



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #1048

Temporary Assistance for Needy Families (TANF)

Child Care Licensing Funding (DHFS -- Children and Families)

[LFB 2001-03 Budget Summary: Page 392, #11]

CURRENT LAW

The Bureau of Regulation and Licensing (BRL) in the Department of Health and Family Services (DHFS), Division of Children and Family Services, is responsible for licensing and regulating child care and day care facilities, children's group homes, child caring institutions (CCIs), shelter care facilities and child placing agencies for foster care and adoption.

Currently, BRL has 98.95 FTE positions, including 62.8 FTE licensing specialists and program specialists who inspect and issue licenses to qualified new applicants, conduct ongoing monitoring visits and license continuation reviews, investigate complaints, take enforcement actions against non-compliant facilities and provide technical assistance, training and information to providers and the public.

BRL costs are currently supported from several funding sources, including federal funds the state receives under the child care and development fund (CCDF), the social services block grant (SSBG), program revenue (PR) from licensing revenues and GPR.

GOVERNOR

Provide \$369,100 PR in 2001-02 and \$382,600 in 2002-03 to reflect the net effect of: (a) transferring support for 4.6 FTE current child care licensing positions from licensing fee revenue to monies from the CCDF transferred from DWD; and (b) providing additional CCDF funds to support increases in the cost of travel, personnel, accounting and indirect services for current child care licensing staff. The bill would increase expenditures supported by CCDF by \$660,000

in 2001-02 and \$673,900 in 2002-03 and reduce expenditures supported by licensing fees by \$290,900 in 2001-02 and \$291,300 in 2002-03. [Under the bill, the increased CCDF transfer from DWD to DHFS would be \$804,300 in 2001-02 and \$988,500 in 2002-03. These numbers are higher than those in the DHFS budget because they contain reserves for pay plan, fringe benefits, and rent increases per DOA budget instructions.]

DISCUSSION POINTS

Bureau of Regulation and Licensing

1. The number of child care facilities licensed by BRL has remained relatively stable over the last few years, increasing from 5,265 facilities as of April 1, 1999, to 5,443 facilities as of April 1, 2001, an increase of 3.4% over a two-year period. However, there has been more significant growth in the number of licensed facilities in the southeast region of the state, where the number of licensed child care providers in Milwaukee County increased 32%, from 729 in 1998 to 962 in 2000. Table 1 identifies the current number of facilities licensed by BRL as of April, 2001, and the maximum number of children these facilities are licensed to serve.

TABLE 1

**Number of Licensed Facilities and Total Capacity
April 2001**

	<u>Number</u>	<u>Capacity</u>
Family Day Care	2,822	22,541
Group Day Care	2,295	118,158
Day Camp	74	3,848
Group Home	123	925
Child Caring Institution	38	1,656
Shelter Care	28	412
Child Placing Agency	<u>63</u>	<u>10,468</u>
Total	5,443	158,008

2. The Governor's budget recommendations are intended to transfer more of the program's costs from licensing fee revenue to CCDF funds to continue to fund the program at the current level without increasing licensing fees. Table 2 compares the source of funding for BRL positions in the DHFS base and under the Governor's recommendations.

TABLE 2

**Fund Source for BRL Positions
Fiscal Year 2000-01 and Under Governor's Bill**

<u>Fund Source</u>	<u>2000-01</u>		<u>Governor's Bill</u>	
	<u>Positions</u>	<u>Percent</u>	<u>Positions</u>	<u>Percent</u>
GPR	11.25	11.4%	11.25	11.4%
PR (License Fees)	14.89	15.0	10.29	10.4
PR (CCDF)	65.01	65.7	69.61	70.3
FED (SSBG)	<u>7.80</u>	<u>7.9</u>	<u>7.80</u>	<u>7.9</u>
Total	98.95	100.0%	98.95	100.0%

Program Deficits

3. DHFS currently projects that there would be a deficit of \$124,000 PR in the licensing fee appropriation and \$137,300 PR in the CCDF appropriation at the end of the 2000-01 fiscal year unless a portion of the program's costs are funded from other DHFS appropriations. DHFS has not determined how it will address these projected deficits. The revenue from fees has been insufficient to support program costs in recent years because of the modest growth in the number of licensed facilities. At the same time, program costs have increased each year to reflect increases in operating costs, including salary, travel and rent costs.

