Office for Education Policy

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Arkansas School Readiness Assistance (SRA) Program

Fall 2025 Policy Changes - Impact Assessment

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Executive Summary

In fall 2025, Arkansas's School Readiness Assistance (SRA) program implemented policy changes including: (1) expanded family copay requirements (effective October 1) and (2) reduced provider reimbursement rates (effective November 1). This analysis uses July 2025 SRA enrollment data representing 20,137 children across 805 providers to estimate financial impacts.

Policy implications: The largest impacts fall on working families earning 60-85% of State Median Income and on providers serving predominantly SRA-enrolled families. These changes should be followed over time to understand long-term system stability, including provider participation, slot availability, and family access to subsidized care. Ongoing monitoring will be essential to assess effects on affordability, quality, and program sustainability.

Key Findings:

- Nearly half of SRA families (9,763 children, 48%) now pay higher copays, with a median increase of $198 per month.
- Simultaneously, 92% of providers (738 sites) experience a reduction in reimbursements, with a median loss of $720 per month.
- Because family copays are deducted from total reimbursements rather than added to them, providers receive less even as families pay more.
- Combined, these changes redistribute approximately $57 million annually: $24.8 million in additional family costs and $32.3 million in reduced provider payments.

Introduction

This report analyzes the financial impact of fall 2025 policy changes to the **Arkansas School Readiness Assistance (SRA) program** that will affect both working families and child care providers. The analysis estimates how changes to family copayments and provider reimbursement rates alter the distribution of costs across the system. Child-level SRA enrollment records are linked with licensed provider data and the Office of Early Childhood's (OEC) copay and reimbursement schedules to model payments and reimbursements under both the prior and new policy structures.

The analysis relies on July 2025 SRA enrollment data provided by OEC to the Office for Education Policy (OEP). These data include 20,752 unique children across 807 providers. Because children move in and out of the program throughout the year, the July file is treated as representing all children served during the year rather than a single point in time. All children are assumed to receive full-time care for a full year to maintain a consistent denominator across families and providers, given that enrollment dates are not included in the data.

The fall 2025 SRA program changes have created difficult tradeoffs for the Arkansas child care system, reflecting the tension between fiscal constraints and system stability. While the adjustments are intended to bring spending in line with available federal funds, they have also lowered reimbursement rates for providers and introduced new copay obligations for families. These shifts may help contain short-term costs but risk longer-term consequences, including providers opting out of SRA participation, reduced availability of SRA seats, and increased financial pressure on low-income families.

This moment reflects a broader policy tradeoff: how to manage limited resources without eroding the foundation of access and quality to early care and education (ECE) that the state has worked to build. Beyond immediate fiscal adjustments, these changes allow for a broader conversation about Arkansas's long-term vision for ECE—how the state can align federal and state resources to create a system that is resilient, affordable, and stable for families and providers alike.

Key Findings

Important data limitations and caveats are explained after the Policy Implications section.

Child/Family Impact

- **9,763** children (48% of unique SRA enrolled children with income data) will pay more under the new copay policy
  - **9,156** children will be newly required to pay (were paying $0, now paying copays)
  - **607** children already paying copays will see increases
- **10,374** unique children are *not affected* by the changes (their copays remain the same)
- **Mean monthly increase:** $211.28 per month ($2,535 per year) among affected children
- **Total additional family responsiblity:** $24.8 million per year across all affected families

Provider Impact

- **738 of 805 providers** (92%) enroll children affected by copay increases
  - 5,523 affected child–provider pairs (51%) at Level 2 providers (n=432 providers)
  - 4,133 affected child–provider pairs (47%) at Level 3 providers (n=251 providers)
  - 722 affected child–provider pairs (46%) at Level 4 providers (n=60 providers)
  - 268 affected child–provider pairs (50%) at Level 5 providers (n=33 providers)
  - 175 affected child–provider pairs (29%) at Level 6 providers (n=29 providers)
    - 1,137 child–provider pairs (5% of total pairs with income data) were at providers with missing Better Beginnings ratings in our data and assumed to be at Level 2 (a conservative estimate). This represents 1,042 unique children.
- **Mean affected per provider:** 28 children (median: 18, maximum: 200)
- **Median provider reimbursement loss:** -$720.00 per month (-$8,640 per year)

- **Mean provider reimbursement loss:** -$3,334.28 per month (-$40,011 per year)
- **Total reimbursement losses:** -$32.3 million per year across all providers as a result of lower state reimbursement rates

Dual Impact of Policy Changes The fall 2025 SRA program changes have created **tough tradeoffs** across Arkansas's child care system. In trying to bring spending in line with available funds, the state now faces a situation where both families and providers are carrying new financial strain.

- **Families pay more:** About $24.8 million in total annual copay increases, as nearly half of all children enrolled in SRA will have higher out-of-pocket costs for care.
- **Providers receive less:** Roughly $32.3 million in total annual reimbursement losses from lower state payments.
- **Net effect:** Together, these changes redistribute roughly $57 million across the system, with families paying $24.8 million more and providers receiving $32.3 million less.

Overall, these shifts illustrate how a policy designed to manage costs can redistribute financial pressure rather than reduce it. The system now relies more heavily on family contributions while providers operate with less public funding support. Balancing fiscal responsibility with the need to maintain access and quality will be key to keeping Arkansas's child care network stable and sustainable.

Policy Context

Arkansas's School Readiness Assistance (SRA) program provides child care subsidies to eligible working families based on household income. Family copayment obligations are determined as a percentage of the State Median Income (SMI), which is a benchmark for typical earnings across the state. Under this system, families with higher incomes contribute a larger share of the cost through copays, while lower-income families either pay less or are fully covered.

The analyses in this report focus on two key changes announced by the Office of Early Childhood (OEC) in September 2025: new copay requirements for families and reduced reimbursement rates for providers. The copay changes took effect on October 1, 2025, and the reimbursement rate adjustments are scheduled to take effect on November 1, 2025. Together, these updates were part of a broader effort to "prioritize access for working families and manage program demand responsibly."

