S. Duke Storen
COMMISSIONER

COMMONWEALTH of VIRGINIA
DEPARTMENT OF SOCIAL SERVICES
Office of the Commissioner

September 1, 2018

MEMORANDUM

TO: The Honorable S. Chris Jones, Chairman
House Appropriations Committee

The Honorable Emmett W. Hanger, Jr.
Co-Chairman, Senate Finance Committee

The Honorable Thomas K. Norment, Jr.
Co-Chairman, Senate Finance Committee

FROM: S. Duke Storen

SUBJECT: Plan on Intended Allocation and Spending of Additional Federal Child Care and Development Fund Monies

I am pleased to submit the Department of Social Services' plan on intended allocation and spending of additional federal Child Care and Development Fund monies pursuant to Item 340.P, 2018 Special Session I, Virginia Acts of Assembly, Approved June 7, 2018.

If you have questions or would like additional information concerning this plan, please contact me.

SDS:ban
Attachment

cc: The Honorable Daniel Carey, MD, Secretary of Health and Human Resources

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Virginia Department of Social Services
Plan on Intended Allocation and Spending of
Additional Federal Child Care and Development Fund Monies
Pursuant to the Consolidated Appropriations Act of 2018, PL 115-141
September 1, 2018

Mandate

The Department of Social Services shall submit a plan on the intended allocation and spending of additional federal Child Care and Development Fund (CCDF) monies to improve access to and quality of child day care in Virginia that are received pursuant to the Consolidated Appropriations Act of 2018, PL 115-141. The plan shall be submitted to the Chairmen of the House Appropriations and Senate Finance Committees by September 1, 2018. (Item 340.P, 2018 Special Session I, Virginia Acts of Assembly, Approved June 7, 2018)

Background

The Consolidated Appropriations Act of 2018 (Public Law 115-141) was signed into law by the President in March 2018. The law contained increased funding in support of the requirements imposed on states by the reauthorized Child Care and Development Block Grant (CCDBG) Act of 2014[i]. Virginia was notified in May 2018 by the U.S. Department of Health and Human Services, Administration for Children & Families, that it would receive an additional $42.8 million in Child Care and Development Fund monies in Federal Fiscal Year 2018. Congress is currently deciding on Federal Fiscal Year 2019 appropriations.

The U. S. Department of Health and Human Services communicated to states on April 5, 2018 the following related to the use of these funds:

> *Congress did not include new requirements for the funds in the appropriations language. However, there is language in the accompanying Senate report where Congress includes expectations for the funds. The report directs the U.S. Department of Health and Human Services (HHS) to work with lead agencies to do the following:*
>
> - *Support the full implementation of the Child Care and Development Block Grant (CCDBG) Act of 2014, including activities to improve the quality and safety of child care programs, increase provider reimbursement rates, and ensure that health and safety standards are met.*
> - *Ensure that CCDF lead agencies are fully in compliance with the CCDBG Act.*
> - *Make sure that lead agencies are aware of the availability of funds to make minor improvements to bring facilities into compliance with health and safety requirements and to improve professional development for the child care workforce.*

- *Ensure they are meeting the needs of families with nontraditional work hours.*
- *Increase access to affordable, high-quality child care to more low-income, working families.*

This additional funding provides an opportunity for lead agencies to invest in some of the expensive systems-building and infrastructure efforts that have come with implementing CCDBG reauthorization. These efforts include purchasing equipment for doing fingerprinting for background checks, building more consumer-friendly websites, and developing data systems that allow for integration across agencies.

This funding also provides an opportunity to support quality improvement efforts for informal child care that may currently be excluded from or underrepresented in such initiatives as quality rating and improvement systems and professional development.

During the 2018 Special Session I on June 7, 2018, the Virginia General Assembly appropriated $27,881,233 for SFY 2019 and $42,881,233 for SFY 2020 to enable the Virginia Department of Social Services (DSS) to begin utilizing these new federal funds. This plan on the allocation and spending of additional federal Child Care and Development Fund monies was developed by DSS and explains the intended purposes for which the monies will be used. Information from a number of sources was utilized to formulate the plan, including:

- Requirements set out in the Child Care and Development Block Grant Act of 2014;
- Requirements set out in the federal regulation governing the Child Care and Development Fund (45 CFR Part 98 – Child Care and Development Fund (CCDF) Program;
- Comments received during development of the state child care plan through five public hearings around the state and other input mechanisms including emails, an on-line comment box, and letters;
- Comments received during development of the new state regulation governing Virginia's Child Care Subsidy Program;
- Deliberations, discussions and reports of the School Readiness Committee and its subcommittees;
- The December 2017 report of the Joint Legislative Audit and Review Commission (JLARC) titled *Improving Virginia's Early Childhood Development Programs*; and
- A child care stakeholder meeting held in July 2018.

