

## Summary Discussion - HB 408

### Bill Motivation:

[HB 408](#) would provide for more stable and consistent revenue for ECCE sites to sustain operations and delivery of high quality ECCE services for participating children and their families.

### Bill Intention:

HB 408 requires that Child Care Subsidy Program ECCE sites (centers and family child care) would be reimbursed periodically based on authorized child *enrollment* instead of the [current policy](#) in Virginia, where these ECCE providers are reimbursed based on child *attendance*. The bill provides an exception, however, that if an enrolled child is *absent for 10 or more days in one month*, only then will the ECCE site be periodically reimbursed based on *attendance*.

### Bill History:

HB 408, introduced by Delegate Phil Hernandez in the 2024 General Assembly, was considered by the House Education Subcommittee on Early Childhood and referred (6-1) to the House Appropriations Committee. The House Appropriations Subcommittee on Elementary and Secondary Education recommended continuing (voice vote) to the 2025 session and referred the bill to the ECCE Commission for further consideration.

### Context and Background:

Prompted in part by the pandemic era and accompanying resources, Virginia has taken several steps to a) systematically address the challenges of the ECCE cost model and financing implications for ECCE providers and the ECCE workforce and b) identify innovations to test solutions that would result in families' stable and equitable access to high quality, affordable ECCE services for their young children.

Across the U.S. during the pandemic, ECCE providers' financial stability, already limited, was severely threatened in multiple ways. As child attendance became more inconsistent and dropped significantly, revenue to ECCE sites through childcare subsidies (voucher payments that follow the child based on days in attendance) began to dwindle. While these dynamics have somewhat eased as the U.S. has recovered from the pandemic era, there is growing recognition that payment by enrollment is practical and a more typical practice (e.g., private pay, K-12 public school system policies) that may result in more stable, consistent delivery of high quality ECCE services.

In fact, recognizing the need to strengthen and modernize the financing of child care services in order to stabilize and improve quality child care for families, Virginia has scaled and strengthened how it administers its Mixed Delivery Program. The Mixed Delivery Program, administered by the Virginia Early Childhood Foundation to provide publicly funded ECCE services in licensed (non-faith-based), private ECCE settings for eligible families of infants, toddlers, and preschoolers, was identified to serve as the model for the Child Care Stabilization pilot program due to its innovative use of annual contracts based on enrollment and requirement of minimum contract size and substantive portion in Mixed Delivery classrooms to

ensure the needed density of funding to incentivize quality improvements, including competitive compensation and retention for ECCE educators.

In its legislatively-required [reporting on the pilot](#), the Virginia Department of Education noted that when executed effectively, contracts can promote the stabilization of the child care industry by providing a reliable source of revenue based on the cost of care for participating child care providers. Contracts allow participating ECCE providers to plan for payments/revenue for a block of slots/per classroom on a regular and recurring cycle and meet the recurring daily expenses associated with running a childcare program which occur regardless of whether a particular child attends every single day. This is similar to the private market where parents pay for services in semester, monthly or weekly increments rather than pay-by-the-day.

On October 2023, [JLARC](#) released a report on self-sufficiency and the availability and affordability of child care, which recommended including language in the Appropriations Act that would require the VDOE to issue payments to CCSP vendors based on authorized enrollment, subject to attendance threshold established by VDOE.

Most relevantly, effective April 30, 2024, the Biden administration rolled out the [Final Rule on CCDF](#), with a requirement for states to reimburse providers based on enrollment not attendance unless it is deemed impracticable. States must comply by April 2024, but the federal government offers temporary waivers for up to two years to implement this change. According to [Virginia's CCDF 2025-2027 Draft](#), such waiver for implementation for up to two years has been requested to review making these systematic changes. Virginia intends to learn from the Federal Office of Child Care as well as other states as it prepares to operationalize these requirements by 2026.

At the same time, the U.S. is experiencing unprecedented levels of chronic absenteeism in K-12 schools which function similar to pay-by-enrollment. Chronic absenteeism in K-12 is defined as missing ten percent or more of the academic year for any reason. According to research, regular attendance is a significant factor in a student's success:

- Chronic absenteeism correlates to low academic achievement;
- Absenteeism is a powerful predictor of dropout rates;
- Absenteeism has been linked to poor outcomes later in life.

