

Enclosure 3.a.

9/10/09

TO: Joint Fiscal Committee
Rep. Michael Obuchowski, Chair

FROM: Stephen R. Dale, DCF Commissioner
Reeva Murphy, Deputy DCF Commissioner for Child Development

DATE: August 31, 2009

SUBJECT: Proposal to Restructure the Child Care Financial Assistance Program

CONTEXT

In June, 2009, the legislature passed the budget bill which included sections E.318 and E.318.1 related to the child care financial assistance program (subsidy program). It requires that the Department "create a detailed proposal to reconstruct the current child care provider rate structure during the interim". It outlines specific areas where DCF should propose changes.

In addition, the same legislation lays out procedures as follows:

- (A) The department shall report to the joint fiscal committee no later than its September 2009 meeting with a proposal meeting the intent and purposes of this section and the criteria in this subsection (c).
- (B) The department shall also provide a summary of the proposal to the house committee on human services and the senate committee on health and welfare one week prior to the joint fiscal committee. The chairs of the house committee on human services and the senate committee on health and welfare may comment on the proposal to the joint fiscal committee.
- (C) The joint fiscal committee may approve, deny, or suggest modifications to the proposal. If the joint fiscal committee suggests modifications, the department may accept the modifications at the next scheduled joint fiscal committee meeting or may revise its proposal for presentation at the next scheduled joint fiscal committee.

Finalization of this plan requires rule making related to the base year of the fee scale. Under the statute, LCAR can approve the rule change only after JFC has approved the overall plan. Our hope would be to take the rule change to LCAR in October for approval, with a proposed implementation date for these changes set for January 3, 2009.

This document and its attachments comprise the "detailed proposal" and the process for getting it to this point. I look forward to meeting with you on September 10 to describe it in greater detail and to answer any questions you may have.

PROCESS

The attached proposal was created through an extensive process over the past four months. I personally visited all regions of Vermont during May and June, meeting with over 300 individuals to explain our proposal and to gather input. In addition, we have met with the Child Care Advisory Board, the Building Bright Futures Council, and various individual providers and advocates. In July, the original proposal was substantially revised and version 2 was sent out widely for additional input. We have since accepted input via the web and through a large meeting organized by Kids Are Priority One.

The input has served us all well. With each revision, the proposal has been improved. We in the Department have learned a great deal about how the system really works. We are grateful to work with such a fine group of providers and advocates in improving the system.

THE CASE FOR ACTION—WHY THIS IS IMPORTANT...NOW

- Vermont is in serious non compliance with federal guidelines. The fee scale is based on the 2000 Federal Poverty Level. Current rates allow access to only 41% of providers for families receiving a maximum subsidy.
- Vermont's overall system of benefits creates serious "benefits cliffs". A recent study by the National Center for Children in Poverty found that the inadequate system of supports for child care is the single biggest disincentive to enter the workforce in Vermont.
- Exceptions to the rule have been increasing in Vermont's system. More and more families have been seeking "variances" from the basic benefits system because current rates and eligibility levels limit access and affordability for assisted families. Special arrangements have been created with some providers to compensate for financial assistance system inadequacies. A public system must be built on fair and consistent distribution of benefits rather than on exceptions and variances.
- New dollars were appropriated in the FY'10 budget, providing an opportunity to move the system forward.

THE PROPOSAL

Attached are several documents which outline the details of the proposal. They are as follows:

Restructuring Vermont's Child Care Financial Assistance Program: Proposal Summary

Attachment A: Proposed Financial Assistance Fee Scale—January, 2010

Attachment B: Proposed Rate Schedule—January, 2010

Attachment C: Strengthening Families Grants

We will describe the proposal briefly at the JFC meeting on September 10. If any member would like to sit down to discuss this in more detail in advance, please contact Commissioner Steve Dale at 241-2100.

WHAT THIS PROPOSAL ACCOMPLISHES AND WHAT IT DOES NOT

This proposal is not a solution to all challenges related to child care. It does not assure that child care providers will receive adequate salaries and benefits. It will not assure that child care is a healthy industry

However, this proposal is a major start on addressing significant challenges in the system. It:

- Addresses the “benefits cliff” through a dramatic change in financial assistance for families.
- Increases accessibility to care by making it more likely that families can locate providers who will accept state rates.
- Begins to closely align Vermont’s system with federal guidelines
- Increases equity and fairness by reducing variances and special arrangements
- Promotes quality through dramatic financial incentives for achievement of higher STARS levels.

FINANCIAL IMPLICATIONS

DCF estimates that the new system can be implemented this year within the dollars appropriated. In FY’10, the changes constitute a restructuring of the current system.

In future years, there will be four areas that will require continued attention:

1. More children-- The proposal does not substantially increase the number of new families who will be eligible for assistance. However, a more functional system should help more currently-eligible families access care in order to go to work or training. Obviously, this is good social policy and should have long-term budget benefits in programs such as ReachUp. However, an improved system is likely to result in increased numbers of families applying for and taking advantage of this program.

