DOAA
Georgia Department
of Audits & Accounts

Greg S. Griffin
State Auditor

January 10, 2025

The Honorable Blake Tillery,
Chairman, Senate Appropriations Committee
Members of the Senate Appropriations Committee
Members of the General Assembly
Ms. Amy Jacobs,
Commissioner, Georgia Department of Early Care and Learning

Ladies and Gentlemen:

The attachment to this letter provides the results of our special examination of the economic impact of additional funding for the Childcare and Parent Services (CAPS) program. This examination was conducted at the request of the Senate Appropriations Committee under the authority of O.C.G.A. § 50-6-4 and in conjunction with the Fiscal Research Center (FRC) at Georgia State University.

As noted in Attachment A, we found that a policy to increase CAPS enrollment slots provides a larger immediate economic impact than other policy options considered, such as lowering family fees or raising provider rates. While all three policy options would impact childcare provider and household income, increasing enrollment slots—especially through policies targeting families not already receiving childcare—results in a larger impact to the economy.

We appreciate the cooperation and assistance provided by the Georgia Department of Early Care and Learning and FRC.

Respectfully,

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GSG/mef

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Attachment A
DOAA Analysis of Childcare and Parent Services (CAPS) Program

The Senate Appropriations Committee requested an analysis of the economic impact of Georgia's CAPS program, specifically whether increasing provider rates or expanding enrollment would have a greater impact.

With the assistance of Georgia State University's Fiscal Research Center (FRC), we considered the impact of three broad policy options—expanding CAPS enrollment, raising provider rates, or lowering family fees paid by those already in the program. Using IMPLAN, FRC evaluated the enrollment and family fees options, and information from the enrollment increase option was used to inform the rate increase analysis.

All three options would impact provider and household income to varying degrees. However, a policy to increase enrollment provides a larger immediate impact to the economy. One specifically designed to target families not already receiving childcare would provide a higher impact than raising the income limit.

DECAL Response*: The agency stated that it appreciated the review of the CAPS program and "an opportunity to provide the Senate Appropriations Committee with information that can help them determine the best ways to move forward in supporting children and families in our state." DECAL added that it agreed with the analyses in the report. DECAL also provided technical edits of the draft that were incorporated into the final report.*

Our assessment of the economic impact of the CAPS program is based on the answers to the following questions:

1. What is the CAPS program?
2. Who qualifies for CAPS?
3. How is CAPS funded?
4. How are CAPS subsidies determined?
5. How has the number of children served by CAPS changed over time?
6. How does CAPS increase or decrease enrollment?
7. What provides the greater impact to the state economy – increasing enrollment, increasing provider rate, or reducing family fees?

Question 1: What is the CAPS program?

The Childcare and Parent Services (CAPS) program is operated by Bright from the Start: Georgia Department of Early Care and Learning (DECAL). CAPS subsidizes childcare for eligible no/low-income families while they work, go to school or training, or participate in other work-related activities. Childcare is provided in childcare centers or family childcare homes licensed by DECAL.

CAPS subsidizes up to 100% of the cost of childcare up to the maximum reimbursement rate, which varies by age of child, type of childcare provider, location of the childcare provider, and the type of childcare received (e.g., full-time, before/after school, partial week). Families often have a responsibility to pay a portion of the cost (family fee), with the amount based on family income and family unit size. The state subsidy is paid directly to the childcare provider.

Question 2: Who qualifies for CAPS?

To qualify for CAPS assistance, families and children must be within a defined priority group and meet certain financial and non-financial requirements. Financial requirements consist of income limitations dependent on family unit size. CAPS eligibility requirements differ at initial determination and annual redeterminations.

Priority Groups

CAPS currently has 13 established priority groups of which an applicant must be a member to qualify for assistance. As shown in Exhibit 1, the priority groups include a wide variety of situations faced by children and families, ranging from state supervision of children, children with disabilities, or children enrolled in Georgia's Pre-K program. While priority group status is required at initial determination for program benefits, it is not required for most families at redetermination.

