



DEPARTMENT OF
ECONOMIC SECURITY

Division of Child Care



Arizona Child Care Assistance
Provider (AZCAP)

DECISION TOOL

Overview

The Arizona Child Care Assistance Provider (AZCAP) Grant is a one-time payment in October 2023 for DES contracted and certified child care providers to dedicate additional resources to personnel related expenses. Certified family child care and group home providers may utilize the AZCAP funds for rent, mortgage, and utilities costs, if there are no personnel related expenses.

This Decision Tool provides options for supporting staff using your AZCAP Grant. For more information on how to best support your employees with this funding and manage your child care business, providers are encouraged to reach out to the Early Childhood Business Solutions team at Southwest Human Development by email at ECBS@swhd.org or by phone (602) 265-4768, M-F, 8am-4:30pm.

For more information, visit the Frequently Asked Questions at:

<https://des.az.gov/AZCAP>

Arizona's Child Care Assistance Program (AZCAP) Grant provides an opportunity to reward hard-working employees as well as a means to attract and retain staff in a competitive job market so they can sustain their businesses and safely serve children and families.

This Provider Decision Tool document includes examples of allowable expenses that providers can make to support their staff using AZCAP funds.

Providers could offer staff one-time or time-limited compensation enhancements such as:

- Payroll/Wage supplements
- Bonuses

Providers could also consider temporary enhancements to their employee benefits packages, including:

- Health, dental, and vision insurance
- Retirement contributions
- Paid time off including Sick or Family Leave
- Free/reduced cost child care benefit for staff
- Paid time off for professional development and training
- Reimbursements for tuition costs for certificate or degree program
- Reimbursement/stipends for teacher out-of-pocket costs for classroom supplies

Create a Plan for Using the AZCAP Funds

Now more than ever, you may be thinking more about ways to reward and invest in staff and attract qualified staff to your program. There are many reasons why you should offer enhanced compensation and/or benefits to your staff, and here are a few of them:

- **Employee Satisfaction:** Offering benefits lets your employees know they are valued and that you support them. Happy and healthy employees are more engaged employees!
- **Retention:** Benefits can help you retain and attract qualified staff. When positions are vacant, you may be forced to turn away families seeking care. When there are fewer well-trained employees on staff, the stress of managing more responsibilities can take a toll upon existing staff, causing additional strain and turnover.
- **Recruitment:** Offering benefits and/or increased compensation such as hiring bonuses can help you become more competitive in a tight labor market. When recruiting new staff, such benefits can serve as the deciding factor between two job offers.
- **Cost Savings:** Offering benefits could have positive financial impacts on your business through reduced training costs, increased enrollment stability, less administrative time spent on recruitment and hiring. Employee turnover costs companies' money and time, and you could lose out on filling your classrooms without enough qualified staff to care for children.

The following tools can be used to understand what you might be able to offer your employees.

First, decide if you want to offer a one-time benefit or make a repeated investment in your employees. Keep in mind that your one time AZCAP payment can be used on expenses through June 30, 2024. This timeline should factor into your decision making, especially when aiming to make repeated investments.

Depending on what you choose, some options will have longer term impacts on your employees and on your business than other options. For example, you could make a one-time investment in tuition reimbursement for your employees. Even though this is a one-time impact on your budget, offering this will have a long-term impact on your employee, who will gain valuable skills and knowledge they can use far into the future.

The options in the “long-term impact” category could have a greater return on investment than in the “short-term impact” category, meaning you could see benefits in the future if you make these types of investments in your staff. Use the tool below to understand what impact various options can have on you and your employees.

Potential Impacts of Options on Staff Retention

	SHORT-TERM IMPACT	LONG-TERM IMPACT
One-time Investment	<ul style="list-style-type: none"> - Bonuses - Teacher classroom supply stipends/ reimbursement 	<ul style="list-style-type: none"> - Professional development - Tuition reimbursement
Repeated Investment*	<ul style="list-style-type: none"> - Temporary pay increase 	<ul style="list-style-type: none"> - Paid time off - Free/reduced cost child care benefit for staff - Health insurance/ assistance with premiums - Retirement contributions

* Keep in mind that repeated investments require repeated sources of income to be sustainable, and that your AZCAP award is for eligible expenses through June 30, 2024.

After picking out an option — or maybe a few — to support your employees, you will want to understand how these options will impact your budget. That is, how much will whatever you decide to do cost? Will you have to factor in this cost for one month, for four months, or think about a sustainability approach for after your awarded funds have been exhausted? The policy you thought might be the best for your employees might not work for your budget or your long-term goals. Using the last example, tuition assistance might not work with your budget after your awarded funds have been exhausted, but perhaps offering to pay for a professional development course, which could cost less, would be a better all-around decision for you right now.

Need Help?

