

Agency: 357 Department of Early Learning
Decision Package Code/Title: B3 Parity for Child Care Centers

Budget Period: 2015-17
Budget Level: PL - Performance Level

Recommendation Summary Text:

In the summer of 2015, DEL and the Service Employees International Union Local 925 (SEIU 925) fulfilled a contract reopener clause that was negotiated the prior year to review and propose changes to base subsidy rates and tiered reimbursement rates for fiscal year 2017 of the family child care provider contract in effect July 2015 through June 2017. The parties agreed to selected base rate increases and revised tiered reimbursement awards for providers rating at levels 3, 4 and 5 in Early Achievers.

The department requests \$20,833,645 of General Fund State funding in order to fund the same increases (parity) for centers that participate in Working Connections Child Care (WCCC), Seasonal Child Care (SCC), and Homeless subsidy programs.

Fiscal Detail

Operating Expenditures	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
001-1 General Fund - Basic Account-State		20,833,645	20,833,645
Total Cost		20,833,645	20,833,645

Package Description:

During bargaining of the 2015-17 biennial collective bargaining agreement in the summer of 2014, DEL and SEIU 925 negotiated a contract reopener clause to further negotiate subsidy rates and other Early Achiever benefits the following year (in the summer of 2015). At the reopener bargaining this past summer, the parties agreed to selected base rate increases for licensed family homes and revised tiered reimbursement awards for family home providers rating at levels 3, 4 and 5 in Early Achievers. The level award for providers at level 2 remains at 2 percent.

To arrive at the negotiated base rate increases, current rates were compared to latest market rate survey. Where the current subsidy rates fell below the market rate for a level 3-rated provider, the base rate was increased so that a level 3-rated provider would be paid at the 75th percentile. The result of this was an 8 percent across-the-board rate increase for family homes, although the actual rate increases vary from 0-35 percent and will be allocated specifically by regions and child age groups.

Additionally, the tiered reimbursement rates were adjusted as follows: The level 3-rated providers increased from 4 percent to 10 percent, level 4-rated providers increased from 10 percent to 15 percent, and level 5-rated providers increased from 15 percent to 20 percent.

To implement these same increases for centers that participate in Working Connections Child Care (WCCC), Seasonal Child Care

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(SCC), and Homeless subsidy programs is projected to cost \$20,833,645.

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

Parity for center providers relative to CBA amendments will rationalize provider subsidy base rates across provider types and will incentivize and facilitate progression through Early Achievers. This will result in subsidy eligible children across the state having access to demonstrated quality centers qualified to receive subsidy payments. With increased access to high quality learning experiences, DEL expects more children will enter kindergarten ready - as demonstrated by the Washington Inventory of Developing Skills (WaKIDS) - and more children will meet or exceed grade level expectations by third grade. The Department will also expect to see reduced grade level retention, transitional bilingual education and special education enrollment by third grade.

Performance Measure Detail

Activity:

Incremental Changes

No measures submitted for package

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

This decision package supports DEL's Strategic Plan to:

- Incentivize and facilitate quality improvements in early learning programs;
- Implement a comprehensive, statewide, integrated system of preparation and professional development for early learning professionals;
- Fully fund and implement a voluntary Quality Rating and Improvement System (QRIS) so that early learning and school age providers have the support and resources necessary to improve the quality of their programs and environments.

Does this DP provide essential support to one or more of the Governor's Results Washington priorities?

This request supports Governor Inslee's Goal #1 to provide Washington children with a world-class education and meet the following priorities:

- Increase the percentage of children enrolled in high quality early learning programs from 2013 baseline to targets per program; and
- Increase the percentage of children entering kindergarten who demonstrate they are ready by 2 percent by 2015.

What are the other important connections or impacts related to this proposal?

The Child Care Development Block Grant (CCDBG) Reauthorization Act of 2014 requires states to take into consideration the cost of providing higher quality care, and the tiered reimbursement increases applied consistently across licensed provider types meets that requirement. The Early Start Act of 2015 also requires all licensed providers who accept subsidy to participate in Early Achievers and meet level requirements on certain timelines, and parity of tiered reimbursement awards is essential to keeping center providers on that track.

What alternatives were explored by the agency, and why was this alternative chosen?

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The state is bound to the terms of the Collective Bargaining Agreement with respect to subsidy rates and tiered reimbursement as they effect licensed family home providers. DEL considered not seeking parity for licensed center providers but rejected this solution because it failed to meet the requirements of CCDGB reauthorization, created a bifurcated payment and tiered reimbursement system, and did not facilitate center providers meeting Early Start Act requirements.

What are the consequences of adopting or not adopting this package?

Without this package, DEL will fail to meet the requirements of CCDGB reauthorization, create a bifurcated payment and tiered reimbursement system, and will not facilitate center providers meeting Early Start Act requirements.

What is the relationship, if any, to the state's capital budget?

None

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

None

Expenditure and revenue calculations and assumptions

Grants, Benefits, and Client Services: \$20,833,645

I. Base Rate Increase

The subsidy base rate increase for WCCC is calculated as follows. The number of WCCC families in centers is 18,434 and the average cost per family in a center is \$750.28. The rate increase is 8% for both the state and family copay portions, giving an effective rate of 8.8%. The center cost in WCCC is \$14,605,179 (18,434 families X \$750.28 X 8.8% X 12 months = \$14,605,179).