Plan for Use of Additional Child Care and Development Fund Monies

The plan for use of the additional $42.8 million will support the continued implementation of the Child Care and Development Block Grant Act and strategically utilize funds to increase access to safe, healthy, and quality early childhood care and education to help ensure more children enter kindergarten ready. Moreover, state agencies will be working together with a goal of better aligning, maximizing and scaling recent investments in early childhood such as the use of standard measurement tools across early childhood settings and the Virginia Kindergarten Readiness Project. Funds utilization will focus on increasing payment rates for child care providers providing services to the families participating in the Child Care Subsidy Program, improving the quality of child care, and implementing necessary automated system updates. These expenditures are shown in Table 1 and are described in the following sections of this document.

Increasing Payment Rates for Child Care Providers in the Child Care Subsidy Program. In SFY 2019 and SFY 2020, an estimated $16.8 million and $31.8 million respectively, will be utilized to increase payments to child care providers serving children enrolled in the Child Care Subsidy Program. The amount needed in SFY 2019 was adjusted downward by $15 million because of program underspending in SFY 2018. (See lines A and B in Table 1.) Level Two providers (providers licensed by the Virginia Department of Social Services, providers approved by the Department of Defense, and local ordinance providers permitted by Alexandria, Arlington and Fairfax), will receive these increases. As of June 2018, 93% of the children participating in the Subsidy Program were cared for in licensed or license-equivalent settings.

Over 18,500 children, 10,500 families and 2,200 child care providers will directly benefit from these increases in a number of ways. For example, as explained below, families in the Subsidy Program will have greater opportunity to exercise choice in the selection of child care providers because the revised Subsidy payment rates will cover the cost of care for an expanded number of providers in their community. The rate increase also represents an investment in Virginia's small business sector. The majority of Virginia child care providers are small businesses; in addition to the direct infusion of additional dollars to these operations, this investment of nearly $32 million through payment rate increases would result in multiplier effects on local economies.

States are required every three years to assess the rates at which child care providers participating in the Subsidy Program are paid, and are expected to set payment rates at levels that ensure equal access for eligible children to child care services that are comparable to child care services available to children whose parents are not eligible for the Subsidy Program. This is done through a statewide market rate survey. The U.S. Department of Health and Human Services recommends that rates be set at the 75th percentile of market rate survey findings. This means that a family participating in the Child Care Subsidy Programs should be able to afford care from 75% of the providers in the local market.

The 2018 market rate study findings showed that Virginia rates were substantially lagging behind the federal recommendation (Table 2). On average, across the state, Child Care Subsidy payments were set at a level that would enable families in the Subsidy Program to purchase care from about 41% of the providers in their locality. Provider payment rates for Level 2 providers in the Child Care Subsidy Program were raised in June 2018 to the 70th percentile of the market rate study findings to better ensure equal access for children participating in the program, provide parents with children in the Subsidy Program with greater choice of providers, more closely comply with federal expectations for the Child Care Subsidy Program, and encourage expanded provider participation in the Subsidy Program.

Table 1
Virginia Department of Social Services
Plan for Allocation and Spending of Additional
Awarded Federal Child Care and Early Childhood Development Fund Monies

Ref	Activity	SFY 2019 Proposed Use of New Federal Funding	SFY 2020 Proposed Use of New Federal Funding
A.	**45214 - VIEW Working & Transitional Child Care (State Mandate)**		
	Market Rate Increase	8,063,603	8,063,604
	Estimate of Additional VIEW Cases at 12-Month Eligibility	1,629,666	1,629,665
	Total 45214 VIEW Child Care	**9,693,269**	**9,693,269**
	45215 - At-Risk Child Care Subsidies & Quality Activities		
B.	At-Risk Child Care Subsidies		
	Base: (with adjustment for current program underspending)**	-15,000,000	0
	Market Rate Increase	17,463,241	17,463,241
	Estimate of Additional At-Risk Cases at 12-Month Eligibility	2,229,210	2,229,210
	Available Balance for Federal Graduated Exit Requirement	2,416,513	2,416,513
	Subtotal: At-Risk Child Care Subsidies	7,108,964	22,108,964
C.	Quality Activities		
	Criminal Background Investigations / Checks	4,000,000	4,000,000
	Infant & Toddler Targeted Funds	1,300,000	1,300,000
	Provider Staff Training and Tiered Reimbursement	3,279,000	3,879,000
	Pre-K Curriculum Pilot (Item 340 Q.1-3, 2018 Appropriations Act)	1,000,000	400,000
	Subtotal: Quality Activities	9,579,000	9,579,000
	Total 45215 At-Risk Child Care Subsidies & Quality Activities	**16,687,964**	**31,687,964**
D.	**All Other Child Care Activity Budgets**		
	Electronic Point of Service Fees / Modification (subprogram 45107)	1,500,000	1,500,000
	Total All Other Child Care Activity Budgets	**1,500,000**	**1,500,000**
	Total Planned Usage of Additional CCDF Discretionary Funds	**27,881,233**	**42,881,233**

