

CHILD CARE & WORKFORCE POLICY OPTIONS: AFFORDABILITY & ACCESSIBILITY STRATEGIES

ECONOMIC AFFAIRS INTERIM COMMITTEE
ERIN SULLIVAN - MARCH 2024

BACKGROUND AND PURPOSE

The Economic Affairs Interim Committee (EAIC) chose to study child care and the workforce during the 2023-2024 interim. After hearing testimony from stakeholders during the first half of the interim, the committee requested information and options regarding potential policy changes related to **affordability and accessibility**. This paper outlines potential policy considerations EAIC could introduce in a committee bill or bills for the upcoming 2025 legislative session. *It is important to note* that these are draft options developed by staff based on committee hearings and discussions to date.

AFFORDABILITY STRATEGIES

“How can I pay for child care” is one of the questions parents continue to ask. The 2023 Legislature started to address this question with the Best Beginnings Scholarship Program, but stakeholders shared during the first half of the interim that the lack of affordable child care continues to be a problem in the state.

BEST BEGINNINGS

The 2023 Legislature passed [HB 648](#), which codified the long-running Best Beginnings Scholarship Program administered by the Department of Public Health and Human Services (DPHHS). The bill’s purpose is to provide scholarships to qualified low-income families whose child receives care provided by a licensed or registered child care provider or daycare facility.

The income eligibility requirements are no less than 185% of the federal poverty level (FPL)¹ for each family size, and there is a maximum qualifying income level that is no higher than allowed by the federal child care and development block grant. Participating families must make copayments; however, the copayments are based on a sliding fee scale and cannot exceed 9% of monthly income.

The Legislature appropriated \$7 million from the general fund in each year of the biennium beginning July 1, 2023, for the program, and the appropriation section in the bill states, “the department shall maximize all existing general, state special, and federal funds appropriated for the purposes of carrying out the program prior to accessing the \$7 million per year.” The appropriation is not statutory, and there is no reporting requirement for the program to any legislative oversight committee written into the bill.

¹ The U.S. federal poverty guidelines are used to determine eligibility for certain programs. For 2024, the federal poverty level for a family of four is \$31,200, so a family of four in Montana could earn no more than 185%, or \$57,720 to qualify for the Best Beginnings Scholarship Program.

Additionally, there are no provisions for the department to use any of the appropriated funds to administer the program.

The Legislative Fiscal Division reported that so far \$1.7 million has been spent from the HB 648 appropriation:

Period: July 1, 2023 – February 27, 2024

| OBPP Program | Subclass | Acct Lvl 2 | ORG Budget | Actuals Amt |
|--------------------|-------------------------------|-------------------------|---------------------|---------------------|
| 25 | EARLY CHILDHOOD & FAM SUPPORT | | 7,000,000.00 | 1,653,489.28 |
| | 896JA | HB648 CCDF 185% RST | 7,000,000.00 | 1,653,489.28 |
| | | 67000 Benefits & Claims | 7,000,000.00 | 0.00 |
| | | 67100 To Individuals | 0.00 | 1,653,489.28 |
| | | (blank) | 0.00 | 0.00 |
| Grand Total | | | 7,000,000.00 | 1,653,489.28 |

The DPHHS’ Q1 FY24 report to the Section B Interim Budget Committee stated that none of the appropriation had been spent, so the entire \$1.7 million was issued since October 1, 2023.

Other states have versions of the Best Beginnings Scholarship Program, with variations on income eligibility, copayments, and appropriations. For example, [North Dakota](#), [Kentucky](#), and [South Carolina](#) all use 85% of the state median income (SMI) as an income level guideline instead of the FPL. [New Mexico](#) set its program at 400% of FPL and currently is waiving copayments to child care providers. Additionally, North Dakota recently invested \$66 million for various child care programs in the 2023-25 biennium, with \$42.8 million benefiting their child care assistance program.²

COMMITTEE CONSIDERATIONS FOR BEST BEGINNINGS

The committee could look at adjustments to the Best Beginnings Scholarship Program based on the presentations and stakeholder feedback received during the interim. Stakeholder feedback for Best Beginnings includes:

*"We hear from providers and families that **expanding Best Beginnings is a priority for them, knowing that so many families are just above the current eligibility but really struggle to stay in the workforce with the cost of child care relative to their wages at that level.**" KIDS COUNT*

*"A few of the policy ideas that have the most support from our partners include . . . **making child care workers eligible for Best Beginnings regardless of income.** Kentucky and Arkansas are two state examples that have implemented this." KIDS COUNT*

² For details on North Dakota’s legislation, see [Case Studies for Understanding Child Care Policy Options](#)

*"Recommendation to **increase the income guidelines to ensure more working families qualify for assistance**. Montana will be deploying a child care cost of care study Spring 2024. Recommendations could be drawn from this study." Zero to Five Montana*

(Emphasis added)

If the committee chooses to review the Best Beginnings Scholarship Program for possible adjustments, the committee should work with the Early Childhood and Family Support Division at the DPHHS since the Best Beginnings Scholarship Program is a federally funded subsidy program and contains federal requirements for proper administration, including income eligibility levels.

PUBLIC / PRIVATE CHILD CARE COST SHARING

The committee could look at adopting a public/private cost sharing model. Examples from other states include:

Michigan's Tri-Share Program

Through MI Tri-Share, the cost of an employee's child care is shared equally among the employer, the employee, and the state of Michigan – a three-way split – with a Tri-Share facilitator (hub) providing regional coordination. The hub acts as an intermediary between employers, families, and child care providers, and performs overall program management.

The program began in 2021 and initially received \$1.1 million in funding but has received additional state and philanthropic funding in subsequent years before becoming a recurring base program within the Michigan Department of Labor and Economic Opportunity.

Program guidance is available [here](#).

North Dakota's Working Parents Child Care Relief Program

The Working Parents Child Care Relief pilot program involves a shared investment by employers, the state of North Dakota, and working parents. It is a matching employer benefit pilot program.

Both public and private sector employers are eligible, and employers must commit to offering employees a paid child care benefit (stipend) for the duration of the pilot (through September 2026 or until funding is exhausted). There are [employer](#) benefit requirements to earn the state match as well as eligibility requirements for [parents](#), such as residency, income, and age requirements for children.

Kentucky's Employee Child Care Assistance Program

The Employee Child Care Assistance Partnership (ECCAP) Program was established in Kentucky's 2022 Regular Session and establishes shared child care costs by parents, employers, and Kentucky's Cabinet for Health and Family Services. The bill included a one-time appropriation of \$15 million, with 25% of the

fund set aside for small business employers. The amount contributed by the Cabinet is based upon family size and income level.

An employee whose family meets the eligibility requirements for the Child Care Assistance Program (a federally funded subsidy program) cannot participate in the ECCAP Program.

The state match percentage is based on the employee's household income compared to the State Median Household Income (SMI). The percentage of the match decreases based on how high above the SMI the family's income rises.

COMPREHENSIVE TAX CREDIT STRATEGIES

One stakeholder recommends the state “offer a tax credit package that includes credits for employers contributing to child care, child care workers, and working families utilizing child care services.” Several states have passed comprehensive tax credit packages, and others are reviewing this strategy during their current legislative sessions. Some examples of recommended strategies include:

Nebraska's Child Care Tax Credit Act & School Readiness Tax Credit Act

The Child Care Tax Credit Act and School Readiness Tax Credit Act address critical child care challenges facing Nebraska families, early childhood professionals and communities.

1. Child Care Tax Credit Act
 - a. Refundable tax credit for parents/guardians: capped at \$15 million per year; offered in two tiers for households whose income is \$150,000 or less.
 - b. Nonrefundable tax credit for contributions to early childhood education: capped at \$2.5 million per year; certain qualifying factors; size; offered in two tiers depending on where the contribution is made.
2. School Readiness Tax Credit Act
 - a. Refundable tax credit for individual child care professionals: eligibility requirements, five tiers based on professional classification level.
 - b. Nonrefundable tax credit for child care business; for providers who are committed to offering high-quality services to children and families through the child care subsidy; size of credit is based on quality rating.