1. **Adjusted copay percentages**: The copay schedule was revised to include higher payments from families based on income and child age. Some families who previously paid no copay are now required to contribute, and those already paying may owe more. The lowest-income families ($≤$40% SMI) continue to pay $0 for infants, toddlers, and Pre-K children, but now owe 20% for school-aged children.

2. **Reimbursement rate changes**: Provider reimbursement rates were lowered to early 2024 levels, covering roughly 75% of private market rates. This means providers now receive lower state payments for the same services than they did earlier in 2025. In addition, quality-based rate differentials, previously offered to higher-rated programs under Better Beginnings, were eliminated. Reimbursement is now determined solely by geographic area and child age, regardless of provider quality level.

3. **Combined effect**: These two policy changes affect approximately $57 million in program funding distribution. Families contribute an additional $24.8 million annually through higher copays, while provider reimbursements decrease by $32.3 million annually..

Policy Examples

As an example, consider an SRA-enrolled infant receiving full-time care at a Better Beginnings Level 2 Child Care Center in Little Rock whose family makes $55,000 per year. This income puts the family in the >60-75% SMI tier. Under the previous copay structure, this family would have paid $0 in copays. Under the new structure, they now owe 30% of the provider reimbursement rate as a copay. With the new daily reimbursement rate of $36 for infants outside of Benton/Washington counties, the family's copay is $10.80 per day, or about $216 per month (assuming 20 days of care). This represents a meaningful increase in out-of-pocket costs—roughly 5% of monthly household income, or about $2,600 annually.

At the same time, the Level 2 Little Rock provider used to be reimbursed at a daily rate of $39 for an infant, meaning that under the new reimbursement rate they lose $3 per day, or about $60 per month for this child. The new daily reimbursement rate of $36 is split between the state ($25.20) and the family copay ($10.80).

As another example, consider an SRA-enrolled PreK child who receives full-time care at a Better Beginnings Level 6 Child Care Center in Fayetteville. This child's household annual income is $70,000 per year, putting the family in the >75-85% SMI tier. Under the previous copay structure, this family would have paid 4% of the old daily reimbursement rate of $55, or $2.20 per day ($44 per month). Under the new structure, while the reimbursement rate has decreased to $39 per day, the family's contribution has increased to 40% of the reimbursement rate, making their daily copay $15.60, or $312 per month. That's an increase of $13.40 per day, or $268 more per month for the same PreK care—roughly 5% of monthly household income, or about $3,200 annually.

For this provider, the reimbursement rate decreased by $16 per day (from $55 to $39), resulting in $320 less per month for this child despite the family now paying more. Together, these examples illustrate how the new policy increases costs for families even as providers receive lower total reimbursement than under the previous structure.

Methodology

This analysis estimates how the fall 2025 SRA policy changes affect families and providers. It combines SRA child-level enrollment data provided by OEC with published reimbursement and copay schedules to model financial impacts under the new policy compared to the prior version.

Data Sources

- **SRA Child Enrollment:** July 2025 SRA enrollment file provided by OEC. It is unclear whether this file represents all children enrolled at any point during the year up to July 2025 or only those currently enrolled at that point in time. For purposes of this analysis, the data are treated as representing annual enrollment, as point-in-time enrollment is likely lower.
  - Because the dataset does not include information on part-time versus full-time care, all children are assumed to be enrolled full-time (full-time rates for 20 days per month) for a full year. This assumption provides consistency across families and providers but likely overstates total costs and reimbursements for children using part-time care.
    * 23,146 child–provider pairs
    * 22,350 child-provider pairs with income data
    * 20,752 unique children
    * 20,137 unique children with income data
- **Licensed Provider Better Beginnings Ratings:** Collected May 2025 from the public Licensed Child Care Providers search tool and matched to providers listed in the SRA enrollment file.
- **SMI Thresholds:** For FY 2026, 100% of the Arkansas State Median Income (SMI) is $90,280 for a family of four. SRA eligibility extends up to 85% SMI ($76,738 for a family of four). This analysis uses a family size of four for consistency, since actual family size is not included in the enrollment data. See the SMI schedule for thresholds based on other family sizes.
- **Reimbursement and Copay Rate Schedules:**
  - New Fall 2025 OEC Reimbursement and Copay Rate Schedule (announced September 2025)

    * Copay changes effective October 1, 2025
    * Reimbursement rate adjustments effective November 1, 2025
- Archived Pre-October 2025 OEC Rate Schedule (effective prior to October 2025)
- These two rate files were manually merged into a single reference table for consistent comparison across age groups, income tiers, counties, and provider quality levels.

Analytic Approach

Using child-level data from SRA participants, we estimate both family copay amounts and provider reimbursement amounts under two scenarios: (1) the previous policy (pre-fall 2025) and (2) the new fall 2025 policy. We then compare the two to quantify who is affected and by how much.

For family-level results, we use the deduplicated child-level file (see dataset details below) and exclude children with missing income, yielding 20,137 unique children across 800 providers.

For provider-level results, we use the full child–provider file (see dataset details below) and exclude children with missing income, yielding 22,350 child–provider pairs across 805 providers.

Copays are computed as (daily provider reimbursement rate × assigned copay percentage), multiplied by 20 days to obtain a monthly copay per child, and then multiplied by 12 months for an annual estimate. These values are compared with copays under the previous policy using the older reimbursement rates and copay percentages to measure the change in family costs.

Reimbursement changes are calculated as (old daily rate − new daily rate), multiplied by 20 days to estimate monthly differences and then by 12 months for annualized provider-level impacts. New reimbursement rates vary by child age group and geographic group (Benton/Washington vs. statewide), while old reimbursement rates also varied by provider Better Beginnings quality level.