***Best efforts have been made to estimate the impact of multiple intervening variables on Child Care Subsidy Program expenditures in SFY 2019 and SFY 2020. These variables include federal requirements related to 12-month eligibility redetermination, graduated exit, and case transfers between localities that will now be needed due to the 12-month eligibility requirement, plus the market rate increases. However, the DSS estimates are conservative, and portions of the unappropriated $15 million in At-Risk Child Care Subsidies monies may be needed in SFY 2019.*

Table 2
Previous Subsidy Program Payment Rates Compared to 2018 Market Rate Study Findings
Percentile* by Provider Type and Region
Level 2 Providers**

Provider Type	Region Central	Eastern	Northern	Piedmont	Western	**Statewide**
Center	39.1	33.1	37.0	52.7	51.1	**41.3**
Family	33.5	39.5	35.9	29.8	47.6	**40.0**
Total	38.7	33.4	36.7	50.8	50.7	**41.1**

* A percentile is a measure used in statistics indicating the value below which a given percentage of observations in a group of observations fall. For example, in the Central region, the previous payment rates fell at approximately the 39th percentile (38.7) in the range of rates from the 2018 market rate survey. Statewide, approximately 60% of the 2018 survey response is greater than the pre-June 2018 payment rate. All types of child care (infant, toddler, pre-school, before and after school, and school age) were included in the survey.

** Level 2 child care providers include providers licensed by DSS, approved by the Department of Defense and permitted by local ordinance in Alexandria, Arlington and Fairfax.

Source: Analysis of 2018 Market Rate Study findings, Division of Research and Reporting, Virginia Department of Social Services.

One department objective is to greatly diminish or eliminate local waitlists for the Child Care Subsidy Program. Toward that end, the cost estimates for the Subsidy Program include serving an additional 700 children. As usage increases, the department will monitor and assess whether additional funds can be used to serve families on waitlists.

The planned expenditures also include other estimated costs associated with new mandates established by the reauthorized CCDBG. These new mandates require that children enrolled in the program be eligible for a full 12-month period before redetermination of eligibility occurs. In the past, children ceased to be eligible when their parents stopped working or stopped participating in their education or training program. An estimated 19,200 children will benefit from this change which provides for greater continuity of care, a factor that supports children's early development. Providers also benefit from this because they have a more stable source of revenue as they work to support children's learning and development.

In addition, states must provide for a graduated exit from the Subsidy Program. Graduated exit provides for continued assistance at the beginning of a new eligibility period for families that continue to meet eligibility requirements, but whose income exceeds the State's income limit to initially qualify for Subsidy Program assistance, if the family income does not exceed 85% of the State Median Income for a family of the same size. For example, a family in Richmond that was previously eligible at application with a maximum monthly income of $3,280 would become ineligible at redetermination with a slight increase in their income amount. Under the new rule, they would remain eligible at redetermination with an income up to $6,720 per month or until they reach the 72-month limit on the receipt of assistance for non-TANF families set by the State Board of Social Services. During this graduated exit period, the family's share of the cost of care increases as their income increases, helping them to gradually assume more responsibility for the full cost of care.

Improving the Quality of Child Care. In SFY 2019 and SFY 2020, an estimated $9.6 million each year will be utilized to improve the quality of child care. (See Line C in Table 1.) While final decisions regarding efforts in this area were pending as of the date of this report, activities in this area will likely include:

- Criminal Background Investigations / Checks - Funds will be provided in the near term to pay for the cost of fingerprint criminal background checks for child care providers and their staffs to allow providers to plan to incorporate these costs into their respective operating budgets. The fingerprint background check (estimated at $4 million) is a new requirement of the CCDBG for all child care providers in the state and their staffs. The fingerprint check is more expensive than the previous criminal background check requirement for most providers. To assist with provider costs, the department committed to fund an initial round of background checks associated with the new CCDBG requirements, but the implementation and take-up rates by providers was slow. Because of this and the cyclical nature of providers adding summertime staff, expenditures are currently increasing. The ending date for this temporary support will be determined as more checks are completed and federal expectations regarding background checks are clarified. If the funds estimated are not fully utilized for background checks, DSS will move the funds to other quality activities.