2. Provider participation and progress in STARS-- Six years ago, Vermont created the STARS program to promote and support quality improvement. Providers receive a rate differential for earning more stars. Since that time, the number of programs enrolled has grown from a handful to 46% of all licensed centers and 10% of all registered home providers (24% overall). We are already on a track that is pushing up costs related to

quality. The new system provides an even greater incentive for programs to improve quality through the STARS program. . Over time, it is expected that this would increase STARS participation and thus, increase quality. This is great for children. It will exert some upward pressure on the budget over time.

3. Annual adjustments to the financial assistance fee scale-- This proposal adjusts the fee scale to the 2009 FPL effective January 3, 2010. It does not, however, guarantee annual adjustments in the future. As is true of the current system, the issue of adjusting to annually calibrated Federal Poverty Guidelines will need to be debated each year.

4. Regular payment rate adjustments in response to the market-- This proposal seeks to relate Vermont's system of provider payments to actual market rates as defined by the most recent market rate survey completed in 2008. This proposal does not guarantee future adjustments. As is true in the current system, each year the issue of payment rates will need to be revisited to keep it relevant to the actual fees paid by families in the Vermont market.

RESTRUCTURING VERMONT'S CHILD CARE FINANCIAL ASSISTANCE PROGRAM PROPOSAL

AUGUST, 2009

GOALS

- Increase access, affordability, and quality of child care
- Align Vermont's rates and eligibility requirements with federal guidelines.
- Reinforce incentives to achieve quality
- Increase work incentives

OVERALL APPROACH

Restructure the Child Care Financial Assistance program, using funds appropriated for FY'10, to improve access and affordability to quality child care.

BASIC ELEMENTS OF THE PROPOSED SYSTEM

- Update the fee scale to the 2009 Federal Poverty Level (FPL), adjusting the upper income limit from 82.5% of 2000 state median income (SMI) to 200% of the 2009 FPL, effective January, 2010. See attachment A for proposed new fee scale.
- Increase financial assistance rates for families to regulated facilities' based on STARS rating. Proposed new rates provide payment at the 75th percentile rate when a facility is between 4 and 5 stars. Rates in all categories are increased. STARS differentials are as follows:

| | |
|-------------|---------------|
| Base Rate | |
| One Star | 5% over base |
| Two Stars | 10% over base |
| Three Stars | 20% over base |
| Four Stars | 30% over base |
| Five Stars | 40% over base |

See Attachment B for proposed rate schedule.

- Change the rate differential for Protective Services/Family Support/Special Health Needs to 7% of approved rate.
- Because the pre-K system is still emerging, there will be no financial assistance reduction related to pre-K payments through a school. It is assumed at this time that additional funding will go to pay for quality and higher standards required by the Act 62 Regulations. DCF will continue to coordinate with DOE around this issue.
- Cease the current system of variances.
- Eliminate reserve spaces and infant/toddler grants. Maintain the current system of school age grants.
- Create a Strengthening Families Grant Program to help high quality providers who work with high needs children and families and provide infant care to maintain program strength and continuity of care for children. A more complete description of the program is in Attachment C. Over time this program will be structured to be widely available to programs which meet the particular criteria. In the first 18 months, the program will prioritize programs which are losing reserved spaces agreements and infant/toddler grants. Those programs must meet all quality standards, must provide the quality and quantity of services described in the description, and must show that there is financial need for grant assistance based on the implementation of the new system. This is not an entitlement or a guarantee of a certain funding level.

TIMETABLE

With appropriate legislative approval, all aspects of this plan are proposed to be implemented on January 3, 2009.

Child Care Financial Assistance

Attachment A: Proposed Financial Assistance Fee Scale - January 2010

Child Care Financial Assistance Based on Gross Monthly Income & Family Size

| % of Financial Assistance Paid by State | Family of 3 or less | Family of 4 | Family of 5 | Family of 6 or More |
|---|---------------------|-------------|-------------|---------------------|
| 100 | \$1,525 | \$1,837 | \$2,149 | \$2,461 |
| 99 | \$1,564 | \$1,884 | \$2,203 | \$2,524 |
| 98 | \$1,603 | \$1,930 | \$2,259 | \$2,586 |
| 97 | \$1,643 | \$1,978 | \$2,314 | \$2,651 |
| 96 | \$1,681 | \$2,025 | \$2,369 | \$2,713 |
| 95 | \$1,733 | \$2,088 | \$2,443 | \$2,798 |
| 90 | \$1,805 | \$2,175 | \$2,544 | \$2,914 |
| 85 | \$1,878 | \$2,261 | \$2,644 | \$3,029 |
| 80 | \$1,955 | \$2,355 | \$2,755 | \$3,156 |
| 75 | \$2,033 | \$2,449 | \$2,865 | \$3,281 |
| 70 | \$2,111 | \$2,544 | \$2,976 | \$3,408 |
| 65 | \$2,190 | \$2,638 | \$3,085 | \$3,534 |
| 60 | \$2,268 | \$2,731 | \$3,196 | \$3,660 |
| 55 | \$2,346 | \$2,827 | \$3,306 | \$3,786 |
| 50 | \$2,425 | \$2,920 | \$3,416 | \$3,913 |
| 45 | \$2,503 | \$3,015 | \$3,526 | \$4,038 |
| 40 | \$2,581 | \$3,109 | \$3,637 | \$4,165 |
| 35 | \$2,660 | \$3,203 | \$3,747 | \$4,292 |
| 30 | \$2,737 | \$3,298 | \$3,857 | \$4,418 |
| 25 | \$2,815 | \$3,392 | \$3,967 | \$4,543 |
| 20 | \$2,893 | \$3,486 | \$4,078 | \$4,670 |
| 15 | \$2,972 | \$3,581 | \$4,187 | \$4,797 |
| 10 | \$3,050 | \$3,674 | \$4,298 | \$4,922 |

