

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 15, 2003

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER *PS*

SUBJECT: BUDGET MEMO #36: LOCAL FUNDING FOR CHILD DAY CARE (MAYOR DONLEY'S REQUEST)

In response to the request for information regarding the \$1.8 million of local funding in the FY 2004 Proposed Budget that is to be used for child day care in the City the following information is provided.

The total FY 2004 budget for Early Childhood Education and Child Care in the City totals some \$8.2 million in federal, State and local funding (see page 8-67 in the FY 2004 Proposed Budget), and is discussed below. The request for information also included the request for staff to respond to the question: "Will incomes of home day care providers be increasing over what is currently received?" This is also discussed in this memorandum.

Early Childhood Programs and Child Care: Federal, State and Local Programs and Funds

1. Head Start - \$1.7 million (no local funds) - A 100% federally funded program administered by the Office for Early Childhood Development, this program is budgeted to serve 252 low-income preschool age children at George Washington Middle School, Jefferson-Houston, Mt. Vernon, John Adams and Tucker Elementary schools, and at the Northern Virginia Community College (where parents are enrolled in classes). One of the two classrooms at Mt. Vernon is funded with local and Virginia Preschool Initiative dollars. That program serves 16 children and those numbers are not included in the 252. The Department of Human Services has not received the FY 2004 allocation letter from the Department of Health and Human Services, but expects that the only increase will be, at most, a cost of living increase for staff.
2. TANF Working and Transitional Child Care - \$1.0 million (\$104,993 in local funds) - This program is a combination of federal, State and local revenues and is a mandated program to assist *Alexandria Works!* clients who receive TANF or Transitional Child Care to help them leave public assistance and become self-sufficient. The \$1.0 million in the FY 2004 budget serves as a match to draw down State and federal child care dollars that will provide full or partial child care payments to 137 low income families and 190 children. This represents a decrease of \$1.5 million from FY 2003 which is based on decreasing caseloads and current level of funding

received from the State. If TANF and TCC caseloads trends remain the same, this funding should be sufficient to cover the costs in 2004.

3. Child Day Care Fee System - \$2.9 million (\$177,517 in local funds, including a \$112,800 set-aside to subsidize rates for family child care providers) - This program provides a subsidy to families with children to help the parent maintain their employment, complete their education or get job training. This program is run from a combination of federal, State and local monies and serves income eligible children in home day care surroundings, as well as in day care centers. Some of the federal funding for this program requires no match; other funding requires a local match that ranges from 10 to 50 percent. The Fee System will serve an average (estimated) of 308 families and 500 children per month in FY 2003. (This number includes wrap-around services for 54 Head Start children.) The number of children served in FY 2004 will depend on the availability of federal funds and the required local match.

Early Childhood Programs and Child Care: Local Programs and Funds

4. The Campagna Kids Program - \$1.2 million (100% local funds) - The Campagna Center FY 2004 contract under negotiation is based on a Campagna Center budget request submitted to the City in November 2002, with some revisions made by the City Office of Management and Budget. These revisions include the application of the same principles that were applied to all City department and agency budgets, which limited budget increases to an approximate 3 percent growth in personnel; no growth in non-personnel categories; the application of a vacancy factor based on previous trends (and in the case of The Campagna Center the current contract); and the application of a deduction to reflect fewer school students. After the City's FY 2004 Budget was prepared and submitted to City Council, The Campagna Center amended its budget request and requested additional funding. A separate budget memorandum will cover this funding issue in more detail.

5. Model Before/After School Program at Tucker Elementary - \$300,000 (100% local funds) - This program is offered through a contract with The Campagna Center to provide enhanced recreational and educational opportunities in a creative, safe environment. The budgeted dollars for the contract remain unchanged from FY 2003. This program serves 95 children in the after school program and 18 in the before school program. Some children are enrolled in both programs; therefore, there is some duplication in these numbers.

6. Early Childhood Commission's Children's Fund - \$1.0 million (100% local funds) - The Early Childhood Commission establishes the priorities for the Children's Fund, which provides comprehensive services and local matching grants to organizations providing early childhood development programs, family support, early intervention, preschool psychological services, and home visiting services to high-risk families. The amount of the FY 2004 budget remains unchanged from the FY 2003 budget. The FY 2003 budget is serving eight projects, including six child care programs and 1,648 children/families.

7. Mini-Grant Program - \$50,000 (100% local funds) - The Early Childhood Commission establishes the priorities for the Mini-Grant program which provides funding for quality enhancement activities to child care centers, family child care providers and other groups serving at-risk children. Funding for this program has remained constant since 1989, and provides funding to 11 centers, six family child care providers and five other organizations that serve 380 children and their families.