Louisiana's School Readiness Tax Credits

1. School Readiness Child Care Expense Tax Credit: based on the quality rating of the child care facility; in addition to the regular child care expense credit; refundable or nonrefundable based on income.
2. Child Care Provider Tax Credit: for child care providers who own and operate a facility where care is given to foster children or to children who participate in the state's subsidy program; refundable credit; based on quality rating.

3. School Readiness Directors and Staff Tax Credit: Child care directors and eligible staff are eligible for a refundable tax credit if they work at least six months for a licensed child care facility that participates in the quality rating system and are enrolled in the career development system; based on educational level attained.
4. Tax Credit for Business-Supported Child Care: Businesses that support quality child care are eligible for a refundable tax credit based on the quality rating of the center.
5. Tax Credit for Donations to Resource and Referral Agencies: Businesses receive credit for donations made to Child Care Resource and Referral Agencies; equal to but cannot exceed \$5,000 per year.

ACCESSIBILITY STRATEGIES

The committee heard presentations during the interim regarding child care deserts and the difficulty accessing child care across the state. During and after the Covid-19 pandemic, Governor Gianforte appointed a Health Advisory Commission to create temporary programs to be administered by DPHHS specific to the child care industry. These grant programs were funded the American Rescue Plan Act (ARPA) and provided much needed help to keep child care programs open and create new programs during the pandemic. However, the ARPA funds were only temporary, and the programs and funding have since expired, leaving what some stakeholders are calling a potential “ARPA Cliff” on the horizon.

The committee could review the ARPA programs that have expired to see if any of the programs should be made permanent.

ARPA 2021 CHILD CARE GRANTS

Child Care Specialized Training and Technical Assistance

The Early Childhood & Family Support Division of DPHHS partnered with Zero to Five Montana's Business Connect to offer free statewide targeted child care business specialized training, consultation, professional development and individualized technical support for child care business stabilization and expansion.

This project is part of a larger continuum of support for the child care industry in Montana aimed at strengthening business practices for child care businesses and enhancing the availability, affordability, and accessibility of high-quality child care in Montana.

Child Care Workforce Stipends for Teaching & Caregiving Staff

Governor Gianforte and the Health Advisory Commission approved \$7 million in one-time-only funds for the child care workforce retention and incentive payments through ARPA. Providers who received \$600 for Round 1 and were still employed in an eligible position received a second payment of \$1000 in February 2023. New child care professionals were eligible to submit for a one-time payment of \$600.

DPHHS partnered with the Early Childhood Project (ECP) at Montana State University (MSU) to offer child care workforce retention/incentive payments.

Grants for Family, Friend, and Neighbor (FFN) Child Care Providers (Stabilization)

This funding opportunity closed in August 2022. Eligible FFN providers received up to \$8,400 per child, and funds could be used for rent, mortgage, utilities such as electricity, gas, and water bills, and time spent caring for children, buying and preparing food or activities, and cleaning for the children.

Grants for Licensed & Registered Child Care Programs (Stabilization)

The funding for this program also closed in August 2022. Licensed and registered child care providers applied for funding to stabilize their child care businesses, including support to maintain or resume offering child care services. Providers received grant funds up to 45% of their operating expenses. Funds could be used for operating expenses like personnel costs, rent and utilities, health and safety training, facility maintenance, equipment and more.

Innovation and Infrastructure Grants to Expand Child Care

The Early Childhood and Family Support Division partnered with 30 child care providers to develop and implement innovative community, area, region and/or business-based strategies which expand child care availability for Montana families.

This project is part of the larger continuum of support for the child care industry in Montana aimed at enhancing the availability, affordability, and accessibility of high-quality child care in Montana.

The funding targets areas with significant observed shortages of child care capacity or child care deserts - defined as any geographic area where child care supply meets less than a third of the potential demand, care during non-traditional hours, or increasing access for infants, toddlers and vulnerable populations.

Temporary Child Care Assistance for Certain Health Care Workers

Governor Gianforte and the Health Advisory Commission approved \$5.5 million in one-time only child care assistance for certain healthcare employees through ARPA. Applications were accepted through September 2023. Funding was limited and applications were processed on a first come first served basis, with prioritization for employees who work in facilities reliant on Medicaid funding.