Exhibit 1: List of CAPS Priority Groups

Child Protective Services (CPS) and court-ordered supervision cases	Child in need of protective services (not involved with CPS)
Children in Georgia Division of Family and Children Services (DFCS) custody	Families experiencing domestic violence
	Student parents
Families of children with disabilities	Families of children enrolled in Georgia Pre-K
Families participating in or transitioning from TANF	Families who have experienced a natural disaster
Families who lack fixed, regular, and adequate housing	Families with very low income, as defined by CAPS
Grandparents raising grandchildren (GRG)	Minor parents
Source: DECAL Policy Manual	

Financial Requirements

The CAPS program has income limits set in accordance with guidelines from the United States Department of Health and Human Services. If within a priority group (with the exception of the children in DFCS custody), families and children must still have incomes below initial and ongoing eligibility limits, which are based on state median income (SMI) guidelines. CAPS utilizes a percentage of the federal poverty level for the very low-income group. Appendix A1 includes the maximum income limits for applications received before and after July 1, 2024.

Non-Financial Requirements

The program has several non-financial requirements that must be met, including the following:

- Parents must be Georgia residents;

- The child must be 12 years of age or younger at the time of the eligibility determination, or under the age of 18 if the child has medically documented special needs or is under court-ordered supervision;
- The child must be a U.S. citizen or a lawfully admitted qualified alien;
- Current immunizations are required for children (some medical or religious exemptions exist); and
- The child's parent must participate in one or more "state-approved activities" related to educational pursuits (e.g., pursuing a college degree), vocational trainings, or employment.

Question 3: How is CAPS funded?

CAPS is funded through a combination of federal and state funds. As shown in Exhibit 2, federal funding has represented a significant and increasing portion of CAPS expenditures in recent years, with COVID-related funding representing nearly one-third of fiscal year (FY) 2024 expenditures.

Exhibit 2: CAPS Expenditures by Fund Source

	FY 2021	FY 2022	FY 2023	FY 2024
State Funds	$52,246,949	$52,589,769	$59,151,293	$60,494,046
Federal CCDF/CCDBG	$258,420,160	$249,834,354	$330,299,763	$413,926,692
Federal COVID	$17,950,852	$137,525,862	$246,546,607	$233,463,756
Other	$0	$105,000	$45,150	$0
Total	**$328,617,960**	**$440,054,985**	**$636,042,813**	**$707,884,494**

Source: TeamWorks financials

Federal funding for CAPS is primarily provided through the Child Care Development Fund (CCDF) authorized by the Child Care Development Block Grant Act.[1] The state is required to provide matching funds ($37.5 million in FY24), but the match is calculated on only a portion of the federal funds. In addition to this match, the state must also expend an amount of non-federal funds for childcare activities that is equal to or above the state's annual expenditures prior to October 1, 1995. This Maintenance of Effort (MOE) amount is equal to $22.2 million each year. Together, the required state match and MOE totaled $59.8 million for federal FY24. The state appropriation of $60.5 million in state FY24 exceeded the required funding, but additional state funds do not allow additional federal funds to be drawn down.

As a result of the pandemic, CAPS received a temporary, large increase in federal funding. These funds were used for a variety of initiatives that reduced costs for families and increased the number of enrolled children. All COVID-related federal funds had to be spent by September 2024.

Question 4: How are CAPS subsidies determined?

CAPS subsidies are the lower of the maximum reimbursement rate for the childcare provided and the childcare provider's published rate, offset by the family fee. CAPS establishes a maximum reimbursement rate based on the location where childcare is provided, the child's age, the type of childcare provider, and the type of childcare (e.g., full-time, before/after school).

As part of the CAPS subsidy, most families are required to pay a family fee directly to childcare providers (the fee is subtracted from the amount DECAL sends to the provider). CAPS assesses

[1] Not all CCDF funds are directed to CAPS. A portion of CCDF funds is used for other DECAL programs, such as childcare licensing. Also, the federal grant year and the state fiscal year do not align; therefore, the grant year amounts do not appear in Exhibit 2.

family fees based on annual gross income and family unit size in relation to poverty rates, with the fees often set at 3%, 5%, or 7% of annual income divided by 52 weeks. In addition, families are responsible for paying any amount above the CAPS reimbursement rates to childcare providers. Family fees are not assessed when children are in DFCS custody, a parent is 17 years of age or younger, or the family's gross applicable income is at or below 10% of the poverty guidelines. Exhibit 3 below depicts the weekly family fee calculation paid to childcare providers.