Because the data do not report family size or part-/full-time status, we assign income tiers using FY 2026 State Median Income (SMI) thresholds for a family of four and assume full-time enrollment (20 days/month) for a consistent statewide baseline. We then classify children as "affected" by the new policy—either newly paying or with increased copays—and summarize mean and median changes by income tier, age group, and geographic group. Finally, we aggregate reimbursement losses to the

provider level and compare total family copay increases with total provider reimbursement losses to describe the net financial impact across the SRA system under the new policy.

Two SRA Enrollment Datasets:

1. **Full child-provider dataset** - Used for provider-level analyses capturing all child–provider relationships. Some children appear under multiple providers, likely reflecting families using mixed full-time and part-time care or families who have switched providers at some point. Counting each record ensures all participating sites are represented in revenue and reimbursement estimates. Assuming all placements are full-time may slightly overstate losses for providers serving more part-time children or not serving children for a full year and understate losses for providers offering extended-hour care.
2. **Deduplicated child-level dataset** - Used for family-level analyses to represent each child once. This provides a clearer view of how policy changes affect household-level copay obligations rather than provider finances. The full-time assumption may somewhat overestimate costs for part-time users and underestimate them for families paying copays across multiple providers, but it enables consistent comparisons across the population.

Data Cleaning and Income Tier Assignment

Household income values were reviewed for data entry errors and capped at $15,000 per month to remove outliers (n=77 outliers). This cleaning step has no substantive impact on the analysis because all observations above the 85% SMI eligibility threshold are classified in the highest income tier regardless of the cap. Families were assigned to one of five income tiers based on FY 2026 State Median Income (SMI) thresholds for a family of four ($\leq 40\%$, > 40–60%, > 60–75%, > 75–85%, $> 85\%$). While SRA eligibility ends at 85% of SMI, Tier 4 ($> 85\%$) is retained for completeness, as these cases may reflect larger family sizes or program exceptions.

Age Groups and Reimbursement Mapping

Children were categorized into four age groups: Infant (< 1), Toddler (1–2), Pre-K (3–5), and School-aged (6+). These categories are used to align with OEC reimbursement categories. Benton and Washington Counties were grouped separately from the rest of the state because they use higher reimbursement rate schedules.

Calculation of Copays and Reimbursements

Daily copay amounts were calculated by multiplying the applicable copay percentage, which varies by family income tier and child age, by the daily reimbursement rate. Analyses reflect the October 1, 2025 copay changes and the November 1, 2025 reimbursement rate adjustments, which were announced together in September 2025 but take effect on separate dates.

Under the new policy, copay percentages depend only on these two factors (income tier and child age), while reimbursement rates vary by age group and county group (Benton/Washington vs. statewide). Under the prior policy, both copay percentages and reimbursement rates also varied by Better Beginnings quality level, with higher-rated providers receiving higher reimbursements.

For consistency, analyses assume full-time care (full-time rates for 20 days per month for 12 months). Both part-time and extended-hour care options exist, but modeling full-time rates provides a standard baseline across children and providers. Additionally, the state has different rates for children with special needs that cannot be evaluated in this analysis due to data availability.

Children missing income data were excluded from analyses because income tier assignment was not possible. For child-level (family) analyses, this resulted in 20,137 unique children across 804 providers. For child–provider-level (provider) analyses, which capture all placements including children served by multiple sites, this resulted in 22,350 child–provider pairs across 805 providers with income data. These totals define the analytic samples used throughout the report for estimating family-level and provider-level financial impacts.

Key Assumptions

- **Annual full-time, full-year enrollment:** All calculations assume children receive full-time care (20 days per month at full-time rates) for a full year. The July 2025 enrollment data are treated as representing the annual population of children served through SRA for purposes of estimating annual impacts. However, it is unclear whether the source data represent all children who were enrolled at any point during the year (cumulative enrollment) or only those enrolled at that specific point in time (point-in-time snapshot). If the data represent a point-in-time snapshot, actual annual enrollment and total impacts could be higher due to turnover throughout the year. Additionally, the full-time, full-year assumption may overstate burden if many families use part-time care or

receive services for only part of the year, which may be especially true for school-aged children. Alternatively, this assumption may understate total family copay costs when families pay across multiple providers or use extended-hour care.

- **Family size:** Each family is modeled as having four members for income-tier assignment. Actual family sizes vary, which could shift some families into higher or lower SMI tiers and change estimated copay amounts.
- **Provider quality:** 1,042 unique children (representing 1,137 child–provider pairs) attend providers with missing Better Beginnings quality ratings in our data. These providers were assigned a Level 2 rating (the lowest rating eligible for SRA participation). Under the prior policy, higher-rated providers received higher reimbursement rates—a difference that was eliminated under the new policy. This assumption likely understates provider reimbursement losses if any of those missing-quality providers were actually higher-rated.

Detailed Findings

1. Family Impact By Income Tier

Income Tier Distribution for a Family of Four Before the fall 2025 policy change, copay requirements were minimal and applied only to families near the upper edge of eligibility. Families with incomes below 75% of the State Median Income (SMI) did not pay a copay, while those between 75 and 85% SMI paid a small amount—2% at most providers and 4% at the highest Better Beginnings quality level.

Under the fall 2025 policy, copays now apply to nearly all families above 40% SMI, and required payments increase with both income and child age. Families earning above 60% SMI now contribute across all age groups, while even those below 40% SMI pay copays for school-aged children.

To align these program rules with available data, we grouped household income into five analytic tiers based on FY 2026 SMI thresholds for a family of four:

- Tier 0: $\leq$ 40% SMI

- Tier 1: $>$ 40–60% SMI
- Tier 2: $>$ 60–75% SMI
- Tier 3: $>$ 75–85% SMI
- Tier 4: $>$ 85% SMI (above the eligibility limit; retained for completeness)

Tiers 0–3 correspond directly to SRA's income-based copay structure, while Tier 4 captures families who exceed the income limit but remain in the data due to family-size adjustments or program exceptions.

