

## ANALYSIS

### Item 9: Oregon Department of Education Child Care Development Fund Cash Flow

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**Analyst:** Julie Neburka

**Request:** Acknowledge receipt of a report from the Oregon Department of Education’s Early Learning Division on current and projected cash flow for programs funded by federal Child Care Development Funds.

**Analysis:** A budget note in SB 5513 (2021) directed the Early Learning Division (ELD) of the Oregon Department of Education (ODE) to report to the Interim Joint Committee on Ways and Means on the ongoing cash flow for the Child Care Development Fund (CCDF). The budget note directs the report to include

“...information regarding actual and estimated expenditures and what the expenditures are for; a projection of the cash flow of the CCDF for 2021-23 and 2023-25 including ending balances; a plan for how any undesignated expenditures will be used; and if there are potential cash flow issues in the future, alternatives to close any gaps between estimated expenditures and CCDF resources.”

Additionally, the agency was asked to report on one-time CCDF resources received through the American Rescue Plan Act (ARPA), as those funds will be used to supplement and/or expand programs typically funded with CCDF dollars. Though the agency reports its one-time and ongoing CCDF funds together, it is useful to separate the ongoing from the one-time amounts in order to isolate anticipated ongoing program expenditures from the program enhancements funded with one-time resources, which are assumed to sunset. An anticipated shortfall in ongoing revenue combined with the sunset of more than \$400 million of one-time ARPA funding in the 2025-27 biennium will likely present decision-makers with difficult program, policy, and funding choices.

Federal Child Care Development Funds primarily support child care services for low-income families and fund quality assurance and improvement activities for child care providers statewide. Almost 80% of 2021-23 ongoing CCDF revenues are budgeted for child care subsidy payments through the Department of Human Services’ (DHS) Employment Related Day Care (ERDC) program (see below), for subsidies through the Baby Promise infant and toddler child care program, and for other special payments. The remainder of the funding supports Early Learning Division operations, indirect costs, information technology support, and lease expenses.

The agency reports that the 2021-23 legislatively adopted budget contains \$296.3 million in ongoing revenue and \$263.3 million in ongoing expenditures, leaving an estimated ending fund balance of \$33 million at June 30, 2023. Revenues are assumed at the 2021 federal fiscal year (FFY) amount, and \$30.4 million is reserved to pay program expenses in the first quarter of the 2023-25 biennium. For the 2023-25 biennium, the agency’s cash flow projection assumes \$270.9 million in ongoing revenue and \$273.9 million in estimated expenditures, leaving a fund balance shortfall of about \$3 million, or 1.3%. 2023-25 revenues are assumed at the FFY 2021 amount, and aggregate expenditures are assumed to increase by 4.6%. The agency reports that absent additional federal funding, it will close the estimated 2023-25

shortfall by monitoring expenditures in the current biennium and thereby increasing the 2021-23 estimated fund balance. It does not identify particular program areas or expenditure categories where budget savings might accrue.

The agency was not asked to address CCDF cash flow past the 2023-25 biennium, but the Legislative Fiscal Office notes that the ongoing 2025-27 CCDF budget could expect to be short by as much as \$45 million, assuming normal inflationary growth on current expenditures and no beginning fund balance. To further complicate the difficulties inherent in estimating future budgetary savings and/or program expenditures, HB 3073 (2021) creates the new Department of Early Learning and Care (DELIC) as of January 1, 2023, and transfers the ERDC program to the new agency on July 1, 2023. Although costs are being refined as planning for the new agency develops, significant unknowns remain, particularly around the cost of operating DELIC and the information technology systems that may be required both for business operations and for operating the ERDC program.<sup>1</sup>

Some of the one-time costs anticipated for the creation of the new department are budgeted with one-time funding through ARPA; the agency reports having received two CCDF awards through ARPA. A CCDF Discretionary grant award of \$155.6 million is intended to supplement other public funds used to support child care, and is planned as follows:

- \$79.3 million to expand the Employment-Related Day Care (ERDC) caseload by 1,000 monthly slots and to fund changes to the co-pay structure for eligible families. The bulk of this funding is anticipated to be spent in the 2023-25 biennium;
- \$18.3 million for increases to rates paid to ERDC child care providers;
- \$10.9 million for labor union training, retirement, and health care benefits;
- \$21 million for agency infrastructure and the creation of the Department of Early Learning and Care (DELIC); and
- \$26.1 million for ERDC provider recruitment, business coaching and professional development for child care providers, and creation of a substitute pool of child care workers.