Exhibit 3: Weekly Family Fee Calculation

3%, 5%, or 7% of Annual Income ÷ 52 Weeks = Weekly Family Fee

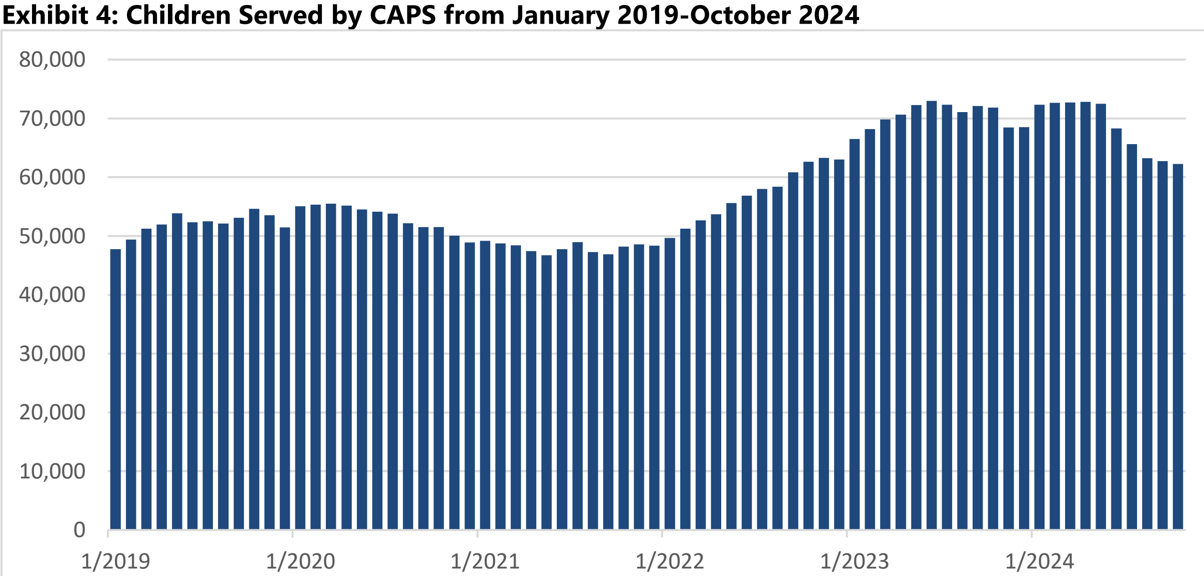
Example	Annual Income	Rate[1]	Weekly Family Fee[2]	Weekly Family Fee Per Child[3]
2 Adults, 3 Children	$15,000	3%	$8.00	$2.67
2 Adults, 4 Children	$25,000	5%	$24.00	$6.00
1 Adult, 5 Children	$35,000	5%	$33.00	$6.60
2 Adults, 2 Children	$45,000	7%	$60.00	$30.00
2 Adults, 2 Children	$55,000	7%	$74.00	$37.00
1 Adult, 2 Children	$65,000	7%	$87.00	$43.50

[1] The rate is a percentage of annual income in relation to family size.
[2] The weekly family fee is based on income, not the number of children, and is rounded down to the nearest whole number.
[3] The weekly family fee per child is shown for illustrative purposes.
Source: DECAL Policy Manual and auditor calculations

Question 5: How has the number of children served by CAPS changed over time?

The number of children served by CAPS varied significantly over the 2019-2024 period (see Exhibit 4). While DECAL officials stated that the CAPS program has historically aimed to serve roughly 50,000 children, the number climbed to more than 70,000 in 2023. Changes in enrollment can be partly attributed to policies enacted, some of which were driven by temporary federal funding available during the COVID-19 pandemic. It should be noted that CAPS enrollment is higher than the number of children in care during a given week. More than 90,000 children have been enrolled in each month since May 2023, but the number served in a childcare center peaked at 73,000.