4. In the past, DHFS has funded increases in costs for BRL with funds budgeted from other appropriations, including the Division of Children and Family Services general program operations appropriation and federal indirect funds. The proposed funding in the Governor's budget was partially intended to address DHFS' request to make the child care licensing program self-sufficient by reducing the need for DHFS to fund program costs from other appropriations.

5. However, even under the Governor's budget, DHFS projects that BRL program costs would exceed budgeted funds by an estimated \$204,500 in 2001-02 and \$198,600. This deficit is primarily due to the manner in which DHFS allocates its information technology infrastructure costs to all DHFS programs, including BRL.

In its 2001-03 budget submission, DHFS requested \$3,294,800 (all funds) in 2001-02 and \$2,154,300 (all funds) in 2002-03, including \$40,000 PR in 2001-02 and \$44,800 PR in 2002-03 from licensing fee revenue and \$177,100 FED in 2001-02 and \$198,300 FED in 2002-03 of CCDF funds to support DHFS departmentwide IT infrastructure costs. When the Governor chose not to fund this item, the administration assumed that BRL would not be charged for these IT costs. However, DHFS is required to allocate infrastructure costs for federally-funded programs in a manner that prevents DHFS from exempting certain programs, such as BRL, from paying its proportionate share of these costs. For this reason, DHFS will continue to assess IT infrastructure

costs to BRL, even though no additional funding would be provided in the Governor's budget to support these costs. This will require BRL to either: (a) continue to fund program costs from other DHFS appropriations; or (b) reduce staff in BRL and use the funding that would otherwise support staff to instead support these infrastructure costs.

5. The Committee could choose to provide funding for licensing activities to fully fund projected program costs. However, to do so, either additional CCDF funds would need to be transferred from DWD (\$204,500 in 2001-02 and \$198,600 in 2002-02) or licensing fees would need to be increased by approximately 27%, effective October 1, 2001.

6. Alternatively, if no additional funding is provided for DHFS to support BRL, DHFS has indicated that it will no longer fund at least 4.0 positions in BRL, rather than continue to support the program from other DHFS appropriations. DHFS indicates that the functions it supports with the Division of Children and Family Services general program operations appropriation are no less of a priority than the DHFS licensing function. For this reason, even if the Committee adopts the Governor's recommendations regarding the CCDF funds, it could delete 4.0 positions, which would be consistent with the DHFS plan to address the program deficit. Funding that would otherwise be used to support these positions would instead be used to support BRL supplies and services costs.

Use of CCDF Funds

7. The CCDF funding increase in the Governor's bill is intended to support the child care licensing functions in BRL without increasing fees. This is why the bill would transfer support for 4.60 positions (\$299,100 in 2001-02 and \$300,600 in 2002-03) from licensing fees to the CCDF.

8. In addition, the Governor's budget proposes to increase the level of CCDF funds transferred from DWD to DHFS by \$660,000 in 2001-02 and \$637,900 in 2002-03 to support staff salaries, travel, infrastructure and other program costs. These amounts do not include reserves for pay plan, fringe benefits and rent increases that are included in the amount DWD would transfer to DHFS. These funds have a match requirement. DHFS has identified \$467,600 in 2001-02 and \$478,500 in 2002-03 in county crisis respite day care expenditures to meet this match requirement.

9. CCDF funds can be used for activities to improve the quality of child care services. These activities may include, but are not limited to: (a) improving the monitoring of, compliance with and enforcement of applicable state, local and tribal requirements pursuant to federal regulations; (b) providing training and technical assistance in areas appropriate to the provision of child care services; and (c) improving salaries and other compensation (including fringe benefits) for full- and part-time staff who provide child care services for which assistance is provided with CCDF funds. Therefore, supporting licensing activities is an appropriate use of these funds.

