

# City of Alexandria, Virginia

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## MEMORANDUM

**DATE:** APRIL 17, 2012

**TO:** THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

**FROM:** RASHAD M. YOUNG, CITY MANAGER 

**SUBJECT:** BUDGET MEMO #39: EARLY CHILDHOOD FUNDING ISSUES AND CONCERNS

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This memorandum is in response to a request from City Council to provide information about the Child Day Care Fee System (Fee System) and the issues presented by family child care providers at the March 5, 2012 public hearing on the FY 2013 Proposed Budget. It also addresses funding recommendations proposed in a letter from the Chair of the Hopkins House Preschools Academy Committee. In the letter, the Chairman recommends that City Council set aside \$550,000 in Contingent Reserves to restore early childhood program reductions proposed in the City Manager's FY 2013 Operating Budget, subject to the recommendation of the newly created Children, Youth and Families Collaborate Commission.

The FY 2013 Proposed budget includes three reductions to early childhood programs totaling \$519,680. These include a decrease to the Fee System of \$414,352 resulting from the State assuming administration of the program. The decrease is comprised of \$115,940 from eliminating the 10% local match that is now funded by the State and a \$298,412 decrease in local support for child care assistance services for approximately 41 children in FY 2013 as a result of the State implementing a new automated system that does not allow localities to blend local funds with federal and State funds. The second reduction involves the local match of \$5,328 for the State Quality Initiative that had been eliminated by the State but has since been restored. Staff recommends adding the funding back to the budget as a technical adjustment in add/delete. The proposed budget also includes a reduction of \$100,000 that eliminates the child care provider rate supplement as the result of changes in the automated system that made the rate supplement no longer feasible to implement.

During the public hearing, some family child care providers requested \$451,000 in additional resources for health insurance and paid time off. Additional details regarding these reductions and requests are provided below. The request made by the family child care providers related to zoning restrictions and the number of children they are permitted to care for does not have a fiscal impact, but it is also discussed in this memorandum.

## **Child Day Care Fee System**

The Fee System is a Virginia Department of Social Services (VDSS) program that provides child care assistance to eligible families with incomes at or below 250% of the poverty level for children ages birth to 13 years. This program has two funding streams:

- An allocation of federal funding requiring no State or local match; and
- An allocation of federal funding requiring a 50% State match.

The City is on target to expend all Fee System program funds in the current fiscal year and, in addition, maintains a waitlist of approximately 411 children. Eligible families must meet the income criteria and be in need of child care because they are involved in an approved activity, such as work, training or educational activities through the baccalaureate level. In FY 2011, the Fee System served an average of 446 children per month.

Until recently the administration of the Fee System Program was predominately the responsibility of localities. Starting in February 2012 the State assumed the responsibility from localities of issuing payments to private child care vendors through the use of a new automated system. As a result, the City will no longer have to process paper invoices related to Fee System payments. The City will still be responsible for determining eligibility, developing service plans and setting up authorizations for payments.

The proposed budget includes a decrease in the Child Day Care Fee System budget of \$414,352, which is the total local amount committed to the Fee System. Of that total, \$115,939 is the amount dedicated to the local 10% match that was required until December, 2011. The elimination of the \$115,939 does not result in a reduction to the Fee System budget because it is being replaced by State dollars.

The remaining \$298,413 (\$414,352 less the \$115,939 local match no longer required) represents dollars that have historically been used to allow the City to enroll children into child care assistance programs for children ages birth to 13 years. Oftentimes in prior years, additional federal dollars were made available after the State's mid-year budget review and were used to replace the local dollars, which were often returned to the City's General Fund.

With the local transition to child care automation on February 1, the federal and State Fee System funds are no longer transmitted to localities and are managed at the State level. There is no longer a way to blend local dollars with federal and State Fee System dollars as the City has done for many years. When the local dollars were used as part of the Fee System, the \$298,413 served approximately 41 kids. There are no state stipulations that prevent us from using local dollars to provide more opportunities for children. However, City Council added \$253,000 last year to provide pre-school for 38 four year olds. With the additional 41 kids, the maximum caseload for the existing staff would be exceeded and additional program staff would be needed.

## **Local Match for State Quality Initiatives - \$5,328**

The second early childhood program reduction of \$5,328 is the local match for State Quality Initiative (QI) funding, used for early childhood training and other quality enhancement activities. This reduction was offered by the Department of Community and Human Services because the State notified localities that they would no longer offer QI funding through an allocation process. However, very recently the State notified localities that the QI process will continue as before, with a local match requirement. Staff will include the restoration of the match of \$5,328 as a technical expenditure adjustment in the forthcoming budget memo that will make corrections and adjustments to expenditures and revenues based on new information since the City Manager's Proposed budget was developed in January.

