Economic Impact Analysis
Virginia Department of Planning and Budget

22 VAC 40-661 – Child Care Services Program

Department of Social Services

January 13, 2004

The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with Section 2.2-4007.G of the Administrative Process Act and Executive Order Number 21 (02). Section 2.2-4007.G requires that such economic impact analyses include, but need not be limited to, the projected number of businesses or other entities to whom the regulation would apply, the identity of any localities and types of businesses or other entities particularly affected, the projected number of persons and employment positions to be affected, the projected costs to affected businesses or entities to implement or comply with the regulation, and the impact on the use and value of private property. The analysis presented below represents DPB's best estimate of these economic impacts.

Summary of the Proposed Regulation

§63.2-217 of the Code of Virginia allows the State Board of Social Services to adopt regulations necessary or desirable to carry out the purpose of Title 63.2 (Welfare: Social Services) of the Code of Virginia.

The proposed regulation (1) requires all child care providers participating in the subsidy program to meet training requirements set forth by the Department of Social Services (DSS), (2) requires that all recipients of childcare subsidy be referred to the Division of Child Support Enforcement before the local social services department approve the subsidy payments, (3) eliminates the option in the existing regulation for parents to pay for childcare and then be reimbursed by the state for the cost of those services, (4) increases the flexibility that local departments have to conduct reassessments, and (5) includes a new section on fraud that provides a basis for fraud identification and the handling of suspected child care fraud cases.

The proposed changes are also intended to bring the regulation into compliance with state and federal law. For example, income eligibility criteria are changed from being based on the state median income to being based on the federal poverty level reflecting changes in state and federal law. The regulation is also updated to reflect current childcare policy and practice. In an effort to make the regulation consistent with current policy, references to market rates when determining payment amounts are replaced with references to maximum reimbursement rates. The regulation also removes obsolete language and adds clarifying language and definitions.

Estimated Economic Impact

(1) The proposed regulation requires all childcare providers participating in the subsidy program to meet training requirements set forth by DSS. Under the existing regulation, providers must meet certain health and safety requirements prior to DSS paying them for their services. The proposed regulation requires that all providers meet training requirements that include up to 12 hours of training per year in addition to first-aid training and training in cardiopulmonary resuscitation (CPR). Childcare centers are currently required to have at least one person on the premises with CPR and first-aid certification. The provider will be required to bear the cost of any additional training, although local social services departments can choose to subsidize some or all of the cost.

Training for childcare providers offered through DSS usually last between three to six hours and cost between $10 and $20. The combined CPR and first-aid class through the Red Cross lasts about 6 hours. A first-aid certification (valid for three years) and a CPR certification (valid for one year) through the Red Cross together cost $60.

Thus, the proposed change is likely to impose additional costs on childcare providers participating in the subsidy program. Providers will be required to spend between $10 and $20 per year in getting the required training. They will also incur additional costs in getting their CPR certification each year and their first-aid certification every three years. In addition to the cost of the training course itself, the proposed change is also likely to impose some additional economic costs. The time taken to meet the training requirement must be valued as time that would have otherwise been used for regular childcare-related activities. Thus, the proposed change will result in lost income for the provider during the time they are in training. The proposed change is also likely to impose some travel-related costs, including costs related to traveling to and from the training center and costs related to any overnight stays.

The proposed change is also likely to produce some economic benefits. By requiring all providers to have up-to-date training in childcare, first-aid, and CPR, the proposed change is likely to reduce the risk of harm to children at these facilities. According to DSS, the proposed change is aimed primarily at unregulated childcare providers, whose numbers have been on the rise. While DSS does not have data on the number of instances when children have been harmed at these facilities due to the provider's lack of adequate training, available research points to a positive correlation between caregiver qualifications, training, and certification and the health and safety of children[1]. The main reasons given for the positive association are: (i) caregivers who receive specialized training are better able to facilitate a positive learning and socialization environment, and tend to have children who are more compliant, more cooperative, less aggressive, and who exhibit fewer negative behaviors, (ii) staff training programs reduce the number of accidental injuries in childcare centers, and (iii) staff training in procedures meant to reduce the transmission of infectious diseases reduces the number of pathogens present in childcare centers. Training is also shown to improve early detection of abuse, neglect, developmental disabilities, and common diseases.

The net economic impact of the proposed change will depend on whether the additional costs imposed by the requirement are greater than or less than the benefits accruing from it. It is not possible at this time to make a precise estimate of the net economic impact of the proposed change as payments to providers is made at the local level and DSS does not have a statewide automated system that would allow us to obtain data on the number of regulated and unregulated providers currently taking part in the subsidy program.

However, there does appear to be some room for improvement. The proposed annual training requirement could be redesigned such that the level of expected benefits is maintained, but at a lower cost. The training needs of providers are not likely to be uniform. It is logical to assume that the training needs of a veteran provider are less than the training needs of a provider just entering the industry. A veteran provider is likely to have more experience and have already

[1] Fiene, R., 2002. *13 Indicators of Quality Child Care: Research Update*. Presented to the Office of the Assistant Secretary for Planning and Evaluation and the Health Resources and Services Administration/Maternal and Child Health Bureau, U.S. Department of Health and Human Resources.

attended many hours of annual training. In addition, depending on the number and type of courses being offered, requiring all providers, regardless of experience, to take the same number of hours of training could result in veteran providers taking courses year after year that cover the same material. In such cases, the expected benefits of having veteran providers take the training course is likely to decline with each passing year. Thus, the training requirement could be redesigned to require newly licensed providers to attend up to 12 hours of training, with the required number of hours of training decreasing to a fixed minimum as a provider gains more experience and training in this business. By modifying the training requirement in the above manner, the proposed regulation is likely to allow the same level of benefits to be maintained, but at a lower cost.