An award of \$248.9 million ARPA Child Care Stabilization Grants is planned for making grant awards to qualified child care providers, who may spend the funds on operating expenses. 90% of the funds (\$224 million) are required to be granted to child care providers; the remaining 10% (\$24.9 million) may be used to provide technical assistance to child care providers. Federal guidance provided by the Department of Health and Human Services, Administration for Children and Families (ACF) directs lead agencies to distribute funds quickly in order to protect the existing child care market, and to obligate at least 50% of their total award by December 11, 2021. In order to meet this directive, the agency developed the grant processes, other documents, and application materials over the summer and opened the application window for the first round of grant applications on September 23, 2021. The agency reports that as of October 20th, 2,390 applications had been submitted and 2,087 have been approved for payment. A second (final) round of grant awards is planned for the spring of 2022.

**Recommendation:** The Legislative Fiscal Office recommends that the Interim Joint Committee on Ways and Means acknowledge receipt of the report.

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<sup>1</sup> For additional information on the current status of planning for the new Department of Early Learning and Care and the transfer of the ERDC program from DHS to DELIC, please see Item #8 on the November 2021 Interim Joint Committee on Ways and Means Education Subcommittee agenda, titled "Report on HB 3073 DELIC Implementation."

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**Request:** Acknowledge receipt of a report on the ongoing cash flow of federal Child Care Development Funds and American Rescue Plan Act funds within the Oregon Department of Education's Early Learning Division.

**Recommendation:** Acknowledge receipt of the report.

**Discussion:** As directed by a budget note within the budget report for House Bill 5513 (2021), the Oregon Department of Education's Early Learning Division (ELD), is required to report to the Interim Joint Committee on Ways and Means on the ongoing cashflow for the Child Care Development Fund (CCDF). Specific details to be included in the report include information regarding actual and estimated expenditures and the purpose of the expenditures; a projection of the cashflow of the CCDF for 2021-23 and 2023-25, including ending balances; a plan for any undesignated expenditures; and if needed, options to close any projected budget gaps. In addition to the CCDF amounts covered in the budget note, ELD has also received substantial resources from the American Rescue Plan Act (ARPA), which includes one-time CCDF resources. After discussions, with the Department of Administrative Services Chief Financial Office, the Legislative Fiscal Office, and ELD, it was agreed ELD should incorporate the ARPA resources into its report because those dollars flow through CCDF, are administered by the same federal agency, and in large part will be utilized for purposes akin to typical CCDF funds.

The CCDF cash flow report submitted by ELD indicates the agency will have sufficient resources to meet expenditures in 2021-23 and 2023-25. At this point, ELD projects a shortfall of \$3.1 million in 2023-25, but this amount is not unreasonable given the multitude of uncertainties over a four-year time horizon. The substantial resources provided through ARPA will allow ELD to pay for the policy changes to the Employment Related Day Care (ERDC) program approved in the 2021 Legislative Session, including capping co-pays and an overall copay restructure. As of October 1, 2021, the ERDC program will cap co-pays at 7% of a family's income, as well as eliminate co-payments for families at or below 100% of the federal poverty level. Changes to the ERDC co-pay structure are estimated to cost \$49.9 million in 2021-23 and \$57.1 million in 2023-25, and the department plans to use nearly \$80 million in one-time ARPA CCDF Discretionary dollars to help meet most of these obligations. Of the nearly \$80 million in ARPA CCDF Discretionary resources, the vast majority is planned for use in the 2023-25 biennium.

It should be noted CCDF funds are the primary revenue source for the ERDC program, which is currently administered by the Oregon Department of Human Services (ODHS). ERDC operates as a capped program, meaning if there are not sufficient resources to pay for the anticipated needs, ODHS is required to initiate a waitlist and cap the number of individuals served. This remains a program management option if there are not sufficient resources to operate the program after the 2023-25 biennium or the expiration of one-time ARPA resources. Policy changes made during the 2021 Legislative Session and other program changes are projected to be funded in the next four years, according to the CCDF cash flow plan submitted by ELD, however the department's plan relies heavily on one-time resources provided through additional ARPA funds.