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How to Offer Compensation

There are several ways you can choose to supplement your employee's regular compensation with the AZCAP Grant. Because of the one-time nature of these funds, it might make the most sense for your business to offer time-limited or one-time benefits to your employees rather than increasing their salary for the long-run. For instance, a wage supplement is pay that is above and beyond regular pay which can include: bonuses or rewards, premium or hazard pay, and temporary pay increases. Some ideas of how you can offer temporary wage supplements are below.

Payroll/Wage Supplements: A wage supplement or temporary pay increase is when you choose to increase the salary or hourly wages for your employee, but it is intended to last only for a short duration of time with a clear end date. With your AZCAP award, you might choose to offer a temporary pay increase through the end of the award timeline (June 30, 2023), due to extra efforts staff have been making. While temporary pay increases could have a powerful impact on ensuring positive staff morale and retaining staff members, they also need to be implemented carefully. When considering increasing employee pay, either short- or long-term, it is important to be aware of the associated costs so that you, as a business owner, can be prepared to cover them. To determine the increase in costs associated with raising employee pay, you will need to compare your current costs with your new costs, including both rates of pay and payroll taxes. It is important to communicate to your staff that this is a temporary benefit.

Bonuses: A bonus or reward is a one-time lump sum payment that boosts your employees' overall income with no obligation to offer additional bonuses or rewards in the future. Bonuses can be useful in attracting new employees to your organization or to retain existing employees and reward them for their hard work. Below are two common examples of bonuses that child care providers could think about issuing their staff.

- **Hiring Bonuses:** If you are looking to attract child care professionals to your organization, you may want to consider bonuses and incentives for new hires. For example, you could create a system where the new employee gets a one-time \$1,000 bonus after 3 months or 6 months of working, or even after the first year of working. You could also offer a bonus in several different chunks to encourage the employee to stay with you, similar to retention bonuses explained below.
- **Retention Bonuses:** Retention bonuses can be an opportunity for you to reward your existing employees who have been loyal to you or with you for years. This option is similar to a hiring bonus but would be given to employees who have been employed with you for a longer period of time. You may also want to consider offering retention bonuses alongside hiring bonuses so that your longer term employees do not feel left out or forgotten. For example, you could offer employees a bonus of \$100 for each year they have been with you, as a way to encourage employees to stay longer. A reward is a very similar idea to a bonus and is given for specific reasons without any obligation to offer them again in the

future. For example, a monetary reward could be given to employees going above and beyond to help clean classrooms or coming in early to help welcome children one by one due to safety protocols. Bonuses are often issued separately from an employee's regular paycheck, so that it is very clearly separate income.

How to Offer Employee Benefits

When thinking about your current compensation package, do you provide benefits to your employees? Could those benefits be improved? While compensation is often a top factor in an employee's choice to enter and stay in a job, benefits are also a critical piece of their decision and can provide them with a lot of extra income. The AZCAP presents an opportunity to offer or improve your employee benefits packages. Examples of benefits you can offer your staff are below. You will want to make sure that if you decide to change your employee benefits packages, you share information that allows your employees to see the value in the benefits, easily understand them, and know how they can access what you are offering.

Health, Dental, and Vision Insurance

- **Health insurance:** Health insurance is highly sought after by employees and job candidates and will likely attract them to your business. Data from the U.S. Department of Health and Human Services indicates that child care staff are much less likely to be insured compared to other educators, which makes issues of recruiting and retaining educators even more difficult for providers. If there is any one benefit worth offering to your employees, health insurance is definitely one to consider.
- **Dental and vision insurance:** In addition to health/medical insurance, this benefit can include dental, vision, and prescription coverage. With this benefit option, you will have to consider the one-time nature of the AZCAP Grant and how you will address these contributions after the award period ends. Typically, you would find a benefits provider and offer your employees certain benefits from that provider.
- **Assistance with premiums:** You could cover a portion of the cost and the employee would pay a set amount per pay period toward the cost of their plan. Another option is to simply coordinate the health plan coverage for your staff, offering coverage without financially contributing to the employee's elected coverage.
 - **No or low cost:** To arrange a group insurance plan for your staff without paying any premiums. This places 100% of the plan cost upon the employee.
 - **Higher cost:** To cover a portion of the insurance premium for your employees. Typically, this portion begins at 50%. This places the remaining portion of the plan cost upon the employee. Employees can add family members to the plan at their own expense.
 - **Highest cost:** To cover a portion of the insurance premium for the employee plus dependent(s) (typically a spouse or child).

- **Health Savings Account (HSA) or Qualified Small Employer Health Reimbursement Arrangement (QSEHRA):** Is another option to consider offering to your employees. An HSA is a savings account owned by your employee for the purposes of helping them save money for qualified, out-of-pocket medical expenses. HSA contributions can be used as an income tax deduction for your business and provide lower cost benefits that can work with existing health care programs. Alternatively, QSEHRAs are agreements where employees pay for their own health expenses and you, as their employer, reimburse them.