Exhibit 4: Children Served by CAPS from January 2019-October 2024



Source: DECAL's CAPS Monthly Count Data

Question 6: How does CAPS increase or decrease enrollment?

DECAL does not have a fixed number of CAPS slots that might result in a waiting list for some applicants. It instead modifies the eligibility requirements or other policies to increase or decrease the number of children that will be served, depending on available funding. To increase enrollment, DECAL can lower family fees, raise income limitations, or add to the list of priority groups eligible for CAPS. To decrease enrollment, it may reduce the number of priority groups or the income eligibility requirements. Between 2018 and 2024, several policy changes have affected CAPS enrollment.

- **July/September 2018** – DECAL instituted a 15% family fee discount for CAPS children enrolled in Quality-Rated Provider[2] childcare facilities. The family fees were also modified to a four-tier structure based on the Federal Poverty Levels (FPL) to determine the family fee calculation, with the maximum fee set at 7% of a family's income.
- **May 2021** – DECAL announced the Awarding Child Care Education Scholarship Supplements (ACCESS) initiative that temporarily paid both the family fee and the difference between the CAPS reimbursement rate and the childcare provider's published rate for all CAPS families.
- **November 2021** – DECAL increased the entry income threshold from 50% of the SMI to 85% and increased the eligibility criteria for the very low-income priority group from 50% to 150% of FPL.
- **December 2022** – DECAL changed the very low-income priority group's income eligibility threshold from 150% to 50% of the FPL and reduced the entry income threshold from 85% of the SMI to 50%.
- **October 2023** – DECAL required applicable families to resume payment of their family fees but continued to pay the difference between the CAPS reimbursement rate and the childcare provider's published rate.
- **July 2024** – DECAL reduced the very low-income priority group's income eligibility threshold from 50% to 10% of the FPL.
- **September 2024** – DECAL reduced the limits for initial CAPS eligibility from 50% to 30% of the SMI. It also ended the ACCESS initiative, making families once again responsible for paying their family fee and the difference between a childcare provider's published rate and the CAPS maximum reimbursement rate.

Question 7: What provides the greater impact to the state economy – increasing enrollment, increasing provider rates, or reducing family fees?

With the assistance of the Georgia State University Fiscal Research Center (FRC), we analyzed the economic impact of three broad policy options—increasing enrollment, raising provider rates, or reducing family fees—that would require additional funding. The greatest economic impact is achieved by increasing enrollment through a policy designed to target eligible children not already receiving childcare.

Below we discuss how CAPS spending can impact the economy, regardless of the policy. We then discuss each of the three policy options reviewed.

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[2] Licensed childcare providers must be Quality Rated to participate in the CAPS program as of December 31, 2021. Providers may receive one, two, or three stars that demonstrate that they have met or exceeded state requirements.

Economic Impact of CAPS Spending

While the CAPS program impacts the quality of care for some children and improves the financial situation for eligible families, it also has a measurable impact on the state's economy. Additional CAPS funding and spending has a short-term impact on the state economy in the following ways:

- **Revenue for childcare providers** – Childcare program revenue pays for employees and supplies (direct economic effect), and the suppliers for the providers must buy goods and services from other businesses (indirect effect). The employees in the childcare programs, as well as in the businesses that supply goods and services to the programs, have funds spent on items like restaurants, groceries, and car payments (induced effect).

  FRC reported that the childcare industry has an economic multiplier of 1.95 when the revenue is related to additional children in care, meaning that $1 in additional revenue to this industry would result in economic output of $1.95. If the revenue is not related to an additional child, it is simply additional provider income, and the economic impact is lower.

- **Additional household income for families obtaining CAPS subsidy –** There are two potential impacts on household incomes, depending on whether the family was able to obtain childcare prior to receiving the CAPS subsidy.

