

Schedule 13

Department of Human Services

Funding Request for The FY 2020-21 Budget Cycle

Request Title

R-03 Colorado Child Care Assistance Program Direct Services

Dept. Approval By:

Supplemental FY 2019-20

OSPB Approval By:

Budget Amendment FY 2020-21

X

Change Request FY 2020-21

Summary Information	Fund	FY 2019-20		FY 2020-21		FY 2021-22
		Initial Appropriation	Supplemental Request	Base Request	Change Request	Continuation
Total of All Line Items Impacted by Change Request	Total	\$124,537,113	\$0	\$124,537,113	\$6,762,446	\$8,669,241
	FTE	0.0	0.0	0.0	0.0	0.0
	GF	\$29,410,508	\$0	\$29,410,508	\$940,292	\$940,292
	CF	\$11,645,071	\$0	\$11,645,071	\$2,666,581	\$4,872,517
	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$83,481,534	\$0	\$83,481,534	\$3,155,573	\$2,856,432

Line Item Information	Fund	FY 2019-20		FY 2020-21		FY 2021-22
		Initial Appropriation	Supplemental Request	Base Request	Change Request	Continuation
06. Division of Early Childhood, (A) Division of Early Care and Learning, (1) Division of Early Care and Learning - Child Care Assistance Program	Total	\$124,537,113	\$0	\$124,537,113	\$6,762,446	\$8,669,241
	FTE	0.0	0.0	0.0	0.0	0.0
	GF	\$29,410,508	\$0	\$29,410,508	\$940,292	\$940,292
	CF	\$11,645,071	\$0	\$11,645,071	\$2,666,581	\$4,872,517
	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$83,481,534	\$0	\$83,481,534	\$3,155,573	\$2,856,432

Auxiliary Data

Requires Legislation? NO

Type of Request?

Department of Human Services
Prioritized Request

Interagency Approval or
Related Schedule 13s:

No Other Agency Impact

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Department Priority: R-03
Request Detail: Child Care Assistance Program Direct Services

Summary of Incremental Funding Change for FY 2020-21			
	FY 2019-20	FY 2020-21	FY 2021-22
Total Funds	\$0	\$6,762,446	\$8,669,241
FTE	0.0	0.0	0.0
General Fund	\$0	\$940,292	\$940,292
Cash Funds	\$0	\$2,666,581	\$4,872,517
Reappropriated Funds	\$0	\$0	\$0
Federal Funds	\$0	\$3,155,573	\$2,856,432

Summary of Request:

The Department of Human Services requests a total fund increase of \$6,762,446 for the Colorado Child Care Assistance Program (CCCAP), including \$940,292 General Fund, \$3,155,573 federal funds from the Child Care and Development Fund (CCDF), and \$2,666,581 cash funds from a refinance of the County Share and an increase of the county Maintenance of Effort (MOE) in FY 2020-21. Total costs for CCCAP direct services grow by at least the same rate as the combined effects of inflation, quality reimbursements, and utilization. Utilization, in particular, will be impacted by federal requirements related to equal access and will increase the costs of CCCAP direct services in FY 2020-21. Specifically, these changes include increasing the minimum number of absences paid to providers.

The purpose of CCCAP is to provide eligible households with access to high quality, affordable child care that supports healthy child development and school readiness while promoting household self-sufficiency and informed child care choices. In FY 2017-18, CCCAP served a total of 28,662 children. The Department estimates that 330,665 children across the State are income-eligible, meaning their families' income meets CCCAP program eligibility criteria. Currently, CCCAP is only able to fund 9% of all income-eligible children. Without the additional funds requested, the Department estimates that the program would serve up to 3,000 fewer children over the next 18 months.

Access to high-quality early childhood education settings are crucial for all children's development, and these findings are particularly relevant for CCCAP because the program is specifically designed to serve low-income families and children. Research indicates that high-quality early childhood education and sustained participation in sound child care and early education has favorable short- and long-term effects on children and their families, including high school completion, higher earning rates for parents and for the children once grown, and reduced public spending on remedial education and services.