10. However, there are some arguments for increasing the proportion of BRL program costs funded with licensing revenue. As indicated in Table 1, 15.0% of the total BRL positions are supported with revenue from licensing fees, but under the Governor's bill, only 10.4% of these costs are supported with this revenue. In addition, the Committee may wish to maximize the use of

CCDF funds available for other eligible purposes, such as the child care subsidy program. For these reasons, the Committee could increase licensing fees to reduce the amount of CCDF budgeted to support BRL.

11. The current biennial licensing fees are structured as follows: (a) \$60.50 for family day care; (b) \$30.25 and \$8.47 per slot for group day care; (c) \$121 plus \$18.15 per slot for residential day care; (d) \$254.10 for a child placing agency; and (e) \$60.50 plus \$18.15 per slot for shelter care.

12. Alternatively, some would argue that fees should not be increased, and that additional CCDF funds should be used instead to support increasing program costs. First, licensing fees were last raised by 10% annually in the 1997-99 biennium. Second, increasing licensing fees would require facilities to either absorb these costs or pass the costs on to families with children enrolled in their programs. Third, licensing fees are currently higher than child care certification fees in some counties. Certification fees are established by counties and cannot be more than 150% of the licensing fee. In 2001, certification fees range from \$0 to \$75.

13. As previously indicated, the Committee could address the program's deficit under the Governor's budget. Increasing fees by 27% would provide sufficient revenue to support the program's projected deficit in the 2001-03 biennium. Alternatively, additional CCDF funds could be transferred to DHFS from DWD to support licensing functions and to maintain the current staffing levels. However, this would reduce the level of CCDF funds available for other purposes.

14. Alternatively, the Committee could increase licensing fees by a specified percentage, for example, 20%, which would partially offset the amount of CCDF needed by DHFS to fund the level of spending specified in the Governor's budget. Under this alternative, assuming the rate increase was effective October 1, 2001, the level of CCDF would be reduced by \$44,200 in 2001-02 and \$210,300 in 2002-03 and replaced with a corresponding amount of funding from licensing fees, revenue would increase by \$109,600 PR in 2001-02 and \$147,200 in 2002-03 and 4.00 positions in BRL would be eliminated. The difference between the increased revenue and decreased CCDF funds would fund compensation reserves for the remaining positions.

However, deleting these BRL positions, as DHFS intends to do if the Governor's recommendations are adopted, could negatively affect licensing performance. Therefore, to maintain the current staffing level, the Committee could increase licensing fees by 20%, beginning October 1, 2001 and provide \$160,300 PR in 2001-02 and delete \$11,700 PR in 2002-03 in CCDF funds and provide \$109,600 PR in 2001-02 and \$147,200 PR in 2002-03 in licensing fee funds.

15. Finally, the Committee could delete all of the Governor's recommendations to increase support for BRL with the CCDF. To maintain the level of expenditure authority as recommended by the Governor, licensing fees would need to be increased 185%, beginning October 1, 2001, and 4.0 positions would be deleted in BRL. To fully support the current licensing staff level, fees could be increased by 215%, beginning October 1, 2001.

ALTERNATIVES TO BILL

1. Adopt Governor’s recommendation to provide \$369,100 PR in 2001-02 and \$382,600 in 2002-03 to reflect the net effect of: (a) transferring support for 4.6 FTE current child care licensing positions from licensing fee revenue to monies from the federal child care development block grant (CCDF) transferred from DWD; and (b) providing additional CCDF funds to support increases in the cost of travel, personnel, accounting and indirect services for current child care licensing staff. In addition, adopt one of the following:

- a. Delete 4.0 PR positions in the BRL, beginning in 2001-02.

Alternative 1a	PR
2002-03 POSITIONS (Change to Bill)	- 4.00

b. Provide \$204,500 PR in 2001-02 and \$198,600 PR in 2002-03 in CCDF funds to support current BRL staffing levels. Increase CCDF funding in DWD by a corresponding amount.

Alternative 1b: DHFS	PR
2001-03 FUNDING (Change to Bill)	\$403,100

Alternative 1b: DWD	FED
2001-03 FUNDING (Change to Bill)	\$403,100

c. Increase fees by 27%, effective October 1, 2001, to the levels identified in the attachment and increase projected revenue by \$148,000 in 2001-02 and \$198,700 in 2002-03 to support the current BRL staffing levels. Provide an additional \$148,000 PR in 2001-02 and \$198,700 PR in 2002-03 to support BRL program costs.