Child Day Care Program

The Virginia Department of Social Services (VaDSS) establishes the Child Day Care Program "maximum reimbursable rates" (MRR) (formerly known as market rates) for each locality through a market rate survey. These rates are very important not only to the provider but to the City as they represent the upper limit of State and federal reimbursement. The survey gathers the different rates charged by private child care providers and centers, and uses the 75th percentile of the range of rates in each group to determine the "maximum reimbursable rates." These are the maximum rates that the State will reimburse the City in each age group. The TANF child care program pays the total cost of care up to the MRR. The Transitional and Fee System Child Care programs require a parent co-pay based on a sliding fee scale. The provider may charge the parent a rate above the MRR, but the amount above the MRR is ineligible for State or federal reimbursement.

The last market rate survey was completed by the State in 1999 and a partial increase in rates for centers and family child care providers was implemented in June of 2001. A market rate survey of centers was initiated in the spring of 2002, but no results of that survey have been forthcoming from the State. There is no indication that a new family child care provider survey has even been initiated. The current MRR does not reflect the 75th percentile (or market rate) because the State did not have sufficient funds to implement the full market rate increase that was based on 1999 data.

In December 2001, City Council approved \$64,400 in new funding for FY 2002 (\$112,800 annualized) which is included in the \$177,517 in local funds allocated for the Child Day Care Fee System, to create a 100% City-funded subsidy to the family child care provider maximum reimbursable rates. These funds were approved since the State did not approve an increase in Alexandria rates so that they equaled those approved by the State for Arlington County (Docket memorandum attached).

The City's new rates (now in effect for 15 months) will stay in effect until such time that the State approves new rates for Alexandria equal to or in excess of Arlington County's rate. The rate schedule now in effect is detailed in Attachment I of the attached docket memorandum.

No rate increases have come from the State to date. On February 22, 2003, the Virginia General Assembly adopted budget revisions that included the following:

“Prioritize New Child Day Care Funding: Budget Amendment Language: When preparing the 2004-2006 biennial budget and implementing any new federal TANF legislation, the Governor shall consider providing additional child day care funding for the following priority areas as follows: (i) provide an additional 12 months of day care assistance for those no longer receiving TANF financial assistance, (ii) revise eligibility policies to reflect the high cost of child day care in certain areas of the Commonwealth, and (iii) adjust reimbursement rates to reflect current market rates. (Item 352.J)”

The Governor did not amend or veto this language. Therefore, if funding is available, it is possible, though not probable, that the rates paid to providers for clients eligible for State or federal reimbursement, as well as client eligibility limits in Northern Virginia, will be increased.

Unless the State acts on rates, family child care provider and center rates will likely remain unchanged in FY 2004. The only way provider incomes could increase, other than an additional 100% City-funded rate increase, would be to take on additional children, raise the rates they charge their private pay clients, or increase the number of hours they care for children. For many providers these steps are not likely to be feasible.

Attachment: December 11, 2001 docket item #16: A Local Supplement to the State’s Maximum Reimbursement Rates for Alexandria Day Care Providers in FY 2002

EXHIBIT NO. 116

12-11-01

*City of Alexandria, Virginia***MEMORANDUM**

DATE: DECEMBER 7, 2001

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER *PS*

SUBJECT: A LOCAL SUPPLEMENT TO THE STATE'S MAXIMUM REIMBURSEMENT RATES FOR ALEXANDRIA FAMILY CHILD CARE PROVIDERS IN FY 2002

ISSUE: Consideration of a supplement to the Virginia Department of Social Services Maximum Reimbursement Rates (MRR) for Alexandria Family Child Care providers in FY 2002.

RECOMMENDATION: That City Council consider whether it wishes to increase family child care provider rates to be equal to Arlington County's approved rates, and above the State reimbursement rates for Alexandria, at a cost of \$64,400 through the remainder of FY 2002.

In the event that Council wishes to approve the increase at this time, (1) authorize the transfer of \$64,400 from the Contingent Reserves account in the FY 2002 budget to the Department of Human Services; and (2) set the City's family child care rates to be equal to the rates listed in Attachment I, column 1, effective January 2002, until such time as the State approves new rates in excess of these amounts, or Council approves an increase in the rates.

DISCUSSION: City Council designated \$150,000 in Contingent Reserves in the Approved FY 2002 Budget to potentially create a subsidy to the State's MRR for Alexandria family child care providers. The issue of inadequate State rates was brought to City Council members' attention during the budget process by Unity family child care providers. Whether City Council would initiate a local subsidy was to be contingent upon the State's denial of the City's appeal of the initial rates established by the State for Alexandria, as well as subsequent City Council action. The City's appeal of the initial rates requested that the State's family child care provider survey, upon which the rates are based, be reviewed for accuracy and that the rates be raised to at least the same rates approved by the State for neighboring Arlington County.