The following tables summarize the official copay structures before and after the fall 2025 policy change.

Table 1a. Old Family Copay Percentage Structure

Age Group	$\leq$ 40% SMI	$>$ 40-60% SMI	$>$ 60-75% SMI	$>$ 75-85% SMI
Infant/Toddler	0%	0%	0%	BB Lev. 2-5 = 2%; BB Lev. 6 = 4%
PreK	0%	0%	0%	BB Lev. 2-5 = 2%; BB Lev. 6 = 4%
School-aged	0%	0%	0%	BB Lev. 2-5 = 2%; BB Lev. 6 = 4%

Table 1b. New Family Copay Percentage Structure

Age Group	$\leq$ 40% SMI	$>$ 40-60% SMI	$>$ 60-75% SMI	$>$ 75-85% SMI
Infant/Toddler	0%	20%	30%	30%
PreK	0%	30%	40%	40%
School-aged	20%	50%	70%	70%

Note: These tables show that families who were previously exempt, particularly those in Tiers 1 and 2 and families with school-aged children in Tier 0, now have new out-of-pocket costs.

Table 1c. Family Impact by Income Tier

Income Tier	% of SMI	Monthly Income Range	Annual Income Range	# of Children	Children Affected	% Tier Affected
Tier 0	$\leq$ 40%	$\leq$ $3,009	$\leq$ $36,112	11,897	2,803	24%
Tier 1	$>$ 40-60%	$3,010-$4,514	$36,113-$54,168	4,895	4,895	100%
Tier 2	$>$ 60-75%	$4,515-$5,643	$54,169-$67,710	1,458	1,458	100%
Tier 3	$>$ 75-85%	$5,644-$6,395	$67,711-$76,738	607	607	100%
Tier 4	$>$ 85%	$>$ $6,395	$>$ $76,738	1,280	–	–

Note: These estimates are calculated assuming a family of four and only for children with income data (N=20,137 children). Tier 4 ($>$ 85% SMI) is not an official SRA eligibility category. These 1,280 records likely reflect either (a) limits in available data, particularly the assumption that all families have four members which can overstate income for larger households, or (b) program exceptions. Because SRA participation is capped at 85% SMI, Tier 4 children are shown here for completeness.

Interpretation

The largest changes occur among families between 40% and 85% of SMI, who either begin paying copays for the first time or see substantial increases in what they contribute. Nearly all 7,000 children in these middle tiers (Tiers 1–3) are affected, compared with only about one in four children, those who are school-aged, in the lowest tier (Tier 0).

Families in these tiers now contribute copays ranging from 20% to 70% of the provider reimbursement rate, depending on their income level and the child's age, which is up from a maximum of 4% under the previous policy. Under these new percentages, families who were previously exempt now contribute 20-70% of the reimbursement rate, depending on income and child age.

A smaller but notable change affects the lowest-income families ($\leq$ 40% SMI) with school-aged children, who are now required to pay a 20% copay even though families at the same income level with

younger children continue to pay nothing. This introduces a "benefit cliff," where the same family may face new costs once their child ages into school-based care.

Overall, these changes expand both the number of families paying copays and the size of those payments, with the largest impacts on working families near or above the middle of the income eligibility range and low-income families with school-aged children.

2. Family Impact By Age Group

While income determines *who* pays, a child's age determines *how much* families pay under the new policy. This section examines how the fall 2025 SRA policy changes affect families by the age of the child in care. Because copay percentages increase with child age, and school-aged children were previously exempt, the distribution of impacts differs sharply across age groups.

Table 2a. Family Impact by Child Age

Age Group	Total Children	Children Affected	% Affected	Mean Monthly Copay	Median Monthly Copay
Infant	1,018	272	27%	$175.21	$144.00
Toddler	5,626	1,633	29%	$165.10	$140.00
PreK	8,368	3,019	36%	$223.52	$198.00
School-aged	5,125	4,839	94%	$223.31	$124.00

Note: Mean/median monthly copays are calculated among affected children in each age group.

Table 2b. Geographic Variation in Family Impact

County Group	Total Children	Children Affected	% Affected	Mean Monthly Copay	Median Monthly Copay
Statewide (Other)	17,502	8,413	48%	$204.64	$198.00
Benton/Washington	2,635	1,350	51%	$260.04	$234.00

Note: Benton/Washington counties have higher reimbursement rates, which result in higher copay amounts

Interpretation

The fall 2025 policy changes affect families with children across all age groups, but the distribution and magnitude of impacts vary sharply by age. Nearly all school-aged children (94%) now face co-pays, compared to only about one in three Pre-K children and roughly one in four infants and toddlers. This pattern reflects two policy shifts: (1) the introduction of copays for school-aged children in the lowest income tier, and (2) rising copay percentages tied to child age, with older children requiring higher family payments.

Among affected families, average monthly copays range from about $165 for a toddler to $224 for both Pre-K and school-aged children. Although mean copays are similar (about $224), school-aged children have a much lower median copay ($124 vs. $198) because the policy charges even the lowest-income school-aged families (≤40% SMI) a 20% copay, while Pre-K children at this same income level pay nothing. Since over half of affected school-aged children fall into this lowest tier, the median is $124. Higher-income families in both age groups pay substantially more, but for school-aged children this creates a particularly uneven distribution, with most children clustered at $124 and a smaller number facing very high copays ($310-$518).

Reimbursement rates vary by geographic region. Families in Benton and Washington counties contribute average copays roughly 25–30% higher than families elsewhere in the state ($260 vs. $205 per month on average), since their higher local reimbursement rates translate directly into higher copay amounts under the percentage-based structure. While these areas generally have higher household incomes, SRA-eligible families still face meaningful increases relative to their budgets.

Together, these patterns show that the largest coverage expansion occurs for school-aged children, who had copay exemptions under prior rules, while the greatest financial burden per family falls on those in higher-cost counties or with children in full-time Pre-K programs.