In addition to ARPA CCDF discretionary grant funds, ELD received \$248.9 million in one-time ARPA CCDF Child Care Stabilization funds. The Child Care Stabilization funds also flow

through CCDF, although these resources have additional requirements. Most notably, 90% of the Stabilization funds must be distributed to qualified child care providers to support the stability of the child care sector. ELD has expedited the disbursement of these resources and intends to do so in two grant disbursement phases: one in the last quarter of calendar year 2021 and again after the start of calendar year 2022. The primary reasons for this timeline are driven by federal guidance strongly urging state agencies to obligate 50% of the funds by December 11, 2021. ELD indicates the federal government continues to stress the importance of disbursing the Stabilization funds quickly, and the federal guidance continues to support an expedited timeline. Details on ELD's Stabilization Grant program can be found at <https://oregonearlylearning.com/child-care-stabilization-grants>.

In addition to funding changes in the ERDC program and the Stabilization grant funds, ELD has also budgeted \$46.8 million in CCDF resources for Operations in 2021-23. These funds are to provide support for grant administration and bolster the creation of the new Department of Early Learning and Care. There are also ARPA CCDF funds in the Operations budget for technical assistance to providers, professional development for child care providers, and to cover additional costs for collectively bargained agreements with the early learning workforce. The additional one-time ARPA funds will provide substantial resources to help ELD meet the added administrative costs from the influx of Federal Funds and to transition to a new standalone agency. Prior to the 2022 Legislative Session, ELD will submit a more detailed plan for new position authority in Operations essential for creation of the new agency.



# Oregon

Kate Brown, Governor

Early Learning Division



October 22, 2021

Senator Elizabeth Steiner Hayward, Co-Chair  
Senator Betsy Johnson, Co-Chair  
Representative Dan Rayfield, Co-Chair  
Interim Joint Committee on Ways and Means  
900 Court Street NE  
H-178 State Capitol  
Salem, OR 97301

Dear Co-Chairpersons:

### **Nature of the Request**

The Department of Education, Early Learning Division, respectfully requests to update to the Interim Joint Committee on Ways and Means in accordance with HB 5513 (2021), Early Learning Grant-in-Aid Budget Note on the ongoing cash flow of the Child Care Development Fund (CCDF), and to provide an update on the federal American Rescue Plan Act (ARPA) Discretionary and ARPA Child Care Stabilization grants.

### **Agency Action**

#### **HB 5513 Budget Note: Cash Flow Child Care Development Fund**

The Early Learning Grant-in-Aid budget, contained within HB 5513, requested that the Early Learning Division (ELD) report to the Interim Joint Committee on Ways and Means on the ongoing cash flow for the Child Care Development Fund (CCDF). The report is to include a projection of the cash flow of the CCDF for 2021-23 and 2023-25 including ending balances; a plan for how any undesignated expenditures will be used; and if there are potential cash flow issues in the future, alternatives to close any gaps between estimated expenditures and CCDF resources.

<b>2021-23 Estimated Revenue and Expenditures</b>		
	<b>Expenditures</b>	<b>Revenue</b>
<b>2021-23 CCDF Revenue</b>		
2021-23 CCDF Beginning Balance and Estimated Revenue		\$ 296,275,950
American Rescue Plan Act (ARPA) Discretionary One-Time Grant		\$ 155,626,191
American Rescue Plan Act (ARPA) Child Care Stabilization One-time Grant		\$ 248,908,466
<b>2021-23 Total CCDF &amp; One Time ARPA Grants Revenue</b>		<b>\$ 700,810,607</b>
<b>2021-23 Estimated Expenditures</b>		
Operations, Indirect and Leases	\$ 46,847,132	
ODHS ERDC Subsidies (CCDF)	\$ 134,993,413	
2021-23 Special Payments	\$ 51,042,779	
ARPA Discretionary Grant Expenditures	\$ 69,995,869	
ARPA Child Care Stabilization Grant Expenditures	\$ 248,908,466	
23-25 First Quarter Expenditures	\$ 30,434,259	
<b>Total 2021-23 Estimated Expenditures/Operating Funds</b>	<b>\$ 582,221,918</b>	
<b>2021-23 Available Revenues</b>	<b>\$ 700,810,607</b>	
<b>2021-23 Estimated Ending Balance</b>	<b>\$ 118,588,689</b>	

