



Memo

TO: Councilmembers, Executive Sidhu
FROM: Erika Lautenbach, Health and Community Services Director
RE: Subsidy and Rate Augmentation Discussion on 11/6
DATE: NOVEMBER 5, 2024

One of the key priorities in the Healthy Children's Fund ordinance and implementation plan is to stabilize the childcare market by both making it more affordable for families and by helping businesses reach a more sustainable financial state and build potential for growth.

On Wednesday, November 6 you will receive a briefing from Healthy Children's Fund program staff and our Childcare Consultant regarding subsidy and rate augmentation, the two strategies to address childcare stabilization. In preparation for the discussion and your decision-making, I want to provide you with a bit of framing. It is our hope and expectation that between the background below and the presentation, you will have sufficient information to provide direction to staff on both the subsidy and rate augmentation. If you have questions you'd like answered in the meeting, or know there is information you require to reach a decision, please let Sarah Simpson or me know and we'll send in advance or adjust the presentation accordingly.

Childcare Subsidies

The average cost of childcare per month for infants and toddlers is \$1,810. The cost for children 3-5 is slightly lower, but still about \$1,543 per month. This is a significant expense for all families, but per the Healthy Children's Fund implementation plan, the goal of an affordability intervention is to "prioritize families paying the highest percentage of their household income on childcare".

Currently, the state has a program called Working Connections, which provides 100% subsidized childcare for families whose income is below 60% Average Median Income (SMI). This is a monthly income of \$6,552 for a family of four. The state plans to raise the income eligibility to 75% SMI on July 1, 2025. This will increase the number of children receiving fully subsidized childcare in Whatcom County by 32%. While the increase in income threshold will help more families most constrained, there are many families still cost-burdened by the high cost of living in Whatcom County. The Healthy Children's Fund provides the opportunity to help more families who make more than \$8,190 (75% SMI) but still struggling with housing, food, transportation, childcare and other expenses. The subsidy for families would be administered by a third-party and would provide regular assessments of eligibility and enrollment.



Staff will propose a variety of options for subsidies for families up to 85% SMI. A family of four at 85% AMI earns \$9,982 a month and without a subsidy pays between 16%-39% of their income on childcare, depending on the ages of their children. Options staff will provide include a subsidy for infants and toddlers (0-3 years old) or a subsidy for children 0-5. They will also provide the cost of subsidizing childcare at a variety of different levels, including \$200/month, \$300/month or \$400/month. In the context of this discussion, it would be helpful for staff to receive direction from Councilmembers on whether they'd like to:

1. Help more families with less subsidy;
2. Help fewer families with more subsidy; or
3. Help more families with more subsidy, which would expend more of the annual Healthy Children's Fund budget.

There are ten strategies within the implementation plan and Council's direction of how to prioritize this item as compared to other priorities will help guide recommendations and implementation.

Rate Augmentation

Childcare providers who accept the state's Working Connections payments experience a structural deficit in that the payment is not sufficient to cover the cost of the service. On average, the difference between the cost of providing infant and toddler childcare and the Working Connections payment is \$1,526 per month. Childcare providers must utilize a variety of methods, including higher rates for higher income children and fundraising efforts, in to make up this gap, or face significant financial challenges.

The Healthy Children's Fund augmentation program would be administered through a third-party organization and will provide monthly funding to lessen the gap between costs and revenues from the state. Resources will be distributed through individual contracts with licensed child care providers who accept Working Connection families.

Staff will propose options for rate augmentation that include \$200/month, \$300/month, and \$500/month for the providers who serve Working Connections families (0-75% SMI) and locally subsidized families (75-85%), should Council choose to support subsidies. These augmentation rates would be applicable to families with children 0-3, whose costs are the highest and the reimbursement rate is lower. Councilmembers are asked to weigh in with their thoughts on how much they'd like to close the funding gap for providers.

Funding

Subsidies and rate augmentation are very expensive strategies, as a percentage of the total Healthy Children's Fund strategy, and they are also highly prioritized and very important to stabilize the childcare market.



For example, a full subsidy for children between 75% and 85% SMI would cost \$3,966,000 annually, which is 44% of total program funds. A full gap closure for childcare providers who serve families utilizing Working Connections would cost \$7,452,984 per year, which is 83% of total program funds.

Councilmembers will be asked to weigh the cost of these strategies as they relate to the other strategies in the implementation plan, and how much of the annual fund they're comfortable with spending on these childcare strategies. Councilmembers will also be asked to share their respective interest in funding for both families and for childcare. Families struggling financially would benefit from higher subsidies in order to meet their basic needs. However, without rate augmentation for childcare facilities, the market cannot stabilize or facilitate the opportunity for needed growth in the childcare sector. Staff request policy guidance on how to balance these complementary and financially significant interests.

Council direction on staff recommendations and funding priorities are requested at this briefing. Please contact Sarah Simpson with questions or information requests prior to the Council briefing on Wednesday.