3. Distribution Of Copay Burden

Building on the age and geographic patterns above, this section summarizes the overall scale of new copay obligations, expanding upon how much families will pay under the new 2025 structure, both in dollars and as a share of income.

Table 3a. Monthly Copay Increases by Income Tier

Income Tier	% of SMI	Monthly Income Range	Mean monthly copay increase	Increase as % of Monthly Income
Tier 0	$\leq$ 40%	$\leq$ \$3,009	\$126.69	4%
Tier 1	$>$ 40-60%	\$3,010-\$4,514	\$221.11	5%
Tier 2	$>$ 60-75%	\$4,515-\$5,643	\$306.87	5%
Tier 3	$>$ 75-85%	\$5,644-\$6,395	\$292.99	5%

Note: The percentage in the final column represents the copay increase as a share of monthly household income. Copays in Tier 0 apply only to school-aged children and are calculated at a full-time rate, even though many families may use part-time before- or after-school care. Under the new policy, most families will spend roughly 4–5% more of their monthly income on child care for one child than they did previously.

Table 3b. Distribution of Monthly Copay Amounts

Monthly Copay Range	Number of Children	% of Analyzed Children (Income Known)	% of Affected Children
Not Affected	10,374	52%	–
$1-150	3,959	20%	41%
$151-200	1,987	10%	20%
$201-250	885	4%	9%
> $250	2,932	15%	30%

Note: Percentages reflect children with known income (N = 20,137). Column %s might not total 100% due to rounding.

Figure 1 – Previous county-level average copay amount as percent of income for families with co-payments.

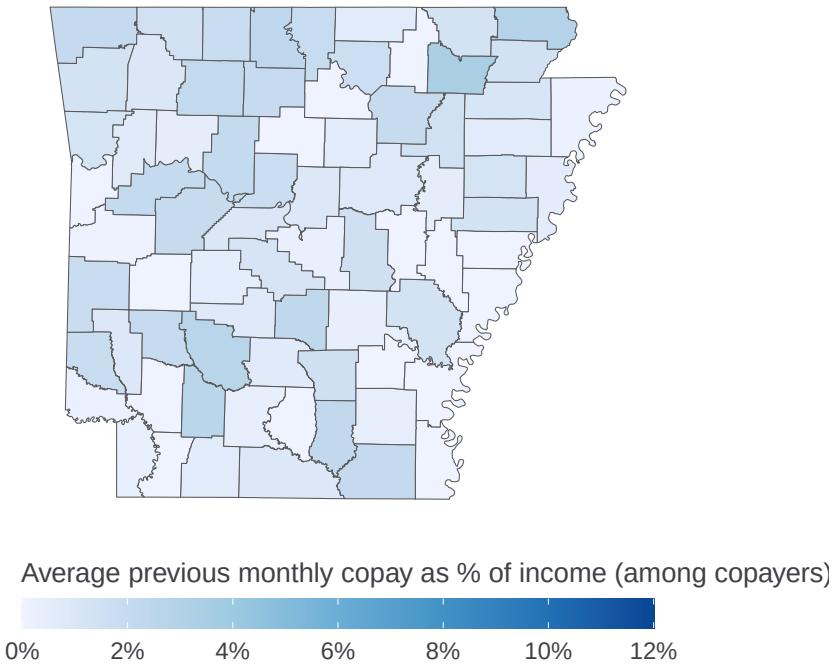
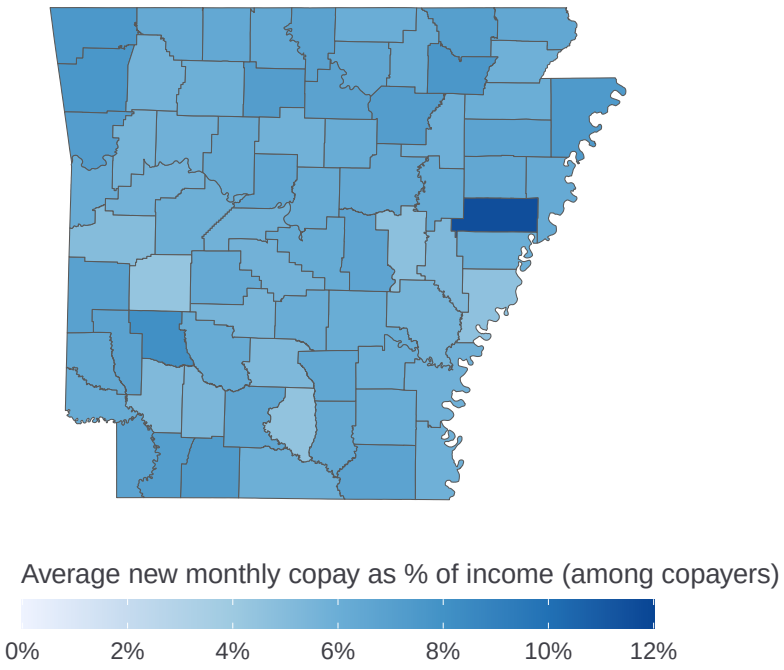


Figure 2 – New county-level average copay amount as percent of income for families with copayments.



Interpretation

Roughly half of children with income data (about 9,800 children) are required to pay new or higher copays under the fall 2025 policy change. Among affected children, the median increase is about $200 per month, though there is variation: 41% of affected children face increases under $150 per month, while 30% face increases of $250 per month or more. For affected families, these increases represent roughly 4–5% of monthly household income for one child, and could approach 10% for families with two children in care.

The steepest burdens fall on families in the middle tiers (60–85% SMI), who experience the largest dollar increases and copays that take a meaningful share of their income. For lower-income families (≤40% SMI), new copays appear mainly for school-aged children, where even a relatively modest additional $125 monthly payment is at least 4% of the household income.

