



HOUSE BILL 574: Revise Child Care Subsidy Rates.

2021-2022 General Assembly

Committee:	House Families, Children, and Aging Policy. If favorable, re-refer to Appropriations. If favorable, re-refer to Rules, Calendar, and Operations of the House	Date:	May 3, 2021
Introduced by:	Reps. Willis, von Haefen, Szoka, Clemmons	Prepared by:	Theresa Matula Committee Staff
Analysis of:	First Edition		

OVERVIEW: *House Bill 574 would increase child care subsidy rates.*

BILL ANALYSIS: Section 1(a) requires that beginning October 1, 2021, the Department of Health and Human Services (DHHS), Division of Child Development and Early Education (DCDEE), must increase the child care subsidy market rates to the 75th percentile. The bill notes this was a recommendation from the [North Carolina Child Care Market Rate Study, Final Report, June 2018](#).

Section 1(b) appropriates from the General Fund to DHHS, DCDEE, \$13,500,000 in recurring funds for the 2021-2022 fiscal year, and \$18,000,000 in recurring funds for the 2022-2023 fiscal year for the rate increase in 1(a).

Section 2(a) provides that the following apply beginning October 1, 2021 to childcare providers in counties that have a county rate below the State rate for center-based and home-based care:

- 1) Payment rates must be set at the 75th percentile statewide market rate as recommended for licensed child care centers and homes, except as applicable in 2).
- 2) If it can be demonstrated that the application of the statewide rate to a county with fewer than 50 children in each age group is lower than the county market rate and would inhibit the ability of the county to purchase child care for low-income children, then the county market rate may be applied.

Section 2(b) appropriates from the General Fund to DHHS, DCDEE, \$40,500,000 in recurring funds for the 2021-2022 fiscal year and \$54,000,000 in recurring funds for the 2022-2023 fiscal year to implement the temporary market rate increases in Section 2(a).

Section 2(c) provides that Section 2 becomes effective July 1, 2021 and expires when the State adopts an increase in the subsidy market rates, or a change in the methodology used to calculate child care subsidy market rates, whichever occurs first.

Section 3(a) amends Section 11B.3(c) of S.L. 2017-57 pertaining to payments for the purchase of child care services for low-income children to remove references to language referring to "whichever is lower" in the options provided, and to remove the limitation to 20 months of enrollment on payments for subsidized child care services for postsecondary education.

Section 3(b) appropriates \$10,000,000 from the General Fund to the DHHS, DCDEE, for each year of the 2021-23 fiscal biennium to implement section 3(a).

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Section 4 requires DCDEE to seek approval for rate increases if a revision to the Child Care and Development Fund Block Grant plan is needed to enact higher child care subsidy rates and allow rates higher than private fee-paying rates.

Section 5 requires the DCDEE to submit a report to the Joint Legislative Oversight Committee on Health and Human Services by December 1, 2022, that summarizes county level data from October 1, 2021 to October 1, 2022.

The report must also include the following:

- The number of providers serving children receiving subsidized care.
- The amount of child care subsidy funding disbursed in the first full year of implementation of the statewide floor.
- The number of children served in subsidized care by age and star rating.
- The number of children served overall by age and star rating.
- The staffing levels for providers serving children receiving subsidized care.
- A progress report on movement to adopt an alternative rate methodology.

EFFECTIVE DATE: Except as otherwise provided, this bill would become effective July 1, 2021.

BACKGROUND: HB 574 notes the [North Carolina Child Care Market Rate Study, Final Report, June 2018](#). The report provides that the "goal of the market rate assignment process is to recommend subsidy payment rates for providers that are fair, equitable, and based upon actual fee data gathered throughout the state from the Market Rate Survey" (p.40). The report was prepared by The Center for Urban Affairs and Community Services, North Carolina State University, and was sponsored by the Division of Child Development and Early Education, NC Department of Health and Human Services.

The bullets below represent summary information on child care rates and were provided by Luke MacDonald, Fiscal Analyst, Fiscal Research Division:

- [Link](#) to a breakout of the rates.
- The State rate is higher than the county rate for most counties in most situations (there are different rates for each age group and for each rating (3, 4, or 5 stars). The last 2 pages in the report NC Child Care Market Rate Study provide the Statewide rates.
- County rates vary by county and each county has 27 different rates (different rates for each facility type (center vs home), for each age group, and for 3, 4, or 5 star rated facilities within those facility types and age group. Similarly, there would be multiple State rates, different for each subcategory.
- In the past, the General Assembly has chosen to increase rates incrementally by county Tier and age group. Below are current rates:

Age	Tier 1 & 2	Tier 3
0-2	100th Percentile, 2015 Market Rate Study, effective 10/1/2018	75th Percentile, 2015 Market Rate Study, effective 10/1/2017
3-5	100th Percentile, 2015 Market Rate Study effective 10/1/2018	75th Percentile, 2015 Market Rate Study, effective 10/1/2018
school age	75th Percentile, 2015 Market Rate Study, effective 10/1/2017	Based on 2013 Market Rate Study, last increase effective 1/1/2015, 25% of the difference between the current market rates and the 2013 market rates.