S.56 – An act relating to child care and early childhood education

As passed by the Senate

Bill Summary
The bill proposes to establish a committee to study prekindergarten education; expand eligibility for the Child Care Financial Assistance Program (CCFAP) to families with income up to 600% of the federal poverty level (FPL); increase the rates the State pays early care and education providers; provide grants to providers to address readiness, quality and capacity; establish a new parental leave program; repeal the child tax credit; and institute a new payroll tax.

Fiscal Impact
JFO estimates the bill would:
- Increase new expenditures by $39.2 million in FY 2024 and $114.6 million in FY 2025.\(^2\)
- Repeal the Vermont Child Tax Credit which was estimated to reduce State revenues by $31.8 million in FY 2024 and in future years.
- Raise approximately $83 million annually in new revenues by instituting a 0.42% tax on wages and self-employment income up to the Social Security taxable maximum.

The following sections of the bill would have a fiscal impact:

Prekindergarten Education Study Committee
Section 2 – Prekindergarten Education Study Committee
Sec. 2 would create the Prekindergarten Education Study Committee to make recommendations on how to improve and expand accessible, affordable, and high-quality prekindergarten education. The 14-member committee would examine and make recommendations regarding prekindergarten education for children three and four years in age, addressing issues such as outcomes, quality, capacity, demand, special education, public school expansion, funding, costs, and oversight. The bill appropriates the following amounts from the General Fund to the Agency of Education (AOE) in FY 2024:
- $5,000 for per diem compensation and reimbursement of expenses for eligible members of the committee.
- $100,000 for the cost of retaining a contractor.

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2 These expenditures are in addition to $49 million included in the Governor’s FY 2024 budget recommendation.
Any funds not spent by July 1, 2024, would revert to the General Fund.

**Child Care Financial Assistance Program**

**Sections 3 through 5 – Child Care Financial Assistance Program (CCFAP) Eligibility**

Sec. 3 would expand CCFAP eligibility in two significant ways:

- Increase the income threshold for families who would have no family co-pay from 150% to 185% FPL.
- Increase the income threshold for those who could receive a subsidy through CCFAP from 350% to 600% FPL.

Sec. 4 would increase the rates paid to providers to levels that are 38.5% over the FY 2023 five-STAR (highest quality) reimbursement rate in the Vermont STARS system. The reimbursement would be the same for each provider in the same childcare setting and would depend upon whether the provider operates a regulated childcare center and preschool program or regulated family childcare home. Changes in CCFAP eligibility and provider reimbursement rates would take effect on January 1, 2024.

Sec. 5 appropriates the following amounts from the General Fund to the Department for Children and Families (DCF) Child Development Division in FY 2024:

- $45.3 million for the CCFAP expansion and rate adjustment in Secs. 3 and 4, estimated to increase to $120.6 million when fully annualized in FY 2025.
- $6 million to administer the CCFAP expansion and 2024 rate adjustment in Secs. 3 and 4.

**Section 6 – Readiness Payments and Grants**

Sec. 6 would appropriate $25 million from the General Fund in FY 2024 to DCF’s Child Development Division for readiness payments and grants to providers prior to the 2024 CCFAP eligibility expansion and provider rate adjustments in Sec. 3 and 4. The payments and grants may be used for workforce recruitment or retention bonuses, childcare facility improvements, and any other uses approved by DCF. The payments and grants are intended to be dispersed as quickly as possible in FY 2024. Up to 5% ($1.25 million) could be used to contract with a third party to provide technical assistance to childcare providers.

**Sections 8 – Payments to Providers**

Sec. 8 would require DCF establish a payment schedule that would increase provider reimbursements over the previous year’s rate annually on July 1 to align with the most recent annual average wage growth for NAICS code 611, Education Services, not to fall below 0%. Payments would be based on enrollment (not attendance) beginning in FY 2025, six months after the increased payments described in Sec. 4.

**Section 9 – Child Care Quality and Capacity Incentive Program**

Sec. 9 would require DCF establish a childcare quality and capacity incentive program for providers participating in CCFAP. Providers would receive incentive payments for achievements that meet criteria as specified in the bill. The incentive payment program would begin on July 1, 2024. $20 million in incentives would be distributed to providers in FY 2025.

**Section 11 – Provider Compensation and Total Cost of Care**

Sec. 11 would require DCF – in consultation with the Department of Labor, AOE, Building Bright Futures, and the Vermont Association for the Education of Young Children – submit two reports to the legislative committees of jurisdiction regarding a tiered professional pay scale for professionals who

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provide childcare services as part of CCFAP. The reports would be due on November 1, 2023, and November 1, 2024, respectively.

**Sections 12 and 13 – Noncitizen Child Care Assistance Program**

These sections demonstrate legislative intent for the State to provide childcare subsidies for children who are not eligible for CCFAP because of their citizenship status. DCF would have to provide information on the cost of providing such coverage beginning July 1, 2024, as part of the Department’s FY 2025 budget presentation to the legislative committees of jurisdiction.

**Section 15 – Building Bright Futures, Technical Assistance and Stakeholder Engagement**

Sec. 15 would allow DCF to use up to $250,000 of the funds appropriated in Sec. 6 (Readiness Payments and Grants) to contract with Building Bright Futures for stakeholder engagement and technical assistance services for the purposes of implementing Sec. 2 (Prekindergarten Education Study Committee), Sec. 11 (provider compensation and total cost of care recommendations), Sec. 12 (Noncitizen Child Care Assistance Program), and Sec. 14 (special accommodations grant).

**Section 16 – Child Care System Governance**

Sec. 16 would require the Secretary of Human Services assess the organizational structure of DCF that takes into consideration the investments in and expansion of early education and childcare and submit a report to the legislative committees of jurisdiction by January 15, 2024. The Secretary may utilize funds appropriated for administrative purposes to contract with a consultant to assist with the assessment.