The subsidy base rate for SCC is calculated as follows. The number of SCC families in centers is 104 and the average cost per family is \$1,075. The rate increase is 8% for both the state and family copay portions, giving an effective rate of 8.8%. The center cost in SCC is \$118,061 (104 families X \$1,075 X 8.8% X 12 months = \$118,061).

The subsidy base rate for the Homeless Program is calculated as follows. The number of homeless families in centers is 130 and the average cost per family is \$494. The rate increase is 8% for both the state and family copay portions, giving an effective rate of 8.8%. The center cost in the Homeless Program is \$67,816 (130 families X \$494 X 8.8% X 12 months = \$67,816).

Therefore, the total cost of the subsidy base rate increase is \$14,791,056 for FY17 (\$14,605,179 + \$118,061 + \$67,816 = \$14,791,056).

II. Level Award Rate Changes

The cost of tiered reimbursement (level awards) rate changes was calculated in nine steps, starting with the February 2015 WCCC forecast and DEL's projections in December 2014 for the number of children in each early achievers level as required by the Early Start Act.

Step 1. The new level awards were increased as follows for WCCC.

The average monthly subsidy rate for a center provider in FY16 is \$497.76. This amount was adjusted for the base rate increase to occur in July 2016 of 2 percent and for twelve months, to arrive at an annual base payment of \$6,093 (\$497.76 X 1.02 X 12 months = \$6,093).

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Level 2: The current FY17 2% award is \$122 ($\$6,093 \times .02 = \122) and no change is proposed.
Level 3: The current FY17 annual 4% award is \$244 ($\$6,093 \times .04 = \244). The proposed FY17 annual 10% award is \$610 ($\$6,093 \times .10 = \610).
Level 4: The current FY17 annual 10% award is \$610 ($\$6,093 \times .10 = \610). The proposed FY17 annual 15% award is \$915 ($\$6,093 \times .15 = \915).
Level 5: The current FY17 annual 15% award is \$915 ($\$6,093 \times .15 = \915). The proposed FY17 annual 20% award is \$1,220 ($\$6,093 \times .20 = \$1,220$).

Step 2: The projected number of children at each level, previously determined by using the February 2015 forecast and the provider levels targets required under the early start act, was multiplied by the current FY17 level award amounts and the proposed level award amounts. At level 2, the awards stayed at \$1,496,330 under the current and proposed award amounts. At level 3, the awards went from \$2,612,996 to \$6,532,490. At level 4, the awards went from \$1,337,730 to \$2,006,595. At level 5, the awards went from \$91,500 to \$122,000. The total awards at current reimbursement rates are \$5,538,556 ($\$1,496,330 + \$2,612,996 + \$1,337,730 + \$91,500 = \$5,538,556$). The total awards at the proposed reimbursement rates are \$10,157,415 ($\$1,496,330 + 6,532,490 + \$2,006,595 + \$122,000 = \$10,157,415$).

Step 3: The same calculations in Step 2 were performed to determine the cost for increasing the family home awards by to the same amounts. These amounts were included in the collective bargaining cost proposal submitted by OFM.

Step 4: The cost per child figure was calculated by dividing the total level awards by the number of children in WCCC in centers and family homes. The cost with the current tiered rates is \$196 and with the new rates is \$357.

Step 5: The amount of level awards for the Homeless and Seasonal child care programs were determined. The Homeless childcare program has an average caseload of 130 children providers who are not covered under the collective bargaining agreement. Using the per child rate established in Step 4, the annual level awards were calculated. Under current rates, the level awards for providers are \$25,480 ($\$196 \times 130 = \$25,480$). Under proposed rates, the level awards for providers are \$46,020 ($\354×130). Seasonal childcare has an average caseload of 3,501 children, 16% served by centers. Using the per child rate established in Step 4, the annual level awards were calculated. Under current rates, the level awards for center providers are \$109,791 ($\$196 \times 3,501 \times 16\% = \$109,791$). Under proposed rates, the level awards for center providers are \$198,297 ($\$354 \times 3,501 \times 16\% = \$198,297$).

Step 6: The totals level awards for WCCC and SCC center providers and for all of Homeless were summed, for a total of \$5,673,827 for the current level award rates ($\$5,538,556 + \$25,480 + \$109,791 = \$5,538,556$) and \$10,401,732 ($\$10,157,415 + \$46,040 + \$198,297 = \$10,401,732$) for the proposed new rates.

Step 7: The total level awards for the three programs in Step 6 were multiplied by a factor of 1.09 to account for the 12 months of guaranteed child care under the early start act that begins July 1, 2016. Under the current awards, this came to \$6,166,247 ($\$5,673,827 \times 1.09 = \$6,166,247$). Under the proposed new award amounts, this came to \$11,304,478 ($\$10,401,732 \times 1.09 = \$11,304,478$).

Step 8: The amount for the new award amounts was multiplied by 1.08 to reflect the subsidy base rate increase effect of the awards, for a total amount of \$12,208,836 ($\$11,304,478 \times 1.08 = 12,208,836$).

Step 9: The cost of the existing award amounts was subtracted from the proposed awards amount, for a difference of \$6,042,589 ($\$12,208,836 - \$6,166,247 = \$6,042,589$), representing the cost of the proposed level award amounts for WCCC center providers, SCC center providers and for the Homeless child care providers.

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

All costs are ongoing.

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<u>Object Detail</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
N Grants, Benefits & Client Services		20,833,645	20,833,645