Current Program:

The purpose of CCCAP is to provide eligible households with access to high-quality, affordable child care that supports healthy child development and school readiness while promoting household self-sufficiency and informed child care choices. The Colorado Department of Human Services, as the Child Care and Development Fund (CCDF) Lead Agency, retains overall responsibility for the administration of CCCAP; however, the program is locally administered by county departments of human/social services. CCCAP provides child care assistance to low-income families who are working, searching for employment, or are in training or secondary-education programs. Funding through CCCAP is intended to support low-income families attending work or school while providing high-quality early learning opportunities for children 0-13 years of age in a variety of early childhood settings such as licensed child care centers, preschools, child care homes, and before and after school programs.

Problem or Opportunity:

In FY 2017-18, CCCAP served a total of 28,662 children. The Department estimates that 330,665 children across the State are income-eligible, meaning their families' income meets CCCAP program eligibility criteria. Currently, CCCAP is only able to fund 9% of all income-eligible children.

In order to meet federal equal access requirements, CCDF Lead Agencies must demonstrate how they support the fixed costs of providing child care services by delinking provider payments from a child's occasional absence. Paying a sufficient number of absences to better reflect private pay practices helps support equal access and ensures that neither the provider nor the family incur financial penalties. Currently, the minimum number of absences a county is required to pay based on a provider's quality rating does not meet federal requirements. Federal monitoring of Colorado will begin in FY 2020-21 and there will be an emphasis on ensuring payment practices that support equal access. The Department is at risk of incurring financial penalties of up to 10% of the federal award for each instance of noncompliance with CCDF regulation. This will have a significant negative impact on the number of children and families the program will be able to serve.

In order to maintain approximately the current number of children served by CCCAP, total funding for direct services must grow by at least the same rate as the combined effects of inflation, quality reimbursements, and utilization, including the new federal policy requirements related to absences. The Joint Budget Committee has made an annual request for information (RFI) to estimate these costs to the system due on or before January 2 of each year. While all data necessary to finalize the RFI is not completely final, this budget request reflects the Department's best understanding and quantification of those cost drivers.

Without the additional funds requested, the Department estimates that the program would serve up to 3,000 fewer children over the next 18 months. The majority of these families would likely show up on waitlists, which the Department anticipates would grow significantly without the requested additional funding.

Access to high-quality early childhood education settings are crucial for all children's development, and these findings are particularly relevant for CCCAP because the program is

specifically designed to serve low-income families and children. Research indicates that high-quality early childhood education and sustained participation in sound child care and early education has favorable short- and long-term effects on children and their families, including high school completion, higher earning rates for parents and for the children once grown, and reduced public spending on remedial education and services.

Proposed Solution:

Fully funding the anticipated growth of underlying cost drivers of CCCAP direct services will ensure that the State can maintain the number of children benefiting from the program. In an effort to ensure the cost of CCCAP is shared equitably among counties and the State, this request proposes an increase to county Maintenance of Effort (MOE), while also increasing General Funds and federal fund spending authority through CCDF.

The county contribution to the program has not kept pace with the federal and General Fund portions, which have increased in funding for CCCAP over the last several years. Since FY 2013-14, the combined federal and General Fund portions of the allocation have increased by a total of \$47,272,092, which represents an increase from 87.6% to 90.6% of the allocation. Until FY 2014-15, the county share of the CCCAP program remained consistent at 12.4% of the total allocation. In FY 2015-16, the county share began to decrease as the State funding increased. As of the most recent fiscal year, the county share only represented 9.4% of the total appropriation. The proposed request incrementally restores the county share to 12.4%, with increases of 1.5% over two fiscal years, with an increase to 10.9% in FY 2020-21 and reaches 12.4% in FY 2021-22.

Increased funding will support the implementation of federal equal access requirements regarding absences paid to child care providers accepting CCCAP. Beginning in June 2019, the Department, in collaboration with county representatives, community partners and child care providers, began developing new rules in compliance with federal requirements that will require an increase in the number of absences paid to child care providers.

The Department is proposing a tiered paid absence approach, where the highest quality-rated programs (Levels 3-5) would receive three absences per child per month and Levels 1 & 2 would receive up to two absences per child per month. This policy would move the State towards meeting the federal requirements of payment based on 85% attendance rate, depending on the average amount of care authorized for a child in CCCAP. Although the rule rewrite committee has yet to come to consensus on this most recent proposal, tiering paid absences supports the Governor's goal to incentivize providers moving toward high quality and ensures equal access to quality early care and learning opportunities that improve school readiness.