## **Restoration of the provider rate supplement**

The City Manager's FY 2013 Proposed budget includes a reduction of \$100,000 eliminating the child care provider rate supplement. The current supplement provides an additional \$2.20 per day for toddlers and \$5.40 for full day school age children (when school is not in session). During FY 2010, the average annual supplement per vendor was \$692. The rate supplement is a local initiative, started in FY 2002 that supplements the State's Maximum Reimbursable Rate (MRR) that is aimed at helping to provide additional financial support to local day care providers.

Before the transition to the state automated system, the rate supplements were administered automatically through the City's local payment system. The new state system cannot manage local payments which means that supplemental payments funded through local dollars would have to be made manually. With the State's decision to implement an automated system and an anticipated reduction in the need for administrative support at the local level, the City Manager's Proposed budget included the elimination of an administrative position resulting in a savings of approximately \$72,000. If the City decided to continue to pay the supplement, the manual processing of invoices for supplemental pay would likely require the restoration of an administrative position to continue the payment processing, above the \$100,000 to restore the family child care provider rate supplement.

## **Family Child Care Providers**

At the FY 2013 budget public hearing held on March 5, 2012 local family child care providers brought the following issues to Council's attention:

- 1) Restoration of funding for the provider rate supplement (\$100,000);
- 2) Funding to cover 7 days of paid time off (\$88,000)
- 3) Funding support for health insurance for providers (\$363,000); and
- 4) Changes to the current zoning restrictions on the number of children providers are legally allowed to care for in a private home day care center.

The cost to provide funding for the restoration of the rate supplement, 7 days of paid time off and health insurance for providers is estimated to be at least \$551,000. The true cost is likely to be much higher because the estimate to fund health insurance coverage is based on a FY 2003

analysis. These costs also do not include estimates for the restoration of administrative staff that would be required to process the rate supplements and paid time off which cannot be paid for through the new state automated system.

Staff is not recommending that City Council include additional funding in the FY 2013 budget to restore the rate supplement, fund health care coverage or paid time off for providers. Instead, staff recommends that the City work with local family child care providers in their efforts to work with VDSS to change their current policies regarding local funding for rate supplements and paid time off. Staff believes updated cost analysis needs to be conducted before the City commits funds to support health care coverage for local providers. Finally, staff is open to working with local providers to discuss changes to the current zoning ordinance to possibly allow for greater flexibility in the number of children served within private homes.

### **Other Issues Raised by Family Child Care Providers**

#### **Paid Time Off**

Effective July, 2010, in preparation for the transition to a state automated system noted above, VDSS updated child care policy so that regulations would be consistent state-wide and manageable in a state-wide payment system. One of the results of these changes was that the City of Alexandria and other agencies lost the ability to offer personal days that providers could use for medical appointments, sick leave or vacation time. The new state payment system does not allow for payment of local funds or for anything not included in state child care policy, including paid time off.

Under the previous system Alexandria offered personal days to allow providers to take an occasional day off or sick day. Staff estimates the annual cost of funding seven personal days for family child care providers would be \$88,000. It should be noted that these payments cannot be made through the new state automated system and would have to be conducted manually by City staff. If City Council wanted to provide paid time off, the provider would have to bill the City through a paper invoice, outside of the state system that would need to be processed manually, similar to the discussion above regarding the provider rate supplement. City staff believes any manual transactions would require additional staff resources.

#### **Health Insurance for Providers**

As independent contractors, family child care providers do not qualify for coverage under the City's health care plans. With the assistance of staff and on their own initiative, provider groups have, over the years, explored a number of options including developing their own coverage group, aligning themselves with an existing non-profit or purchasing health care as an individual. They found that, even as a member of a group, the cost of coverage is prohibitive due primarily to the small size of their group.

In FY 2003, the Budget and Fiscal Affairs Advisory Committee (BFAAC) conducted a full analysis of the cost to provide health care coverage for family child care providers (see Attachment 1). The BFAAC analysis concluded that the estimated cost in FY 2003 to provide

health care coverage to family child care providers would be \$363,000 annually. It is very likely that the FY 2003 cost estimate would be much more expensive in FY 2013 as health care costs have risen consistently on an annual basis and will likely continue to rise in future years. The BFAAC report recommended that the City focus on reforms at the State level that would help to expand health care coverage to low-income families and improve investments in City health clinics. It should also be noted that BFAAC raised concerns that subsidizing health insurance costs for child care providers would likely create pressure on the City to do the same for other contractors.