- Increase Infant and Toddler Targeted Funds - The CCDBG included a new requirement that 3% of CCDF funds be expended to improve the supply and quality of child care programs and services for infants and toddlers, requiring Virginia to expend an additional $1.3 million in this category. Final decisions regarding efforts in this area were pending as of the date of this report, but include consideration of enhanced services and supports for child care providers to identify and address social and emotional development of infants and toddlers; possibly utilizing the Classroom Assessment Scoring System (CLASS) tool in a larger number of infant and toddler classrooms; strengthening infant and toddler provider capacity through a continuum of services to support their successful participate in Virginia Quality, the state's quality rating and improvement system; or supplementing an emerging DSS pilot project to further expand the supply of infant and toddler care in underserved areas of the state.

- Provider Staff Training and Tiered Reimbursement - The CCDBG requires states to have training and professional development frameworks in place that, among other items, include professional development offered on an ongoing basis and reflects research and best practices. States must also have requirements for pre-service and ongoing professional development for caregivers, teachers and directors of child care programs which participate in the Child Care Subsidy Program.

  Training and professional development offerings will be updated and enhanced to meet CCDBG requirements and ensure training reflects current best practice and early learning and developmental guidelines. Among the activities here are providing pre-service training, plus annual updates, that address 11 health and safety topics required by the CCDBG such as prevention and control of infectious diseases, prevention of sudden infant death syndrome and use of safe sleeping practices. In addition, low-cost on-line courses available to child care providers through the Community College Workforce Alliance will be updated.

A tiered reimbursement system for the Child Care Subsidy Program will be initiated to recognize and reimburse at a higher payment rate child care providers that demonstrate high quality of care through Virginia Quality. At the General Assembly's request, DSS provided for the 2015 General Assembly Session a *Report on the Study of a Tiered Reimbursement Program, Based on a Quality Rating and Improvement System (SJR 54, 2014).* JLARC in its December 2017 report, *Improving Virginia's Early Childhood Development Programs*, followed up on this concept and indicated that DSS may establish and administer a pilot program to provide higher Child Care Subsidy Program reimbursement rates for providers that demonstrate higher quality care. JLARC estimated that the cost of this pilot could range from $826,000 to $5.9 million annually. A total of $3,279,000 in the first year and $3,879,000 in the second year are allocated for provider staff training and tiered reimbursement as Virginia works toward better aligning, maximizing and scaling investments in early childhood.

- Pre-K Curriculum Pilot - Item 340 Q.1-3 of the 2018 Special Session I, Virginia Acts of Assembly, Approved June 7, 2018, includes language directing DSS to implement a pilot program in cooperation with the University of Virginia Center for Advanced Study of Teaching and Learning to improve early childhood classrooms in faith-based and private child day centers. A portion of the funds are to be utilized to develop a version of the Virginia Kindergarten Readiness Program for the pilot program to use in assessing four-year-olds in early childhood classrooms. Per the language in the Acts of Assembly, $925,000 in the first year is appropriated for these purposes, with $325,000 appropriated in the second year to implement an evaluation of the pilot program. It is anticipated that pilot findings related to curriculum and assessment will provide important and useful information for Virginia Quality.

  Pilot planning has been initiated with the University of Virginia, but it is not yet clear if the pilot and evaluation can be completed within the designated timeframes. DSS has reserved $1 million in the first year and $400,000 in the second year for this project. Administrative costs are included in these figures to facilitate and coordinate DSS responsibilities for this pilot.

Electronic Point of Service Fees / Modifications. In SFY 2019 and SFY 2020, $1.5 million will be expended each year to streamline the tracking of time and attendance for child care services and for development and enhancement of systems that track quality. (See Line D in Table 1.)

Conclusion

This plan has summarized and described the intended allocation and spending of additional federal Child Care and Development Fund (CCDF) monies that are made available to Virginia pursuant to the Consolidated Appropriations Act of 2018, PL 115-141. Activities described in the plan address important needs in Virginia and strategically utilize funds to increase access to healthy, safe and quality early childhood care and education to help ensure more Virginia children enter kindergarten ready. Funds utilization focuses on increasing payment rates for child care providers serving families participating in the Child Care Subsidy Program, improving the quality of child care, and implementing necessary automated system updates.

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[i] The Child Care and Development Block Grant Act established numerous new requirements in conjunction with the receipt of federal Child Care and Development Fund (CCDF) dollars. Among these requirements are: establishing health and safety requirements for child care providers on designated topics, ensuring child care providers receiving assistance through the CCDF participate in preservice and ongoing training on these topics, fingerprint background checks for all child care staff members, onsite inspections of unlicensed CCDF providers in addition to inspections of licensed providers that were already required by the state, standards for group size limits for CCDF providers, emergency preparedness planning and statewide disaster plans for child care, 12-month eligibility redetermination for families participating in the Child Care Subsidy Program, graduated phase-out of assistance (graduated exit) for Subsidy families whose income has increased at the time of redetermination, increasing the minimum quality set-aside from 4% to 9% of expenditures over a 5-year period, spending a minimum of 3% of expenditures to improve infant and toddler care, and providing information through a consumer-friendly website.