Alternative 1c	PR
2001-03 REVENUE (Change to Bill)	\$346,700
2001-03 FUNDING (Change to Bill)	\$346,700

2. Increase licensing fees for child care facilities by 20%, effective October 1, 2001, to the levels shown in the attachment and increase projected revenue by \$109,600 PR in 2001-02 and \$147,200 PR in 2002-03. Provide \$109,600 PR in 2001-02 and \$147,200 PR in 2002-03 in licensing fee funds to DHFS to fund BRL program costs. Reduce CCDF funding in DWD and DHFS by \$44,200 PR in 2001-02 and \$210,300 PR in 2002-03. In addition, adopt one of the following:

- a. Delete 4.00 PR position in BRL.

Alternative 2a: DHFS	PR
2001-03 REVENUE (Change to Bill)	\$256,800
2001-03 FUNDING (Change to Bill)	\$2,300
2002-03 POSITIONS (Change to Bill)	- 4.00

Alternative 2a: DWD	FED
2001-03 FUNDING (Change to Bill)	- \$254,500

- b. Provide \$204,500 PR in 2001-02 and \$198,600 PR in 2002-02 in CCDF funds to support the current BRL staffing levels.

Alternative 2b: DHFS	PR
2001-03 REVENUE (Change to Bill)	\$256,800
2001-03 FUNDING (Change to Bill)	\$405,400

Alternative 2b: DWD	FED
2001-03 FUNDING (Change to Bill)	\$148,600

3. Delete all of the Governor's recommendations by reducing funding in the bill by \$369,100 PR in 2001-02 and by \$382,600 PR in 2002-03 in DHFS. Reduce funding by \$804,300 FED in 2001-02 and \$988,500 FED in 2002-03 in DWD. In addition, adopt one of the following:

- a. Increase licensing fees by 185%, effective October 1, 2001, to the levels identified in the table in the attachment and increase revenue by \$1,014,100 PR in 2001-02 and \$1,361,500 PR in 2002-03. Provide \$1,014,100 PR in 2001-02 and \$1,361,500 PR in 2002-03. Delete 4.00 PR positions in the Bureau of Regulation and Licensing in DHFS.

Alternative 3a: DHFS	PR
2001-03 REVENUE (Change to Bill)	\$2,375,600
2001-03 FUNDING (Change to Bill)	\$1,623,900
2002-03 POSITIONS (Change to Bill)	- 4.00

Alternative 3a: DWD	FED
2001-03 FUNDING (Change to Bill)	- \$1,792,800

b. Increase licensing fees by 215%, effective October 1, 2001, to the levels identified in the attachment to enable DHFS to maintain current staffing levels. Provide \$1,178,600 in 2001-02 and \$1,582,300 in 2002-03 to support BRL. In addition, increase revenue by \$1,178,600 PR in 2001-02 and \$1,582,300 PR in 2002-03.

<u>Alternative 3b: DHFS</u>	<u>PR</u>
2001-03 REVENUE (Change to Bill)	\$2,760,900
2001-03 FUNDING (Change to Bill)	\$1,981,800

<u>Alternative 3b: DWD</u>	<u>FED</u>
2001-03 FUNDING (Change to Bill)	- \$1,792,800

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Attachment

ATTACHMENT

Licensing Fees

	Current Fees	Alternative 1c (27% increase)	Alternatives 2a & 2b (20% increase)	Alternative 3a (185% increase)	Alternative 3b (215% increase)
Family Day Care	\$60.50	\$76.84	\$72.60	\$172.43	\$190.58
Group Day Care	30.25	38.42	36.30	86.21	95.29
-- Per Slot	8.47	10.76	10.16	24.14	26.68
Residential Day Care	121.00	153.67	145.20	344.85	381.15
-- Per Slot	18.15	23.05	21.78	51.73	57.17
Child Placing Agency	254.10	322.71	304.92	724.19	800.42
Shelter Care	60.50	76.84	72.60	172.43	190.58
-- Per Slot	18.15	23.05	21.78	51.73	57.17