<b>2023-25 Estimated Revenue and Expenditures</b>		
	Expenditures	Revenue
<b>2023-25 CCDF Revenue</b>		
2021-23 CCDF Beginning Balance and Estimated Revenue		\$ 356,482,588
<b>2023-25 Total CCDF Revenue</b>		<b>\$ 356,482,588</b>
<b>2023-25 Estimated Expenditures</b>		
Operations, Indirect and Leases	\$ 48,744,502	
ODHS ERDC Subsidies (CCDF)	\$ 141,134,650	
2021-23 Special Payments	\$ 53,594,918	
ARPA Discretionary Grant Expenditures	\$ 85,630,322	
25-27 First Quarter Expenditures	\$ 30,434,259	
<b>Total 2023-25 Estimated Expenditures/Operating Funds</b>	<b>359,538,650</b>	
<b>Total 2023-25 Available Revenues</b>	<b>356,482,588</b>	
<b>2023-25 Estimated Ending Balance</b>	<b>(3,056,063)</b>	

To close the project gap at the end of 2023-25, ELD will monitor 2021-23 biennium expenditures and revenue to increase the ending balance.

#### **American Rescue Plan Act One Time Grants: Plan Update**

ELD received two grants from the ARPA Act of 2021. The first is the ARPA CCDF Discretionary grant. Oregon received \$155.6 million. These funds are meant to supplement, not supplant other federal, state or local public funds expended to support child care. ELD's High level plan for ARPA Discretionary is as follows:

#### **ARPA CCDF Discretionary Grant (in millions)**

Description	Amount
ERDC Co-pay Restructure & Increased Caseload	\$79.3
ERDC Provider Rates	\$18.3
SEIU and AFSCME Training, Retirement and Healthiest U Funds	\$10.9
Grant Administration and DELC Infrastructure	\$21.0
Professional Development Child Care Providers	\$26.1
<b>Total ARPA Discretionary Grant</b>	<b>\$155.6</b>

The second award received is the ARPA Child Care Stabilization CCDF Discretionary grant. Oregon received \$248.9 million. These funds require at least 90% be distributed to qualified child care providers to support the stability of the child care sector. Child care providers may spend the funds on a variety of operating expenses, including wages and benefits, rent, utilities and other goods and services necessary to maintain child care services. No more than 10% of these funds may be used by the state for administration, child care supply-building and technical assistance and support for providers applying for the grants.

Over the spring and summer months, ELD meet with various stakeholders, developed the grant award amounts, the grant process and documents, which included a website, grant FAQs, grant process and application. The first round of grant applications opened on September 23, 2021 and closes December 31, 2021.

As of October 20, 2021, ELD has received 2,390 applications. Of these, 2,087 have been approved and are moving forward in the process to executing agreements and issuing the first of two payments. The applications received have been from a variety of child care settings, including license-exempt providers receiving subsidy, licensed family and child care centers from thirty-five of Oregon's thirty-six counties.

ARPA Child Care Stabilization Grants, CCDF Discretionary (in millions)

Description	Amount
Grants to Eligible Child Care Providers	\$224.0
Provider Technical Assistance and Supports/Grant Administration	<u>\$24.9</u>
Total ARPA Child Care Stabilization Grant	<u><u>\$248.9</u></u>

**Action Requested**

The Department of Education, Early Learning Division, requests acknowledgement of the CCDF cash flow report to the Interim Joint Committee on Ways and Means per HB 5513 (2021) grant-in-aid budget note and the update on the ARPA federal stimulus funds.

**Legislation Affected**

None

Thank you for considering approval of this request.

Sincerely,



Alyssa Chatterjee  
Early Learning System Director



Colt Gill  
Agency Director