Figure 1 and Figure 2 present county-level maps to help display geoegraphic variability in the copayment structure. Prior to the policy change, families with copayments paid small amounts, less than 2% of their monthly income as shown in Figure 1. After the policy, Figure 2 shows that copayments rose in all parts of the state.

Overall, the new structure broadens both who pays and how much families contribute, with the largest copay increases affecting working families just below the upper income limit for eligibility.

4. Provider Impact Analysis

Overview of Provider Participation

A total of 805 providers were included in the provider-level analytic sample, representing all sites with at least one child–provider pair with income data, and assuming full-time, full-year enrollment (out of 807 total providers statewide). Of the 805 providers, 738 (92%) had at least one child whose copay changed under the October 2025 copay policy. On average, affected providers have 28 affected children (median = 18), with the most-affected site serving 200 affected children (including children with multiple providers listed in the data).

Estimated Revenue Loss from Rate Changes

The fall 2025 policy changes not only increased family copays (effective October 1) but also reduced provider reimbursement rates (effective November 1), shifting a greater share of program costs from the state to families. The estimates below capture reimbursement losses only, assuming full-time care (full-time daily rates × 20 days per month x 12 months).

Table 4a. Estimated Reimbursement Loss Across Providers

Metric	Monthly Loss	Annual Loss
Mean provider reimbursement loss	-$3,334.28	-$40,011
Median provider reimbursement loss	-$720.00	-$8,640
Total reimbursement loss	-$2.69 million	-$32.29 million

Table 4b. Estimated Reimbursement Loss by Geographic Region

Region	Mean Monthly Loss	Median Monthly Loss	Mean Annual Loss	Median Annual Loss
Statewide	-$3,730	-$780	-$44,766	-$9,360
Benton/Washington Counties	-$1,075	-$260	-$12,895	-$3,120

Interpretation

Reimbursement losses vary widely across providers. The mean loss is substantially higher than the median, indicating that a smaller number of providers, typically those serving larger shares of low-income families, experience the largest reductions in state payments.

Losses are also uneven geographically. Providers outside Benton and Washington Counties face higher average reimbursement declines ($3,730 per month), while those in Benton/Washington counties lose less on average ($1,075 per month) because their regional reimbursement rates remain higher. However, the higher cost of doing business in that region means that even smaller reductions could erode financial stability.

Family copays are deducted from the state reimbursement amount rather than added to it, meaning the state pays the difference between the reimbursement rate and the family's copay. Under the new policy, even though families pay higher copays, the lower reimbursement rates mean providers receive less total revenue than before. As a result, total provider reimbursements are expected to decline by roughly $32.3 million annually.

Policy Implications

1. Dual Financial Pressure on Child Care System

The fall 2025 policy changes create simultaneous financial strain for both families and providers, reflecting the state's effort to manage its federally funded child care program within fixed CCDF allocations and required state match levels.

Under these changes, families will contribute an estimated $24.8 million more each year, with 9,763 families (49% of those with income data) affected and a median copay *increase* of $198 per month ($2,376 per year).

At the same time, providers will experience an estimated $32.3 million annual reimbursement loss due to reduced state reimbursement rates. About 92% of participating providers (738 of 805) will be affected, with an average monthly reimbursement loss of $3,334 (-$40,011 per year) and a median loss of $720 (-$8,640 per year).

Family copays are deducted from the total reimbursement amount rather than added to it, meaning the state pays the difference between the reimbursement rate and the family's copay. Under the new policy, even though families pay higher copays, the lower reimbursement rates mean providers receive less total revenue than before. In total, these policy changes shift approximately $57 million in the SRA system annually, through $24.8 million in additional family costs and $32.3 million in reduced provider reimbursements.

When families pay more while providers receive less, the financial stability of the system as a whole becomes more fragile. Programs serving predominantly low-income families may be especially at risk of exiting the SRA program, reducing the availability of subsidized child care and lengthening waitlists for working families.

2. Uneven Impact Across Families

The new copay structure creates the largest cost increases for working families near the upper edge of SRA eligibility. Households between 60 and 85% of SMI experience the steepest absolute increases, with copays rising from under 1% of income to roughly 5% of income per child, a percentage that approaches the federal affordability benchmark of 7% for total child care spending as a share of household income.

For the lowest-income families, the new 20% copay for school-aged children creates an age-based discontinuity in benefits. Parents who previously paid nothing for care now face new monthly payments when their child reaches school age. Care needs for this age group vary throughout the year, with many children requiring full-time care during summer months and potentially part-time before- or after-school care during the school year, depending on family work schedules.

The age-based structure of the new copay percentages affects families differently depending on the ages of their children. Families with multiple children of different ages will experience varying copay obligations, with higher percentages applied to older children across all income tiers. The combination of income-based and age-based copay requirements creates differential impacts even among families with similar earnings.

3. Geographic and Age-Based Variation

Families in Benton and Washington counties pay about 25–30% more in copays than families elsewhere because the same copay percentages are applied to higher regional reimbursement rates. These higher rates reflect the greater cost of operating child care programs in Northwest Arkansas, not higher family incomes. Families in these counties meet the same SRA eligibility requirements as families statewide but face larger out-of-pocket costs based on their geographic location.

In contrast, providers in rural counties face lower reimbursement rates and tighter operating margins. These regional differences—higher family copays in Northwest Arkansas and lower provider reimbursements in rural areas—create geographic variation in how the policy changes affect different parts of the state.

Age-based copay structures also shape the distribution of impacts. Nearly all school-aged children (94%) now face copays, compared with about one-third of Pre-K children and one-quarter of infants and toddlers. Pre-K families, however, face the highest median copay amounts (about $224 per month), reflecting both higher copay percentages and higher reimbursement rates for that age group.

4. Provider Sustainability

Nearly all SRA providers (92%) enroll at least one child whose copay changed under the October 2025 policy. On average, providers experience an estimated reimbursement reduction of $3,334 per month ($40,011 per year) due to reduced state payment rates, though the median reduction is $720 per month ($8,640 per year). This gap indicates that reimbursement reductions are concentrated among a smaller group of providers serving higher shares of SRA-enrolled children.