This arrangement requires employers to first design a plan and set reimbursement allowances, employees will then pay for their own health insurance and medical bills and provide proof of their expenses, then the employer will reimburse the employee up to the set limit. To promote safety within your classrooms, you could also cover the cost of COVID-19 tests for employees as a way to help encourage them to get tested.

Retirement Contributions: Retirement plans allow employees to build financial savings to help them meet their personal long-term financial goals. While employees who opt in will need to contribute their desired amount of salary per pay period, the benefits that are provided by these plans are 1) business and individual tax savings and 2) the ability to receive a set amount, or a match to their contribution, by their employer. This will allow their contributions to grow faster, setting them up for higher earnings during their retirement. With this option, you will have to consider the one-time nature of the AZCAP Grant and how and if you will address these contributions after the award period ends.

Investing in staff in this way can support both the growth of your business and your staff, which are the core of any strong child care program. These programs can also make you a more sought-after provider for families and help to combat reduced enrollment over time. There are a number of retirement options including, individual and company 401Ks, SEP IRAs, and SIMPLE IRAs. A business coach can help you weigh your options.

Paid Time Off including Paid Sick or Family Leave: Paid time off (PTO) is one of the most common benefits and widely appreciated amongst staff. This can include paid holidays, vacation, sick days, and family sick leave. Especially given the hard work and long hours staff have had to put in during COVID-19, this benefit could be a very welcome addition. Offering PTO can help businesses remain competitive and attract qualified staff, even when they are unable to offer top wages for the position. Having the opportunity to access PTO can improve staff's overall well-being which can help reduce stress and burnout, especially in a job as demanding as child care.

Providers who wish to offer additional PTO could do so just for one day, for instance through an additional paid vacation day that must be taken before the end of the grant award, June 30, 2024. Employers could also offer additional sick days, which many employees would likely appreciate due to the ongoing pandemic. Any additional PTO should be clearly documented allowing staff to know how much will be available, how it will accrue, how it will carry over between years (if at all), and when the benefit will end.

Free/reduced cost of child care benefit for staff: Oftentimes, child care teachers and staff have their own children whom they need to find care for which can impact their ability to come to work and be present when you need them. It is also a major cost for your employees who have children. Offering discounted child care tuition for your staff's own children is a great benefit that most child care programs may find easy to implement. Not only will this benefit give staff peace of mind, but it can also help them to afford the expense of child care which is usually a drain on their personal budget, and help them make room for other important expenses, essentially giving them more take-home pay.

Providers who want to offer this benefit could offer a flat-rate discount off of child care tuition at your business, and you could consider offering a larger discount for employees that have been with you for a longer period of time. For example, you could give a 4% discount to employees for each year that the employee has stayed with you, up to 16% total. So, an employee with you for 2 years could receive an 8% discount, and an employee who has been with you for 10 years would receive a 16% discount.

You could offer a flat rate discount for any employee who has been with you longer than a year. You may also want to consider a limit for the number of children that each staff member can receive a discount for, such as 2 children per staff member. Having your staff's children at your child care business is great, but you don't want all of your clients to be your employees if you are offering a discounted price. As a reminder, if you are using the AZCAP Grant to cover the cost of the discount you are offering, you will need to document these costs.

Paid time off for Professional Development and Training: Staff professional development is an integral part of the child care business model. Not only are there requirements around staff training, but the more knowledge your staff have in children's health, safety and child development, the better the experience will be for the children in care. Allowable professional development costs include paying staff for their time when completing required health and safety training and ongoing child care training.

Reimbursements for tuition costs for certificate or degree program: Many staff may be seeking to deepen their knowledge, or earn a credential or a degree related to early childhood education. Tuition support for a credential or degree related to early childhood education are allowable as a reimbursement for tuition support and textbook/course costs.

Reimbursements or stipends for teacher's out-of-pocket expenses for classroom supplies: You may have staff that pay out-of-pocket for supplies purchased for students to use or that benefit the classroom overall. If this happens, you could offer your staff a one-time stipend to cover the costs of classroom supplies or to purchase new supplies that will make the classroom a more inviting and exciting place for both teachers and children. Staff seeking reimbursement should produce an original receipt for their purchases to receive reimbursement. Providers are encouraged to utilize the [AZToolkit](#) for shared resources and other discounts.

Do You Have Systems in Place to Implement Workforce Support?

Are all of your employees on payroll?

As a child care business owner, you should already be very familiar with regular payroll, where you're providing regular compensation to your staff for their work on an hourly, weekly, or annual basis. Regular payroll is taxed for income as well as unemployment, social security, and other programs. You can also use your AZCAP Grant to pay your employees during approved temporary program closures. It is important to make sure that all of your employees are on payroll and classified correctly.