Child Care Financial Assistance

Attachment B: Proposed Rate Schedule - January 2010

- Rates indicate 100% financial assistance
- Rates for legally exempt providers remain the same

Full-Time Child Care in Licensed Centers

| Age Category | Current Base Rate | Proposed Base Rate | 1★ + 5% | 2★★ +10% | 3★★★ +20% | 4★★★★ +30% | 5★★★★★ +40% |
|--------------|-------------------|--------------------|------------|-------------|--------------|---------------|----------------|
| Infant | \$129.22 | \$137.14 | \$144.00 | \$150.86 | \$164.57 | \$178.29 | \$192.00 |
| Toddler | \$128.15 | \$133.43 | \$140.10 | \$146.77 | \$160.11 | \$173.46 | \$186.80 |
| Preschool | \$114.14 | \$129.60 | \$136.08 | \$142.56 | \$155.52 | \$168.48 | \$181.44 |
| School Age | \$111.36 | \$125.71 | \$132.00 | \$138.29 | \$150.86 | \$163.43 | \$176.00 |

Full-Time Child Care in Registered Child Care Homes

| Age Category | Current Base Rate | Proposed Base Rate | 1★ + 5% | 2★★ +10% | 3★★★ +20% | 4★★★★ +30% | 5★★★★★ +40% |
|--------------|-------------------|--------------------|------------|-------------|--------------|---------------|----------------|
| Infant | \$104.00 | \$114.29 | \$120.00 | \$125.71 | \$137.14 | \$148.57 | \$160.00 |
| Toddler | \$102.96 | \$102.86 | \$108.00 | \$113.14 | \$123.43 | \$133.71 | \$144.00 |
| Preschool | \$89.30 | \$98.86 | \$103.80 | \$108.74 | \$118.63 | \$128.51 | 138.40 |
| School Age | \$89.30 | \$95.14 | \$99.90 | \$104.66 | \$114.17 | \$123.69 | \$133.20 |

Child Care Financial Assistance Attachment C: Strengthening Families Grants

Center based programs will be offered a new opportunity to apply for a limited pool of funds which will be awarded annually by Child Development Division (CDD) as Strengthening Families Grants.

This program will be developed to ensure affordable access to high quality comprehensive programs for children and families challenged by economic instability and other environmental risk factors. They will also focus on maintaining a supply of high quality infant-toddler care. In SFY 2010 and 2011, the priority for this program is to ensure stability for those Licensed Centers transitioning from reserved spaces agreements and infant toddler grants into the new Financial Assistance Program structure and to ensure continuity of care for those children and families who traditionally have received services and assistance in reserved spaces.

In subsequent years the program will be open to all Licensed Centers who meet established criteria and agree to provide all or some of the comprehensive services requested by the CDD. In fall, 2009 Licensed Centers currently participating in either reserved spaces agreements or infant-toddler grants will be invited to apply for grants which will be awarded beginning January 2010. Those who meet established criteria and agree to provide requested services for children and families will receive funding allocations based on size, enrollment and capacity to deliver services.

Criteria: All programs must meet these criteria to receive a grant in this program

- Participation in Child Care Financial Assistance program
- Enrollment in STARS with rating of 4 or 5 stars
- Committed to an enrollment of Child Care Financial Assistance Program supported children as 30% of enrollment census – if this is not true at time of application, programs will be asked to submit an outreach plan to meet this goal
- Approved as Specialized Services Providers
- Provide full day/full year services

Priorities: These priorities will be considered in selecting grantees and allocating funds.

- Former participation in reserved spaces agreements or infant toddler grants
- Regional child care supply and demand
- Serve Infants and toddlers
- Commitment to serve populations of children and families identified as at particular risk including refugee children and teen parents
- Ability to provide a range of comprehensive services to children and families
- Demonstrated commitment to primary prevention strategies that support and strengthen families

Requested Services: Participating programs must commit to provide some or all of these comprehensive services for children and families.

- Accept Child Care Financial Assistance Program Maximum Rate as full payment for child care services provided to families receiving 100% of Child Care Financial Assistance Program benefit
- Support continuity of care and regular attendance for enrolled children
- Engage families as active participants in early care and education and school age programs
- Empower families as informed caregivers and advocates for their children
- Support for children's health (including ensuring a medical home for every child) and mental health
- Collaborate with Registered Child Care Homes
- Nutrition services
- Engage in collaborative community relationships such as Building Bright Futures Regional Councils
- Collaborate with local Children's Integrated Services Teams and service providers
- Provide inclusive early care and education or school age services