  FRC reported a 1.36 economic multiplier for families already paying for childcare that can then redirect income to other expenses. Therefore, $1 in additional household income would result in economic output of $1.36.

  When a CAPS subsidy allows a family to obtain childcare, the parent or guardian can then seek employment (or longer work hours). Employment increases household income and spending, positively impacting the family and the state economy. FRC noted that this impact is hard to measure but it would exist as enrollment increases.

Economic Impacts of CAPS Policy Options

We evaluated the economic impact of three broad policy options—expanding CAPS enrollment, raising provider rates, or lowering family fees paid by those already in the program. Using IMPLAN, FRC evaluated the enrollment and family fees options, and information from the enrollment increase option was used to inform the rate increase analysis.

All three options would impact provider and household income to varying degrees. However, a policy to increase enrollment provides a larger immediate impact to the economy. One specifically designed to target income-eligible families not already receiving childcare would provide a higher impact than raising the income limit. The broad policy options and their expected economic impact are discussed below.

- **Increasing CAPS Enrollment** – Additional CAPS enrollment would likely have the greatest impact due to the increased revenue for providers and the related indirect and induced effects, as well as the potential that some benefiting families would be able to join the workforce. FRC noted that any policy to increase enrollment will have a larger economic impact if targeted to the lowest income individuals not already obtaining subsidies.

  New provider income results in a significant economic impact because it leads to the direct, indirect, and induced effects discussed above and the economic multiplier of 1.95. This full impact is not realized for all funds spent on this policy. If parents or guardians are paying for childcare before gaining CAPS eligibility, the economic impact to the childcare industry is already occurring and there is no direct or indirect effect to be gained. For every dollar of additional CAPS funding that does not result in new childcare, the impact is only on the household income of the benefiting families. The multiplier is 1.36 in those cases.

Using U.S. Census data on school enrollment by income level, FRC estimated that the combination of the types of families gaining CAPS subsidies would result in a multiplier of 1.72 for this policy. Most funds would benefit families obtaining childcare, which is the spending that has a greater impact.

Increasing enrollment also provides an additional benefit not captured in the economic multiplier. When subsidies are provided to a family that did not previously have childcare, the former caregiver will have the opportunity to seek employment that will add to the household income (benefiting both the household and the broader economy).

- **Increasing Provider Rates** – The economic impact of increasing provider rates would be lower than a policy designed to increase enrollment. While provider revenue would rise like it would with a policy to increase enrollment, increasing rates would not result in the same economic benefit. Without additional children receiving care and education, there is no need for additional teachers, food, and other supplies, and the resulting economic impact that exists with that spending does not occur.

  In addition, not all funding for higher rates would result in additional provider revenue. Families currently are expected to pay the difference between the current provider rate and the provider's listed rate. When the difference is being paid, the higher CAPS rate could lead to no additional revenue for the provider and only a savings for the family. This savings would be considered additional household income that would have a lower economic impact. Data is not available on the cost differences that may be paid by families, so we were unable to determine how much of increased provider rates benefit providers vs. families.

  There are additional considerations of this policy. Higher rates do not provide the opportunity for family caregivers to obtain employment provided by a policy to increase enrollment. However, they likely have a byproduct of a marginal increase in enrollment if the rates bring in new providers that are close to already eligible families that did not previously have a nearby CAPS provider.

  It should also be noted that this policy has been implemented recently. With funding appropriated in FY25, DECAL increased provider rates for both full-time and before- and after-school care beginning the week of September 30, 2024.

- **Lowering Family Fees** – The economic impact of lowering family fees is less than that of a policy that increases enrollment. FRC noted that if lowering family fees were targeted to the lowest income families, it would have a greater economic impact than if provided to all.

  As a policy, lowering family fees should provide a financial benefit to families. While this is the most likely case, DECAL officials indicated that there is no process for ensuring providers require payment of the family fee and are not certain that all providers require families to pay the fee. In these cases, a lower fee would result in additional revenue for the provider and no change in the family's income. Regardless of the party benefiting, as previously noted, both increases in household income and increases to provider income that are not related to additional enrollments would result in a lower economic impact than a policy to increase enrollment.