Regional differences also matter. Providers in most parts of the state face larger reimbursement declines ($3,730 per month on average), while those in Benton and Washington counties experience smaller nominal reductions ($1,075 per month) but face higher operating costs.

Together, these changes create financial pressure on providers. Programs with narrower operating margins may face challenges maintaining current staffing levels and quality standards. Over time,

financial pressures could affect the number of available SRA slots and program participation, particularly in rural and lower-income regions where providers have fewer alternative revenue sources.

Critical Limitations in Impact Estimates

The estimates presented in this report provide the best available snapshot of how the fall 2025 SRA family copay and provider reimbursement rate policy changes are likely to affect Arkansas families and providers. However, they rely on several simplifying assumptions and data constraints that introduce uncertainty. Some assumptions likely cause the analysis to understate the true impact, while others could make the impact appear more severe than it will be in practice.

The following sections outline key limitations, the reasoning behind them, and the likely direction of bias (whether they cause results to overstate or understate the actual impact).

Factors That May Understate the Burden (Actual Impact Could Be Worse)

1. **Missing Provider Quality Levels:** We were missing quality ratings for 1,042 unique children (5.1% of unique children with income data), representing 1,137 child–provider pairs. These providers were assumed to be the lowest-rated providers eligible for SRA participation (Better Beginnings Level 2).
    - **Why this matters:** Under the old policy, high-quality providers received higher reimbursement rates, while families at those sites sometimes paid slightly higher copays. The new policy removes those quality-based differentials, paying all providers the same rate based only on age and region.
    - **Net effect on providers:** *Understates provider reimbursement loss if any missing-quality providers were actually higher-rated.* However, this assumption could slightly overstate copays for a small number of higher-income families who previously paid more at high-quality programs.
2. **Missing Family Income Data:** 615 unique children (3% of unique SRA enrolled children) lacked income data and were excluded from the analysis. When accounting for all child–provider placements, 777 child–provider pairs had missing income data.
    - **Why this matters:** Some excluded children may fall into income tiers that now require copays.

- **Net effect on families:** *Understates the number of families affected by new copay rules.*

3. **Multiple Provider Placements:** The analysis counted one copay per child, even if a child appeared under multiple providers (2,213 children attend multiple providers in the data).
   - **Why this matters:** Families with children attending multiple programs could pay multiple co-pays.
   - **Net effect on families:** *Understates total family copay amount.*
4. **Behavioral Responses Not Modeled:** The analysis assumes that providers and families do not change their participation in response to policy changes.
   - **Why this matters:** Families facing higher copays may reduce hours of care, leave the program entirely, or turn to informal arrangements. Similarly, providers facing lower reimbursement rates may limit SRA slots, raise private-pay prices, or withdraw from the program.
   - **Net effect on families:** *Understates longer-term system-level impacts on both families and providers.*

Factors That Could Go Either Direction

5. **Foster/Homeless Copay Policy:** Foster and homeless children make up approximately 16% of unique SRA-enrolled children (3,212 unique children with income data, representing 3,590 child–provider pairs).
   - **Why this matters:** An additional 562 foster/homeless children with missing income were excluded from the analysis. The 3,212 foster/homeless children with known income (3,590 child–provider pairs) were assigned copays based on their income tier. If these children should all have $0 copay, the analysis overstates burden; if some should pay based on income, it understates burden.
   - **Net effect:** *Unclear without policy clarification.*
6. **Family Size Assumption:** All families were treated as having four members when assigning income tiers.
   - **Why this matters:** State Median Income (SMI) thresholds depend on family size. Larger families

qualify for higher income limits, while smaller families qualify for lower ones.

  - Example (larger family): A family of six earning $50,000/year appears to exceed the 85% SMI limit for a four-person household, but for a six-person household, that same income falls closer to 55% SMI, placing them in a lower tier with smaller copays.
  - Example (smaller family): A single parent with one child earning $50,000/year is modeled here as mid-tier, but for a two-person household, that income is around 90% SMI, which would result in higher copays or possible ineligibility.

- **Net effect:** *The overall direction is unknown without household size data.* Larger families may be placed in higher tiers (overstating burden); smaller families may be placed in lower tiers (understating burden).

7. **Full-Time, Full-Year Enrollment Assumption:** Copays and reimbursements were calculated assuming all children receive full-time care (full-time rates, 20 days/month) for a full year (12 months). It is unclear whether the July 2025 enrollment file represents all children enrolled at any point during the year (cumulative enrollment) or only those enrolled at that specific point in time (point-in-time snapshot). If it is a point-in-time snapshot, actual annual enrollment and total impacts could be higher due to turnover throughout the year.

   - **Why this matters:** Many families may use part-time care (which costs 40–75% less) or receive services for only part of the year due to enrollment changes, seasonal work patterns, or program turnover. Others may use extended-day or weekend care.
   - **Net effect:** *Likely overstates burden for part-time families and those enrolled for shorter periods, while understating burden for extended care users and families paying copays across multiple providers.*

Which Direction Dominates? It is not possible to determine whether the overall estimates overstate or understate the true impact. Missing income data, multiple placements, elimination of quality-based reimbursement differentials, and potential participation changes likely lead to *understating* the impact, while assumptions about family size and care modality (full- vs. part-time) could push estimates in either direction. The full-time care assumption, in particular, may substantially *overstate* family costs if many children use part-time care. If the July 2025 file reflects a point-in-time snapshot rather than cumulative annual enrollment, annual totals could also be *understated* due to turnover

across the year.

Bottom Line These findings represent the best estimates available given current data and assumptions. Results should be interpreted with caution, recognizing uncertainty in both directions. Future analyses could be improved with better information on household size, care utilization patterns (e.g., full-/part-time, before/after-school, summer), multi-provider placements, and clear policy guidance for special populations (e.g., foster/homeless).

