHS data nor US Census data sort income data that specifically, so this analysis substitutes $100,000 per year as the annual income representing 350 percent of the FPL. The DHS CEC testimony reports that 7.7 percent of pilot program applicants had an annual household income above $100,000. As previously stated, the lower bound of the range estimate for removing means-testing assumes the 12.9 percent of applicants who were rejected for failing to meet income based eligibility criteria would reapply to the program and be approved, which would add an estimated 88 workers to the accepted population. This would bring the total number of accepted workers to 785 [680 childcare workers + 17 EI workers + 88 previously rejected workers]. If it assumed that 7.7 percent of this population of 785 workers is from households with annual income in excess of 350 percent of the FPL, given 1.20 children per worker and $12,256 annual cost per child, that implies a total annual cost of $0.9 million to provide the subsidy to these high-income workers.

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Therefore, in the lower bound of the means-testing elimination scenario, it is estimated the $0.9 million of the cost each year will be funded through general revenue, while the remainder is funded through federal funds.

Per the US Census 2022 ACS, 53.1 percent of Rhode Island family households had an annual income in excess of $100,000. The upper bound of the range estimate assumed that income distribution in the subsidy program applicant pool would equal the income distribution of Rhode Island family households overall, which required enrolling 1,328 additional workers into the subsidy program from higher income households. This would bring the total number of accepted workers to 2,113 [680 childcare workers + 17 EI workers + 88 previously rejected workers + 1,328 new higher-income workers]. If it assumed that 53.1 percent of this population of 2,113 workers is from households with annual income in excess of 350 percent of the FPL, given 1.20 children per worker and $12,256 annual cost per child, that implies a total annual cost of $16.5 million to provide the subsidy to these high-income workers. Therefore, in the upper bound of the means-testing elimination scenario, it is estimated the $16.5 million of the cost each year will be funded through general revenue, while the remainder is funded through federal funds.

Please note that these estimates for the share of expenditures that will be require general revenue funding may be underestimating the general revenue impact due to the usage of $100,000 annual income as the placeholder for 85 percent of State Median Income (SMI)/350 percent of the FPL annual income. 350 percent of the FPL is likely closer to $87,500 per year, and given that the population of households making over $87,500 per year is by definition larger than the population of households making over $100,000 per year, in reality there is likely to be a larger population of workers to whom the provision of the childcare subsidy would not qualify for any federal funding, necessitating greater general revenue expenditures than estimated here.

In conclusion, if the intent of this bill is to maintain means-testing criteria, the total fiscal impact of this bill's passage is estimated to be $1.5 million. Alternatively, if the intent of this bill is to eliminate means-testing criteria, the Budget Office estimates the fiscal impact of this bill to be in the range of $2.8 million to $21.1 million all funds of which $0.9 million to $16.5 million is funded by general revenue in each year, all depending on the influx of additional applications to the program from workers who were previously excluded by the means-testing criteria.

Of note, the state currently holds a significant balance of unspent TANF grant award funds from past years, which the federal government allows the state to carry forward and spend in years beyond the award year. In the interest of putting these unspent funds to use, in recent years the state has been spending more in TANF funds each year than it receives as an annual award from the federal government. Eventually these carry-forward funds will be exhausted and any money the state wishes to allocate to initiatives such as the CCAP program in excess of the annual TANF and CCDBG grant levels will need to be funded through alternative sources, most likely general revenue. The exhaustion of carry-forward TANF funding is not projected to occur until several years following the timeframe considered in this analysis, but the passage of this bill is likely to accelerate its arrival. Therefore, although this analysis assumes the previously listed assumptions for funding sources by enrollees' household income levels hold true through the end of FY 2027, it is reasonable to estimate that the passage of this bill will lead to further increased general revenue expenditures within the next decade.

Summary of Fiscal Impact:
If means-testing is maintained:
FY 2025: No fiscal impact due to assumed timing of passage.

FY 2026: $1.5 million federal funds

FY 2027: $1.5 million federal funds

If means-testing is eliminated:
FY 2025: No fiscal impact due to assumed timing of passage.

FY 2026: $2.8 million - $21.1 million all funds (of which $0.9 million - $16.5 million is funded by general revenue in each year)

FY 2027: $2.8 million - $21.1 million all funds (of which $0.9 million - $16.5 million is funded by general revenue in each year)

Budget Office Signature: Digitally signed by Joseph Codega Date: 2025.03.18 13:01:46 -04'00'

Fiscal Advisor Signature:

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Comments on Sources of Funds:
The Childcare Assistance Program (CCAP) for subsidized childcare is provided to applicants who, among other eligibility criteria, have a household income at or below 261 percent of the federal poverty line (FPL). The program had remained at 200 percent of FPL since FY 2023 but was increased as part of legislation passed within the FY 2025 budget effective January 1, 2025 to increase eligibility thresholds outlined above in current law. The program is funded through a mix of funding sources; in recent years general revenue has accounted for approximately 15 percent of program expenses and the remainder of expenses are covered by federal Temporary Assistance for Needy Families (TANF) funds and federal Child Care & Development Block Grant (CCDBG) funds. A pilot program began in FY 2024 that widens the eligibility for CCAP subsidized childcare to up to 300 percent of the FPL specifically for childcare sector workers. While to date all expenditures for the pilot program have been paid only with TANF and CCDBG federal funding, due to federal rules restricting the usage of these funds to aid individuals with higher household incomes, there are limits to how much of these funds can be used towards programs like the pilot. The total expenditures of the pilot program have thus far been insignificant enough that these limits have yet to be relevant.

DHS has signaled technical concerns with the wording of the bill due to some ambiguity in how the bill proposes to redefine the income eligibility of the expanded CCAP subsidy program for childcare sector workers. The bill language appears to redefine these workers as a "protected population," which according to DHS would make these workers "categorically eligible" for the subsidy. DHS is allowed to use CCDBG funds to finance the subsidy for any categorically eligible program enrollees with household incomes up to 85 percent of the State Median Income (SMI), which for FY 2025 for which latest data is available is approximately equal to 350 percent of the FPL (this analysis assumes the two metrics are equivalent). DHS estimates approximately $2.0 million of CCDBG funds will be available annually to finance the subsidy for individuals with household incomes above 225 percent of the FPL, and if the subsidy expenses for these higher-income individuals exceed what CCDBG funds can finance, DHS is able to reallocate a portion of TANF funding for the remaining expense. However, DHS estimates that the maximum annual amount of TANF funding the agency could reallocate to this purpose is $19.0 million, as anything further would require significant cuts to other services financed by TANF funds. DHS would only be able to manage this reallocation until unspent carry-forward funding of past years' TANF grant awards had been depleted, after which the continued provision of the subsidy to individuals with household incomes greater than 261 percent FPL would only be achievable through alternative funding sources such as general revenue expenditures. There is no federal financing available to fund the provision of the subsidy to any recipients with household incomes greater than 85 percent of SMI/350 percent of the FPL, regardless of their categorical eligibility.

For the purposes of estimating the fiscal impact of the passage of this bill, this analysis assumes that any services provided to individuals with household incomes at or below 261 percent of the FPL will be financed entirely through federal TANF and CCDBG funds; that any services provided to individuals with household incomes between 261 and 350 percent of the FPL will be financed through federal TANF and CCDBG funds up to an annual maximum of $21.0 million and any costs exceeding that maximum will be financed through general revenue expenditures; and any services provided to individuals with household incomes in excess of 350 percent of the FPL will be financed entirely through general revenue expenditures.