  It should be noted that FRC officials found that a byproduct of lowering family fees would be an increase in enrollment. A 10% decrease in family fees would increase enrollment by approximately 1.7%. A decrease targeted to the lowest income families eligible would increase the likelihood that the new families will be obtaining new childcare (the CAPS enrollments with a higher economic impact) and an opportunity to seek employment that may not exist without the subsidy. DECAL stated that funding provided to lower family fees would also need to consider the cost of increased enrollment.

Appendix A1
Maximum Income Limits

<table>
<tr><th rowspan="2">Family Unit Size</th><th colspan="2">Initial Eligibility for Very Low-Income Priority Group[1]</th><th colspan="2">Initial Eligibility for Other Priority Groups[2]</th><th colspan="2">Ongoing Eligibility and Redetermination[3]</th></tr>
<tr><th>Before 7/1/24</th><th>After 7/1/24</th><th>Before 9/1/24</th><th>After 9/1/24</th><th>Before 9/1/24</th><th>After 9/1/24</th></tr>
<tr><td>1</td><td>$7,530</td><td>$1,506</td><td>$27,533</td><td>$16,520</td><td colspan="2">$46,805</td></tr>
<tr><td>2</td><td>$10,220</td><td>$2,044</td><td>$36,004</td><td>$21,603</td><td colspan="2">$61,207</td></tr>
<tr><td>3</td><td>$12,910</td><td>$2,582</td><td>$44,476</td><td>$26,686</td><td colspan="2">$75,608</td></tr>
<tr><td>4</td><td>$15,600</td><td>$3,120</td><td>$52,947</td><td>$31,768</td><td colspan="2">$90,010</td></tr>
<tr><td>5</td><td>$18,290</td><td>$3,658</td><td>$61,418</td><td>$36,851</td><td colspan="2">$104,411</td></tr>
<tr><td>6</td><td>$20,980</td><td>$4,196</td><td>$69,890</td><td>$41,934</td><td colspan="2">$118,812</td></tr>
<tr><td>7</td><td>$23,670</td><td>$4,734</td><td>$71,478</td><td>$42,887</td><td colspan="2">$121,513</td></tr>
<tr><td>8</td><td>$26,360</td><td>$5,272</td><td>$73,067</td><td>$43,840</td><td colspan="2">$124,213</td></tr>
<tr><td>9</td><td>$29,050</td><td>$5,810</td><td>$74,655</td><td>$44,793</td><td colspan="2">$126,913</td></tr>
<tr><td>10</td><td>$31,740</td><td>$6,348</td><td>$76,243</td><td>$45,746</td><td colspan="2">$129,614</td></tr>
<tr><td>11</td><td>$34,430</td><td>$6,886</td><td>$77,832</td><td>$46,699</td><td colspan="2">$132,314</td></tr>
<tr><td>12</td><td>$37,120</td><td>$7,424</td><td>$79,420</td><td>$47,652</td><td colspan="2">$135,014</td></tr>
</table>

1. From July 1, 2019 through June 30, 2024, the threshold for families in the very low-income priority group was 50% of the federal poverty level (FPL) guidelines, as updated periodically in the Federal Register by the U.S. Department of Health and Human Services. On July 1, 2024, the threshold for families in the very low-income priority group was changed to 10% of the FPL guidelines. This threshold is established by CAPS and is subject to change.
2. For applications received before September 1, 2024, the threshold for initial eligibility was 50% of the state median income (SMI), and for applications received on or after September 1, 2024, the threshold for initial eligibility is 30% of the SMI. SMI is updated by the federal government before the beginning of each federal fiscal year (October 1). This threshold is established by CAPS and is subject to change.
3. The threshold for ongoing eligibility is 85% of the SMI. SMI is updated by the federal government before the beginning of each federal fiscal year (October 1). The SMI data in this column is effective September 1, 2024. This threshold is established by CAPS within federal guidelines and is subject to change.

Source: CAPS Policy Manual Appendix A