There is no formal definition of chronic absenteeism in early childhood, but it is known that children will benefit most if they are able to attend regularly. The child care context is different from K-12, but there is research that shows that regular attendance in child care or preschool increases the likelihood of attendance and academic success in K-12. Research (see <https://www.educareschools.org/2024/05/16/attendance-matters-chronic-absence-in-early-childhood-education/>) shows that:

- Preschoolers who miss 10% or more of the school year arrive at kindergarten with lower levels of school readiness and are 5 times more likely to be chronically absent in second grade.

- Chronic absence is an early warning sign that children are likely to be off track for learning to read by third grade, and a strong indicator of later absenteeism and problems in academic success, like achieving in middle school or even graduating from high school.
- Chronic absence is especially challenging for children living in disinvested communities. Children living in low-income communities are 4 times more likely to be chronically absent in kindergarten compared to their higher income peers.

Understanding and addressing the root causes of absenteeism is critical to ensuring that programs can support families to ensure that children are able to attend and benefit from high quality early childhood experiences.

### Considerations:

#### Funding/Cost

- Fiscal implications from HB408 were noted as follows: *This bill would require the Department of Education to make Child Care Subsidy Program (CCSP) payments to providers based on enrollment. **If DOE is making payments for children who are absent, for which payments are not currently made, it could result in less funding available to serve additional children. Any actual impact is indeterminate and would have to be absorbed into the existing appropriation for CCSP.***
- [JLARC](#) estimates that rolling out enrollment-based reimbursement **would cost \$21.6 million over the projected cost of maintaining the current policy.**
- As a point of reference, New America and Child Care Aware of America’s cost models estimated that permanently switching from reimbursing providers based on attendance of children with variable schedules to an enrollment-based payment system using the maximum allowed hours **would cost the state of California 10.5% over the projected cost of maintaining the current policy.**
- Without additional funds, shifting to pay by enrollment would result in more families being placed on waitlists.

#### System Changes

- If enacted, Virginia could potentially move away from vouchers or swipe cards to [a grant or contract system.](#)
- Virginia is currently procuring a modern attendance tracking system for the Child Care Subsidy Program which could be used to continue to ensure fiscal accountability and monitor student outcomes.
- Virginia may see increased ECCE providers agreeing to serve as subsidy vendors, which would increase access, choice, and affordability for low- to moderate-income families with young children. A [NAEYC study](#) found 80% of providers stated that they would be interested in applying to participate if states paid for services based on enrollment.

## Impact

### Families and Children

- By ensuring more stable, consistent ECCE services are available, families may have more options and choice and participating children may experience more stable caregivers/educators and benefit from consistent quality of instruction and care.
- By encouraging more ECCE sites to participate as subsidy vendors, families have increased access to affordable options.
- At the same time, changing how providers are funded could mean that fewer families could access affordable ECCE. In addition, there may be fewer incentives for providers to work closely with families to encourage good attendance.

### ECCE Providers and Educators

- [Predictability, adequacy, and stability](#) for ECCE providers enables them to recruit, compensate, and retain talented ECCE educators and sustain delivery of high-quality services.
- Improved payment practices may increase provider interest in participation as subsidy vendors, potentially creating more options for eligible families.
- There may be fewer incentives for providers to encourage good attendance.

### A Look at Approaches in Other [States](#)

- 21 States and DC are currently paying their providers based on enrollment without any payment impacted by children's attendance. California, Colorado, Mississippi, Montana, New Hampshire, and Vermont are some of the states that have made enrollment-based payment permanent.
- Maryland has also incorporated an enrollment-based payment system into their childcare program. [Research](#) was also conducted in the state, with the enrollment-based reimbursement being one of the recommendations.
- Michigan and Massachusetts have been maintaining enrollment-based systems from the pandemic and have interest in adopting them permanently.
- New Jersey has funded an enrollment-based system through June 2024, and they are seeking to make the system permanent starting [January 2025](#).
- West Virginia is using TANF funding to extend the policy through August 2024, but they do not have plans to extend further, and Maine's bill to establish reimbursement based on enrollment did not pass.