### **Limit to the Number of Children Providers Can Care For**

Since 1992, the City's zoning ordinance, which allows family child care homes with up to five children (up to nine children with an SUP) counts resident children under the age of 14 toward the maximum number of children allowed in the home. These children count toward the maximum even if they are school age because resident children are in the home during school holidays, snow days and summer breaks. If the City wishes to be more permissive, there are potentially two ways that the zoning ordinance could be changed. First, without changing the number of children permitted, the City could choose *not* to count resident children. This approach would be consistent with zoning requirements in Arlington and Fairfax. Another approach would be to change the age at which resident children are included in the count from below 14 to below 12 or even 10 years old. Either option would require changes to the current zoning ordinance.

### **ATTACHMENTS:**

1. Budget and Fiscal Affairs Advisory Committee Analysis
2. Hopkins House Letter

**STAFF:** Laura Triggs, Acting Chief Financial Officer  
Morgan Routt, Acting Budget Director  
Kendel Taylor, Assistant Budget Director  
Michael Gilmore, Director, Department of Community and Human Services (DCHS)  
Deborah Warren, Director, Center for Children and Youth, DCHS  
Carol Farrell, Chief, Early Childhood Division, DCHS

# **Overview of Report on the Family Day Care Providers Health Coverage**

City of Alexandria

Budget and Fiscal Affairs  
Advisory Committee

March 26, 2003

## Background

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- ◆ During FY03 budget process, UNITY asked Council to provide City funding of health benefits for family child care providers
- ◆ Family child care providers are City Department of Human Services (DHS) contractors who provide child care services to DHS clients under federally-subsidized child care program
- ◆ DHS makes the payment to the provider on behalf of the parent who is eligible for the subsidy
- ◆ Family child care providers offer a critical and valuable service to DHS clients

## Council requested that BFAAC assess five issues in its report

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1. Alternative ways coverage could be obtained and administered;
2. Cost and benefits of these alternatives;
3. How each alternative could be funded;
4. Other local/state government programs that play a role in obtaining health insurance for low-income, private wage earners; and
5. Any precedent that could be created and how the City should handle it.

*BFAAC was not asked to address whether family child care providers are fairly compensated or face particular difficulty in obtaining access to affordable health insurance coverage.*

# Affordable health coverage is growing local, national concern

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- ◆ In Alexandria, the United Way/City survey of the working poor found that 41% of those surveyed reported they had no health insurance
- ◆ In U.S., 1 in 6 persons are without health insurance
- ◆ Employers are struggling to maintain affordable coverage for employees

## **BFAAC recommends the City focus on reforms at state level**

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- ◆ Expand Medicaid, SCHIP/FAMIS to serve more low-income families with federal dollars
- ◆ Identify other alternatives to prevent erosion of affordable health insurance options
- ◆ Modify insurance regulations to ensure self-employed, sole proprietors (e.g., family child care providers) have access to affordable health insurance

# 1. Alternatives

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- ◆ Full, comprehensive coverage
  - Broadest coverage, low out-of-pocket costs
  - Highest premiums
- ◆ Limited coverage
  - Limited networks, higher cost-sharing
  - Moderate premiums
- ◆ Catastrophic/hospitalization coverage
  - Fewest benefits, lowest premiums
  - Protects against greatest unexpected costs
  - Could be coupled with access to community resources

# UNITY raised concerns about the alternatives

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- ◆ Premiums (at any level) are not affordable given compensation levels of family child care providers
- ◆ City clinics provide limited access
  - Need for inpatient care
  - Unavailability of key specialists at Casey
  - Waiting times for appointments, hours of operation

## 2. Costs and benefits of alternatives

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- ◆ Costs of coverage driven by:
  - Benefits, cost-sharing, carrier
  - Eligibility criteria for participation
- ◆ BFAAC used UNITY's proposed premium/benefit design and eligibility criteria to provide preliminary costs
  - Full cost of monthly premium \$252/mo. (Spring 02)
  - Of 188 providers, about 125 meet criteria of earning at least \$1,960 in City payments over six months

## 2. Costs/benefits (cont.)

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- ◆ Total cost (in FY 03) would have been \$363,000
- ◆ Assuming 10% cost increase for FY 04, cost would be \$399,000
- ◆ Using eligibility threshold of \$1,960/six months (\$327/month) in City payments, BFAAC notes that premium payments by City would be worth 89 percent of the payment made to these vendors

### 3. Funding

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- ◆ City could pay monthly premiums into a fund that would be used to purchase benefits
  - UNITY has proposed that they could manage and administer the fund at no cost
  - BFAAC notes that this could raise potential legal issues
  - In discussions, questions arose as to whether providers would be required to join UNITY in order to receive benefits
- ◆ Unclear if the premium payments by the City would be treated as taxable income to the providers