When is someone a contractor or an employee?

Benefits are important for attracting and retaining staff and child care providers should aim to incorporate them whenever possible. You should be an informed consumer as you research your options and understand what's available and what questions you should be asking. If you have any questions about how to choose and implement benefits for your employees, you can reach out to the Early Childhood Business Solutions team at Southwest Human Development by email at ECBS@swhd.org or by phone (602) 265-4768, M-F, 8am-4:30pm.

Are you paying yourself regularly?

Many child care owners/operators and owner/directors don't see a regular income from their business. You work hard, but don't pay yourself regularly. As a staff person of the child care program, you can and should pay yourself regularly. Licensed center owners may provide funding through AZCAP to themselves *if they are already on payroll as an employee of the facility where child care services are provided*. You can also use your AZCAP Grant to pay yourself during approved temporary program closures.

There are many reasons to pay yourself regularly, but we are going to point to the two most significant ones right now:

- Regular pay is better for you and your family. Yes, you want to keep your child care business afloat, but you also need money to pay your own expenses and costs — rent or mortgage, utilities, food, etc. — which must be paid on a regular basis. Having the cash on hand to pay them will help you keep up with your bills and avoid using credit cards until you do pay yourself.
- The Arizona Child Care Assistance Provider Grant allows for regular staff payment and benefits as allowable costs. You are allowed to use these funds for your pay.

Making the decision to pay yourself is the first leap. These are the basic next steps:

- Open a business bank account.
- Know what is coming in and going out. Use your budget and cash flow to help

inform the amount that you will pay yourself.

- Commit to an amount, even if it is low.
- Keep track of your draws, even on a simple piece of paper or spreadsheet.
- Be mindful of your anticipated tax obligations and set some money aside to cover taxes.

Do you have a budget?

Budgeting for how these changes will impact your business is important. An annual budget is a critical tool for managing your child care business. It will also help you understand how the AZCAP funds can cover any changes in your operating expenses due to employee compensation, and plan for how else you will use your award through June 30, 2024. A strong budget can help you plan ahead for what you will spend and monitor your actual revenue and expenses to keep you on track for both your AZCAP Grant and your ongoing costs and revenue.

You can start building your budget in 4 easy steps:

1. Gather Documentation.
2. List Income.
3. List Expenses.
4. Track Annuals and Build the Next Month.

Need Help?

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How will you communicate changes to your employees?

As with any action you take that affects pay, a bonus, reward, or temporary pay increase should be given via a formal written communication to your employee, either by letter or email that includes:

1. Why they are receiving the payment.
2. How much the payment is.
3. When they will receive the payment.
4. That the payment is one-time in nature and will not impact their salary or typical compensation.

A simple communication to an employee, might be:

Dear ,

Thank you so much for your additional efforts to support the children and families in our care. Your contributions help ensure that the children in our care are safe, healthy and continue to learn.

In gratitude for these efforts, we are going to award you a one-time bonus in the amount of \$XXXXX, which will be paid out in full on your next pay period on MONTH, DAY, YEAR.

Thank you again for your efforts.

Sincerely,

As you can see, the communication could be very simple and short, but it is important to record the terms. If you are using a bonus as an incentive for staying at your business, you should also put it in writing at the time you make the commitment. In this case, an example letter you might give to an existing employee or new employee communicating a bonus might be:

Dear ,

Thank you for your commitment to work [or for continuing to work] at our child care center. In our efforts to keep the best staff members, we are offering you the potential to earn a bonus at the end of six months, provided you continue to have satisfactory or better performance and remain employed with our organization during this time.

The bonus will be \$XXX paid out in your payroll as of the date six months from now, on MONTH DAY, YEAR. We are excited for your continued work and contributions with our child care center.

All the best,

For wage supplements/temporary pay increases, you want to ensure that in no way are you making a commitment to a permanent pay increase. Employees should understand they would return to their original wage levels after the temporary pay increase period ends. Once again, make sure there's something in writing that tells the employee clearly what the terms of this agreement are, specifically:

1. The amount of the temporary pay increase,
2. Why they are receiving it,
3. How long it will last,
4. What the employees pay will go to once the increase ends, and

5. That the increase is dependent upon continued satisfactory performance

A letter to an employee communicating a temporary pay increase might be:

Dear ,

I'd like to confirm that we are temporarily increasing your salary by X%, as we've discussed, in recognition of your extra efforts through the COVID-19 pandemic and recovery. This moves you from \$Y an hour to \$Z an hour. This is a temporary pay increase and will start on MONTH DAY, YEAR and end on MONTH DAY, YEAR (with your continued satisfactory performance or better and employment with our organization).

We look forward to being able to compensate you at a higher level during this period to reflect your extra efforts.

Sincerely,

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