In order to be considered an eligible healthcare worker, at least one parent in the household must provide direct care services to patients or clients in one of the following health care sector categories:

- health care;
- behavioral health;
- disability services; or

- long-term care settings to include home and community-based services, assisted living, skilled nursing, or home health.

Other eligibility requirements included:

- family must live in Montana.
- family income at or below 250% federal poverty level (FPL) to receive priority funding.
- children must be a U.S. citizen or qualified alien.
- children must be under 12 years old to be eligible for paid child care.
- parents with children under 18 must comply with child support if there is an absent parent.
- child care must be provided by a child care provider licensed/registered by the State of Montana.

Benefits of the program included a maximum family copayment of \$100 per month for 12 months, and reimbursement to the child care provider of the full authorized amount, regardless of attendance, assuring the child will have a child care slot with the provider.

STAKEHOLDER RECOMMENDATIONS TO ADDRESS THE “ARPA CLIFF”

Child care business start-up grants (including business advising technical assistance and consultation)

Provide support in areas that often are barriers to starting and operating a child care business including startup cost and general knowledge on how to operate a viable business. Some states have appropriated a dedicated fund for these supports. Examples include:

- [New Mexico’s Early Education and Care Fund](#)
- [Tennessee’s Child Care Improvement Fund](#)

Child care workforce incentives

Provide incentives to the child care workforce to increase recruitment and retention. Examples include tax credits and wage supplement programs.

1. Early Childhood Work Force Tax Credit
 - Montana tried this during the 2023 session with [HB832](#)
 - [Colorado](#) has an Early Childhood Educator Income Tax Credit
2. Child care workers automatically qualify for child care subsidy for their own children
 - [Montana](#) is piloting this using grant funding
 - [Kentucky \(922 KAR 2:160\)](#)
3. Offer a child care workforce wage supplement
 - [Washington DC’s Pay Parity Program](#)
 - [Minnesota’s Great Start Compensation Support payments](#)

FINAL CONSIDERATIONS

Four bills child care related bills were considered and failed during the 2023 legislative session. The committee could reconsider these bills as part of the affordability and accessibility conversation.

Income tax credits for taxpayers

Two bills were introduced that would have established a child tax credit for resident taxpayers:

- [HB249](#) created a child tax credit for resident taxpayers who were eligible for the federal child tax credit. The refundable credit was \$1,200 for each child 5 or younger and \$600 for each child 6 or older. The credit would reduce based on the taxpayer's federal adjusted gross income. The fiscal note estimated the net impact on the general fund balance of -\$20 million in FY2024 and -\$96 million in subsequent fiscal years.
- [HB268](#) created a child tax credit for eligible resident taxpayers. As amended in House Taxation, the refundable tax credit was \$1,200 for each child 5 years or younger if the taxpayer's adjusted gross income was less than \$56,000 and had investment income of less than \$10,300. The credit would reduce by \$90 for each \$1,000 of federal adjusted gross income between \$50,000-\$56,000. The fiscal note estimated the net impact on the general fund balance of -\$33 million in each fiscal year starting in FY2025.

Income tax credits for child care workers

Another income tax credit bill, [HB832](#), created a tax credit for child care workers equal to \$1,600 against income taxes. The refundable credit was for workers employed in child care at least 6 months of the tax year and working a minimum of 20 hours per week. The bill provided for annual inflation adjustments and included persons listed in the early childhood project workforce registry. The fiscal note estimated the net impact to the general fund balance to be -\$4.3 million in FY2025, and due to the inflation factor, the decrease to the general fund was estimated to increase roughly \$300,000 each subsequent fiscal year.

Childcare Trust Account

[HB967](#) established a childcare sub-trust in the coal severance tax trust fund to be administered by DPHHS. The funds were to be used for programs within DPHHS that provide scholarships or grants for childcare expenses. The bill called for statutory appropriations of \$150 million from the general fund. The fiscal note estimated about \$6 million in interest revenue generation annually, to be deposited into the child care state special revenue fund, with a net impact of -\$150 million in fiscal year 2023 and no net impact in subsequent years.