Conclusion

The fall 2025 SRA copay and reimbursement policy changes create notable financial impacts for both families and participating child care providers:

- **9,763 families** will pay more, with median increases of **$198 per month**.
- **738 providers** will experience reimbursement reductions, with median losses of **$720 per month**.
- **Total system impact** is approximately $57 million annually, $24.8 million in additional family copays and $32.3 million in reduced provider reimbursements.

Because family copays are deducted from the total reimbursement amount (rather than added on top), providers receive less even as families pay more. Together, these changes may reduce affordability for some families and put financial pressure on providers.

The effects are not uniform. Families near the upper edge of eligibility (roughly 60–85% of SMI) see the largest dollar increases, and an age-based discontinuity introduces new copay obligations for the lowest-income families once children reach school age. Providers serving larger shares of low-income families or operating in lower-rate regions experience comparatively larger reimbursement reductions. Ongoing monitoring will be important to understand implications for access, participation, and provider stability over time.

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Important Next Steps

1. **Monitor provider participation and financial viability**
- Track monthly entries/exits from SRA, SRA slot availability, and site closures by region and quality level.
- Track changes in private-pay prices and fee schedules.
2. **Track family participation and affordability**
- Monitor enrollment changes by income tier and age group (including before/after-school vs. summer care for school-aged children).
- Track copay distributions, delinquent/unpaid balances, and exits citing affordability.
3. **Conduct additional impact analyses**
- Compare reimbursement adequacy to market rates by region and age group; track shifts in Better Beginnings ratings post-policy.
- Monitor provider staffing levels and turnover, waitlist length, and geographic coverage (rural vs. urban) as leading indicators of access risk.

While these results represent the best estimates available with current data, several assumptions, such as uniform full-time care and fixed family size, introduce uncertainty in both directions. Continued monitoring and updated analyses will be essential as the policy is implemented to understand its full impact on families, providers, and the state's broader early care and education system.

Technical Appendices

Appendix A: Reimbursement and Copay Calculation Details

Full-Time Daily Reimbursement Rates (New Fall 2025):

Age Group	Statewide	Benton/Washington
Infant	$36	$43
Toddler	$35	$41
PreK	$33	$39
School-aged	$31	$37

Full-Time Copay Percentages (New Fall 2025):

Age Group	≤40% SMI	>40-60% SMI	>60-75% SMI	>75-85% SMI	>85% SMI
Infant/Toddler	0%	20%	30%	30%	100%
PreK	0%	30%	40%	40%	100%
School-aged	20%	50%	70%	70%	100%

Fall 2025 copays are applied as a percentage of the provider reimbursement rate for each age group and county category (Benton/Washington or Statewide).

Full-Time Daily Reimbursement Rates (Pre-October 2025):

Statewide (excluding Benton/Washington):

Age Group	Level 2	Level 3	Level 4	Level 5	Level 6
Infant	$39	$56	$60	$65	$75
Toddler	$38	$51	$55	$60	$65
PreK	$33	$41	$45	$50	$55
School-aged	$31	$39	$40	$41	$42

Benton/Washington Counties:

Age Group	Level 2	Level 3	Level 4	Level 5	Level 6
Infant	$46	$56	$60	$65	$75
Toddler	$44	$51	$55	$60	$65
PreK	$40	$41	$45	$50	$55
School-aged	$37	$39	$40	$41	$42

Full-Time Copay Percentages (Pre-October 2025):

Age Group	≤40% SMI	>40-60% SMI	>60-75% SMI	>75-85% SMI (Level 2-5)	>75-85% SMI (Level 6)
Infant/Toddler	0%	0%	0%	2%	4%
PreK	0%	0%	0%	2%	4%
School-aged	0%	0%	0%	2%	4%

Under the previous policy, reimbursement rates varied by Better Beginnings quality level, with higher-rated providers receiving higher payments. Copays were small and applied only to families earning above 75% of SMI, with a maximum of 2% at most providers and 4% at Level 6 providers.

Daily Copay Formula:

```
Daily Copay = Full-Time Daily Reimbursement Rate × Copay Percentage
```

Monthly Copay Formula:

```
Monthly Copay = Daily Copay × 20 days
```

Annual Copay Formula:

```
Annual Copay = Monthly Copay × 12 months
```

Daily Reimbursement Change Formula:

```
Daily Reimbursement Change = Old Daily Rate − New Daily Rate
```

Monthly Reimbursement Change Formula:

```
Monthly Reimbursement Change = Daily Reimbursement Change × 20 days
```

Annual Reimbursement Change Formula:

```
Annual Reimbursement Change = Monthly Reimbursement Change × 12 months
```

Appendix B: SMI Tier Calculations

FY2026 State Median Income (SMI): $90,280 annually ($7,523.33 monthly) for a family of four

Tier	% of SMI	Monthly Income Threshold	Annual Income Threshold
0	≤40%	≤$3,009	≤$36,112
1	>40-60%	$3,010-$4,514	$36,113-$54,168
2	>60-75%	$4,515-$5,643	$54,169-$67,710
3	>75-85%	$5,644-$6,395	$67,711-$76,738
4	>85%	>$6,395	>$76,738

Families are assigned to tiers based on monthly income cutoffs, with SRA eligibility capped at 85% of SMI (Tier 3 and below). Families above 85% SMI were included for completeness as they might be larger families (more than four people so actual SMI would be lower) or program exemptions.

Appendix C: Impact Classification

Affected Children:

- Family pays more under fall 2025 SRA policy change than under previous policy
  - Newly paying families (previous copay =$0, new copay >$0)
  - Families with higher copays under new policy (new copay > previous copay > $0)

Not Affected Children:

- No change in copay (new copay = previous copay)
  - Includes families at ≤40% SMI with infants/toddlers/PreK (0% copay under both policies)
- Paying less (new copay < previous copay)