## 4. Other government programs

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- ◆ Five state and local programs were identified – three state (Rhode Island, New York, North Carolina) and two local (New York City, San Francisco)
- ◆ With the exception of New York State and New York City, all other programs financed with federal and state Medicaid dollars
- ◆ New York and New York City rely on mandated participation by private sector entities

***None of the programs identified are applicable models for Alexandria***

## 4. Other government programs (cont.)

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- ◆ Federal programs provide some benefits that Alexandria could tap into
- ◆ Federally-qualified health center (FQHC) grant program
  - Arlandria gained designation as medically-underserved area
  - Arlandria Clinic/Alex. Health Dept. preparing necessary application
- ◆ Community Access Program (CAP)
  - Collaborative effort of clinics, hospital(s), local health dept.

## 5. Precedent

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- ◆ BFAAC identified two types of precedent
  - 1,054 City employees who do not receive health benefits (part-time, seasonal/temporary)
  - Other contractors (104 Companion Aides, Campagna Center and other organizations, about 130 other social services providers)
- ◆ UNITY believes that the particularly low compensation levels of family child care providers sets them apart from these other individuals/groups

## 5. Precedent (cont.)

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- ◆ Costs of providing similar benefits to these other persons (FY03 dollars):
  - \$1,594,00 - 2,390,000 for other City employees
  - \$315,000 for companion aides
  - \$393,000 for other individual providers
- ◆ BFAAC notes long-term costs are unpredictable, but growing rapidly
- ◆ Providing health insurance will likely create pressure on City to do the same for other contractors, organizations
  - Campagna Center representatives told BFAAC, staff that they will request similar benefits

## **City should take steps to help providers (and others in the community) obtain coverage:**

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- ◆ Improve investment in City health clinics, INOVA Alexandria facilities to make care more available and affordable
- ◆ Work with INOVA to garner more indigent care funds, increased funding for state/local hospitalization program, improved Medicaid/ FAMIS enrollment
- ◆ Facilitate relationships among child care providers, groups for purposes of health insurance purchasing/underwriting
- ◆ Pursue efforts to reduce the number of uninsured persons in Virginia, for example, recent legislation to help working disabled to buy into Medicaid

# HOPKINS HOUSE

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*A Learning Center for Children, Youth, and Families*

**Alexandria Center**  
*Helen Day Preschool Academy*  
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**Fairfax Center**  
*James L. & Juliette McNeil Preschool Academy*  
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Fax: (571) 480-4279

March 12, 2012

Mayor and Members  
Alexandria City Council  
301 King Street  
Alexandria, VA 22314

Subject: FY13 Proposed Budget

Honorable Mayor and Members of the City Council:

On behalf of the Trustees of Hopkins House, I write in appreciation of the difficult challenges that you face during every budget, and particularly the one now before you.

While we are appreciative that the City Manager's proposed FY 2013 Operating Budget has largely preserved our City's critical safety net, we are concerned that the \$550,000 of cuts to early childhood programs risk leaving behind many children of our City's low-income families.

With there are many changes occurring to the funding of early childhood programs, as well as the shifting needs within our community, we believe that the best manner to address this situation is that City Council renew its commitment to our most vulnerable children, and set aside the money realized from these cuts into contingent reserves, subject to the recommendation of the newly created Children, Youth and Families Collaborative Commission as to the best way to address these critical needs.

We are well aware that with every recent budget cycle in Richmond and Washington, more cuts are made to the funds that Alexandria relies on to assist needy families in our City. Alexandria has been generous in the past in ensuring that these families do not bear the brunt of these unfortunate cuts and now, as we recover from one of the deepest economic downturns in recent memory, it is more important than ever that the City renew this commitment.

Continued...

If the City Manager's proposed cuts to early childhood programs are made, providers in Alexandria will not have the financial resources to provide services for low-income families. A domino effect then begins as these children enter kindergarten behind their classmates who have benefited from high-quality preschool experiences.

With over 400 children currently on the waiting list for Childcare Fee Subsidy Assistance in the City, Alexandria simply cannot afford to have that list swell.

Alexandria has historically been a city that reflects its deep commitment to its children by investing in their future – particularly for those most in need. We ask that the City Council and the City Manager continue this strong commitment to Alexandria's children and their families.

Thank you,

A handwritten signature in black ink, appearing to read 'J. Wilson', with a long horizontal line extending to the right.

JUSTIN M. WILSON  
Chair, Preschool Academy Committee  
Board of Trustees

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