**Revenue Impacts and Associated Administrative Costs**

**Section 17 – Child Tax Credit Repeal**

Sec. 17 would retroactively repeal the Vermont Child Tax Credit on January 1, 2023. The Vermont Child Tax Credit provides a refundable tax credit of up to $1,000 per child aged 5 and under to qualifying tax filers. The credit begins to phase out for tax filers, regardless of filing status, at $125,000 of adjusted gross income (AGI) and is completely phased out by $175,000 of AGI.

The repeal of this tax credit would increase personal income taxes by an estimated $31.8 million in FY 2024 and in future years. This would represent an increase in tax liabilities for affected filers (as it was a decrease in liabilities when implemented). For some families, the increase in tax liabilities may be offset by the increase in childcare benefits, but not for families who do not use subsidized childcare.

**Section 18 – Child Care and Parental Leave Contribution**

Sec. 18 would establish a Child Care and Parental Leave Contribution in the form of a payroll tax levied on wages and self-employment net income up to the Social Security contribution and benefit base, commonly called the taxable maximum. The taxable maximum is $160,200 in calendar year 2023 and is indexed to average wages in the United States. Up to one-quarter of the payroll tax would be paid by employees, and at least three-quarters of the payroll tax would be paid by employers. Self-employed individuals would pay the entire tax up to the taxable maximum. Employers and self-employed individuals are responsible for any unpaid contributions. The contribution rate would be 0.42 percent starting July 1, 2024. JFO expects the payroll tax would raise $82.8 million in FY 2025.

Sec. 18 also would create the Child Care and Parental Leave Contribution Special Fund, to be administered by DCF and the Department of Taxes, for the purposes outlined in this bill. The payroll tax would be collected by the Department of Taxes and deposited into the special fund. DCF would receive appropriations from the special fund to execute the work outlined in the bill. In addition to the payroll tax,

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4 The Child Tax Credit was created in Act 138 of 2022. The bill would repeal the following sections in statute: 32 V.S.A. § 5830f (Vermont child tax credit) and 32 V.S.A. § 5813(y) (statutory purpose; Vermont child tax credit).
General Fund transfers and appropriations – as well as any interest earned by the Fund – would be deposited in the Special Fund.

**Section 19 – Child Care and Parental Leave Contribution Positions and Appropriation**

Sec. 19 would establish 15 new permanent positions in the Department of Taxes in FY 2024. The positions include tax examiners for both taxpayer services and compliance, tax compliance officers, a financial specialist, and a business analyst. In FY 2024, $4.2 million is appropriated from the General Fund to the Department of Taxes for implementation purposes to cover the new positions as well as IT development. The Department of Taxes estimates that ongoing administrative costs will be $2.3 million.

**Parental Leave Benefit Program**

**Sections 20 and 21 – Parental Leave Benefit Program**

Sec. 20 would establish the Parental Leave Benefit Program to cover the birth or adoption of a child within the preceding 12 months. The leave program would begin January 1, 2024, for births and adoptions on or after that date. Each family with annual gross family income no greater than 600% FPL with a birth or adoption may receive up to 12 weeks of paid leave if the recipient was working prior to the birth or adoption and plans to return to work after taking parental leave. One eligible parent may use all 12 weeks, or two eligible parents may share the 12 weeks. Leave may be continuous or intermittent and may be used for days when the eligible parent does not work. The leave benefit is up to $600 per week, not to exceed the eligible parent’s average weekly wage or self-employment income during the six months preceding the leave.

Sec. 21 would appropriate $2.0 million in FY 2024 from the General Fund to the DCF Child Development Division to implement and administer the Parental Leave Benefit Program. The Division may contract with a third party to administer the Program if it chooses. Also in FY 2024, $5.6 million would be appropriated from the General Fund to the Child Development Division for benefit costs in the Parental Leave Benefit Program. The Parental Leave Benefit Program is estimated to cost $14 million each year, when fully annualized in FY 2025.
Fiscal Summary

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Note: Senate development of the FY 2024 budget (the Big Bill) will address the remaining need for child care and early education, parental leave, and afterschool

APPENDIX

To illustrate how the enhanced CCFAP reimbursement rate would affect families with a child in early care and education, JFO constructed a couple of charts showing family contribution by income as measured by FPL. JFO estimates the enhanced annual reimbursement rate to early care and education providers for infants, toddlers, and preschoolers at centers on average would rise from $17,250 per full-time child to $24,265.

The status quo situation for families in CCFAP using the current payment of $17,250 per child shows the steep increase in early care payments for families just above the income threshold (see Figure 1). CCFAP family subsidies currently require no family contribution up to 150% FPL ($37,290 for a family of three in 2023), rising family payments as income rises, and no subsidy above 350% FPL ($87,010). The figure shows a shark-tooth pattern as the weekly contribution by families from 200% FPL to 225% FPL, for example, stays constant at $75 per week but family income rises within that income bracket. The family contribution then rises to $100 per week at 225% FPL to 250% FPL, again contributing to the shark-tooth pattern.

CCFAP payments in S.56 would require no family contribution to 185% FPL ($45,991 for a family of three in 2023), and subsidies continue out to 600% FPL ($149,160). Extending subsidies up the income scale greatly mitigates the increase following the end of the subsidy range (see Figure 2).
Annual CCFAP and family payments at different levels of family income relative to FPL demonstrate the CCFAP subsidy arrangement (see Figure 3). As the CCFAP subsidy steps down, family payments rise. The current Child Tax Credit at the maximum level of $1,000 appears at the lower part of the Figure 3.
Figure 3.