The State denied the City's appeal in July 2001 based on a review of the data from their own survey of Alexandria family child care providers which indicated that the State's results were correct. DHS staff then requested a copy of the survey data on which the State based its decision.

Upon careful review of the State survey names and addresses that were provided, Department of Human Services (DHS) staff discovered that more than 50% of the providers on the State's list lived outside the City of Alexandria. In fact, most lived in the Fairfax County zip codes shared with Alexandria. On September 12, 2001, DHS staff submitted a second request to the State for reconsideration and submitted its own survey of rates charged by Alexandria providers for the same time period as the State's survey was conducted. The State reviewed Alexandria's data, and, on October 23, 2001, approved a new set of rates for the City. The new schedule (see Attachment I, column 3) increased the rates for toddlers and before and after school care by a range of \$2 per week to \$10 per week, but did not increase the rates for infants, pre-schoolers, and summer school-aged child care. This rate decision by the State is final for this fiscal year.

Some of the rates finally approved by the State for Alexandria are still below the State rates approved for Arlington County. In order to make Alexandria's rates equal to Arlington's, a local subsidy of approximately \$9,400 per month (\$112,800 per year) would be required based on the current caseload. Should City Council decide to initiate a rate supplement up to the Arlington rates, the annualized cost for the six months remaining in FY 2002 would be approximately \$64,400 in City funds. State and federal funds cannot be used to supplement child care rates. Costs in future years would depend on whether the State survey accurately reflects Alexandria's rates and whether the State fully funds those rates. If the Alexandria rates remained the same, the annualized cost for FY 2003 would be \$112,800.

The City continues to have questions about the State's rate survey methodology and the outcomes that the survey produces. In particular, the cause of the sometimes substantial rate differentials between Arlington and Alexandria is not at all clear. State staff even admits that they do not have an explanation for some of the wide differences in rates between the two jurisdictions. The State has now created a task force to study new market rates statewide including the survey methodology used to set rates. The study is planned for completion in time to set rates for FY 2003. City staff does not think that this timetable is realistic, in that it will take a longer time to complete this complex study. City staff plans on attending the meetings of this State task force and participating in discussions of that task force.

The decision for City Council at this time is whether or not to supplement family child care rates with City funds at a cost of \$64,400 for FY 2002. This annualizes to \$112,800 starting in FY 2003. When the FY 2002 budget was adopted and the Contingent Reserve designation established, the City's economic and revenue picture was far more positive than it is now. City Council may wish to start supplementing the State family child care rates if Council considers this supplementation a high priority. I would note, however, that with the FY 2003 budget anticipated to be a very tight one, any new spending initiative undertaken now will likely mean that another program or service will not be funded with local monies, or that a reduction in state aid will not be able to be offset with local funds. I also would note that a decision to supplement family child care rates may very well result in similar "state supplementation" requests from other private providers of services.

In the event that City Council does decide to start supplementing family child care rates by \$112,800 per year, the in column 1 of Attachment I will become the new City's rates until such time that the State increases its rates above these City rates, or, as part of the annual budget process, a specific budget decision is made to set the City's rates at a different level. This will ensure that the City's subsidy does not grow without a specific budget decision to increase rates.

FISCAL IMPACT: Approximately \$64,400 in FY 2002 from Contingent Reserves and \$112,800 in FY 2003 and beyond, based on the average monthly caseload to date in FY 2002 of 547 children.

ATTACHMENTS:

- I. Comparison Chart - Family Child Care Provider Rates

STAFF:

- Carol M. Farrell, Director of Early Childhood Development
- Jack Powers, Director of Community Programs
- Meg O'Regan, Director of Human Services
- Carol Moore, Acting Deputy Director, OMB
- Gene Swearingen, Director of Management and Budget
- Mark Jinks, Assistant City Manager
- Lori Godwin, Assistant City Manager

COST PER WEEK IN FY 2002 OF INCREASING ALEXANDRIA'S FAMILY CHILD CARE PROVIDER RATES					
Age Group	1	2	3	4	5
	Arlington Rates	Alexandria Rates Before Appeal	Alexandria Rates After Appeal	\$ Increase Needed to Reach Arlington Rates	Annualized Cost of Increase
Infant	\$145	\$140	\$140	5	\$15,720
Toddler	148	137	139	9	\$17,964
Preschool	140	134	134	6	\$38,460
Sch Age/Full day	144	130	128¹	14	\$35,040
Before School	25	65	73	---	---
After School	75	60	70	5	\$2,784
Before/After Sch	100	90	98	2	\$2,832
Total					\$112,800

¹ DHS has requested that Alexandria be held harmless in regard to the school age child care full day rate. In the relatively short history of the market rate survey, it has been the practice of VaDSS to hold agencies harmless against a decrease in rates. Staff is awaiting a response to this request from the State.