(2) The proposed regulation requires that all recipients of childcare subsidy be referred to the Division of Child Support Enforcement (DCSE) before local social services department approve the subsidy payments. According to DSS, food stamp, TANF (temporary assistance for needy families), and post-TANF recipients are already required to report to DCSE. Many of the other childcare subsidy recipients also voluntarily report to DCSE. Thus, the proposed change is likely to affect only those recipients not currently reporting to DCSE. DSS expects DCSE caseload to increase by approximately 3-4% as a result of the change. According to DSS, despite the increase in caseload, the budget office does not anticipate any increase in resources to DCSE.

The proposed change is likely to impose some additional costs. DCSE will now be required to handle a larger number of cases, potentially increasing operating costs for the division and eventually for the taxpayers. All childcare subsidy recipients will now be required to go through an extra layer of processing before receiving the subsidy. However, the proposed change is also likely to produce economic benefits. It is likely to reduce the number of fraud cases and provide for better enforcement of the regulation. The net economic impact of the proposed change will depend on whether any additional costs to DCSE and to childcare subsidy recipients are outweighed by the benefits of reducing the number of fraud cases. There are no studies or data available at this time that would allow us to make precise estimates of the economic impact of the proposed change.

(3) The proposed regulation eliminates the option in the existing regulation for parents to pay for childcare and then be reimbursed by the state for the cost of services eligible for the

subsidy. Under the existing regulation, a parent could choose whether DSS payment for childcare services are made by means of a direct payment to the provider or by means of a reimbursement to the parent. The proposed regulation removes the option available to parents to pay for childcare services themselves and then seek reimbursement from DSS.

The proposed change is not likely to have a significant economic impact. According to DSS, it is extremely rare for the department to reimburse parents. Most parents eligible for subsidy payments under this regulation do not have the resources to pay for childcare services upfront. Moreover, the proposed change will not prevent those parents who currently take advantage of the reimbursement clause from receiving the childcare services they have always received. Instead of reimbursing these parents, DSS will now directly pay the provider for any childcare services.

(4) The proposed regulation increases the flexibility that local departments have to conduct reassessments. Currently, local department are required to conduct reassessments at least once every quarter in order to determine whether the authorized services are meeting the needs of the child and the parent. The proposed regulation removes the quarterly reassessment requirement and only requires that the local department make regular contact with a member of the case household.

The proposed regulation is not likely to have significant economic impact. According to DSS, the proposed change was made keeping in mind federal regulations on childcare services. Amendments to the federal regulations are being considered that would require local departments to conduct reassessments a minimum of once a year. Thus, the requirement in the proposed regulation was left flexible in order to accommodate changes to the federal regulations. Local social services departments will continue to have the discretion to conduct assessments at more frequent intervals.

(5) The proposed regulation includes a new section on fraud that provides a basis for fraud identification and the handling of suspected childcare fraud cases. The proposed change is intended to clarify existing policy regarding cases of fraud. Existing regulations allow DSS to conduct criminal prosecutions and recoup costs in cases of fraud.

Thus, the proposed change is not likely to have a significant economic impact. To the extent that it clarifies existing policy and improves understanding of the regulation, it is likely to have some small economic benefit.

The remaining changes being proposed, such as changes that make the regulation consistent with federal and state law and with current practice, the deletion of redundant language, and the addition of clarifying language are not likely to have a significant economic impact. To the extent that these changes improve the understanding and implementation of the regulation, they are likely to produce some economic benefits.

Businesses and Entities Affected

The proposed regulation is likely to affect recipients and providers of childcare services eligible for the subsidy program. Recipients will be required to report to DCSE before receiving the subsidy and will no longer be able to receive DSS reimbursement for eligible childcare services paid for by them. Providers will now be required to meet additional training requirements.

According to DSS, 55,497 children or 31,190 families were served with subsidy dollars in FY 2003. There is no data currently available on the number of providers of childcare services currently operating in Virginia.

Localities Particularly Affected

The proposed regulation affects all localities in the Commonwealth. Local social services departments will now have more flexibility with regard to conducting reassessments of whether authorized childcare services are meeting the requirements of the child and the parent.

Projected Impact on Employment

The new training requirement being proposed in the regulation could have a negative impact on employment. As providers will have to bear the cost of the required training, this could reduce the number of individuals working in the childcare services industry.

Effects on the Use and Value of Private Property

The proposed regulation could have a negative impact on providers of childcare services. The cost of meeting the additional training requirements is likely to raise the cost of operating these facilities and thus lower their asset value. However, some of the increase in operating costs could be mitigated by a decrease in the cost of insurance from having better-trained staff. It is not possible at this time to determine the net impact of the proposed change on the use and value of private property.