Anticipated Outcomes:

The additional funding for CCCAP direct services will enable the program to maintain service levels for the approximately 28,000 children currently participating in CCCAP and possibly increase the number of providers participating in the program. Furthermore, implementing the federal requirements to better reflect payment practices ensures child care providers are able to better sustain their businesses as well as invest more resources into maintaining staff and

improving quality, which supports the Governor’s goals around school readiness and supporting the early childhood workforce.

The program’s two-generation approach supports whole family outcomes as well as local and regional economies. CCCAP not only provides children the opportunity to receive quality care in a stable, nurturing environment, it also benefits families as a whole. Parents whose children have dependable access to child care are able to participate more fully in the workforce, which has positive economic benefits for families and the State.

Assumptions and Calculations:

Three factors drive the increases to CCCAP direct services costs: inflation in provider reimbursement rates, increases in tiered quality reimbursement rates, and care utilization per child.

1. ***Provider rates/Inflation:*** The Department is foregoing a provider rate increase based on inflation for FY2020-21 as the Department has determined that the current provider rates fall within the federal requirements for equal access.
2. ***Quality:*** Previous estimates of the cost of increasing quality examined growth to overall program cost from changes in underlying program quality data for a six-month period between April and October 2018, which yielded an annualized estimate of 0.8%. Increases to the share of high-quality providers have remained relatively steady from that sample period through the most recently available data. For this reason, the Department assumes 0.8% cost growth from improved quality. Based on these assumptions, the cost of quality for FY 2020-21 for CCCAP is \$1,042,060. The Department arrived at this amount by multiplying the FY 2019-20 base amount for CCCAP combined with the Department’s estimate for utilization (\$130,257,499) by the 0.8% quality cost growth estimate.
3. ***Utilization:*** The estimate uses two primary data sources for the period from October 2018 through July 2019 to compare individual transaction level details for all payments associated with CCCAP for a given month with the number of authorized days, regular paid days, and absent paid days, down to the level of each individual authorization.

Secondary features of these data sets allowed for the disaggregation of the results by Child Age, County (under which each case originated), Provider Type, and Provider Quality. Additionally, the full-time equivalent cost of a care unit could be estimated as the sum of the dollar amounts paid by CCCAP and the parental fee divided by the number of full-time equivalent care units. The sum of paid holiday days and paid absence days reflects the effects of the current absence/holiday policy and was used to establish a baseline number of current absences. The number of total unattended days by child-case-provider for a given month was estimated by subtracting the total number of paid regular days from the total number of authorized days. This figure was used as a constraint in modeling the number of absences that would be generated under the new policy: each child-case-provider would generate the lesser of 2 absences (QRIS level 1 & 2) / 3 absences (QRIS levels 3-5) or the number of unattended days.

The number of current absences/holidays was subtracted from the estimated number of absences under the new policy to arrive at a projected increase in the number of absence days resulting from the policy shift. In order to estimate the cost of these days, the number of new absence days is multiplied by the relevant estimate of full-time equivalent cost of care for each child-case-provider. Due to the implementation of state-established rates at the start of the fiscal year that will not yet be reflected in the data, this estimated 10-month cost is then converted into a percentage increase in county direct service expenditures rather than employing other methods of projecting full-year costs. This percentage increase is then applied to the projected county direct services expenditures detailed elsewhere.

Table 1 shows more detail for how the Department arrived at the \$6,762,446 amount for its CCCAP direct services budget request for FY 2020-21.

Table 1: Calculation of FY 2020-21 CCCAP Direct Services Request

Component	Component Cost	% Change
FY 2019-20 Child Care Assistance Program Line Item	\$124,537,113	--
Provider Rates	\$0	0%
Quality	\$1,042,060	0.80%
Utilization	\$5,720,386	4.6%
FY 2020-21 Total Direct Services Request for CCCAP	\$6,762,446	5.4%

In Table 1, the amount reflected in the Quality increase is associated with state policy. The amount reflected in the Utilization increase is a result of the proposed absence policy change associated with compliance with CCDF federal regulations.

Table 2 shows the calculation for the increase to the county share in FY 2020-21 and FY 2021-22.

Table 2: Calculation for Increase to County Share

	FY 2020-21	FY 2021-22
FY 2019-20 CCCAP Appropriation	\$124,537,113	\$124,537,113
FY 2019-20 CCCAP County Share	\$11,645,071	\$11,645,071
Proposed County Share Percentage	10.9%	12.4%
Proposed County Share Amount Based on FY 2019-20 Appropriation	\$13,574,545	\$15,442,602
Increase over FY 2019-20 County Share	\$1,929,474	\$3,797,531

The request for increased CCCAP funding has been split across three fund sources, as shown in Table 3, below. First, the increased budget need was filled with cash funds through a refinance of the 2019-20 County Share and an increase of the county Maintenance of Effort (MOE) in FY 2020-21, estimated as 10.9% of total direct services increase in FY 2020-21 and 12.4% in FY 2021-22. The remaining funding need was split between General Fund and federal funds from the CCDF grant, first drawing down \$3,155,573 of the federal CCDF and then filling in the remaining need with General Fund, totaling \$940,292. As the recent policy changes pertaining to equal access are mostly driven by federal requirements, and the increased cost is partly due to adjusting existing county absence policies, the Department is requesting the majority of these costs be supported by federal CCDF spending authority to implement these changes.

Table 3 shows a breakdown of the CCCAP funding request by funding source.

Table 3: Breakdown of CCCAP Funding Request by Funding Source					
FY 2020-21	Total	County Share/ Cash Funds	State Funded	General Fund	Federal CCDF
CCCAP Direct Services Increase	\$ 6,762,446	\$ 737,107	\$ 6,025,339	\$ 2,869,766	\$ 3,155,573
Refinance FY 2019-20 County Share	\$ -	\$ 1,929,474	\$ (1,929,474)	\$ (1,929,474)	
Total	\$ 6,762,446	\$ 2,666,581	\$ 4,095,865	\$ 940,292	\$ 3,155,573
FY 2021-22 and ongoing	Total	County Share/ Cash Funds	State Funded	General Fund	Federal CCDF
CCCAP Direct Services Increase	\$ 8,669,241	\$ 1,074,986	\$ 7,594,255	\$ 4,737,823	\$ 2,856,432
Refinance FY 2020-21 County Share	\$ -	\$ 3,797,531	\$ (3,797,531)	\$ (3,797,531)	
Total	\$ 8,669,241	\$ 4,872,517	\$ 3,796,724	\$ 940,292	\$ 2,856,432

Table 4 shows the sustainability of the Child Care and Development Fund through FY 2022-23 and includes the Department's budget request for FY 2020-21.

Table 4: CCDF Sustainability Projection

Updated 10/17/19

	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
Federal CCDF Funds	Actual	Estimate	Request	Request	Request
CCDF Carryforward (Unspent Balance)	\$ 43,841,856	\$ 51,966,440	\$ 45,309,757	\$ 33,508,151	\$ 21,996,635
New Annual CCDF Award	\$ 100,192,700	\$ 101,320,712	\$ 100,425,935	\$ 100,425,935	\$ 100,425,935
Total Funds Available	\$ 144,034,556	\$ 153,287,152	\$ 145,735,692	\$ 133,934,086	\$ 122,422,570
Base Expenditures	\$ 92,068,116	\$ 107,977,395	\$ 107,977,395	\$ 107,977,395	\$ 107,977,395
R-1/Comp Approach to Improving CC Quality			\$ 2,809,748	\$ 2,818,799	\$ 2,818,799
R-3/CCCAP Direct Services			\$ 3,155,573	\$ 2,856,432	\$ 2,856,432
R-8/Scholarships for EC Ed Professionals			\$ 100,000	\$ 100,000	\$ 100,000
R-31/Increase Efficiency of Resource & Referral			\$ (315,175)	\$ (315,175)	\$ (315,175)
R-27/Redirect Intrastate Redistribution Funding			\$ (1,500,000)	\$ (1,500,000)	\$ (1,500,000)
Total Expenditures	\$ 92,068,116	\$ 107,977,395	\$ 112,227,541	\$ 111,937,451	\$ 111,937,451
Roll Forward Balance	\$ 51,966,440	\$ 45,309,757	\$ 33,508,151	\$ 21,996,635	\$ 10,485,119

*The Department needs to maintain a CCDF Roll Forward Balance between \$8 and \$10 million dollars in order to have adequate funding for the 1st quarter of the next fiscal year, which represents the difference in timing between the federal award distribution schedule and the State fiscal year.