

**N00D01  
Child Care  
Department of Human Resources**

***Operating Budget Data***

(\$ in Thousands)

	<u>FY 04 Actual</u>	<u>FY 05 Working</u>	<u>FY 06 Allowance</u>	<u>FY 05-06 Change</u>	<u>% Change Prior Year</u>
General Fund	\$44,957	\$49,004	\$43,617	-\$5,387	-11.0%
Special Fund	95	0	0	0	
Federal Fund	<u>87,365</u>	<u>87,914</u>	<u>82,213</u>	<u>-5,700</u>	<u>-6.5%</u>
<b>Total Funds</b>	<b>\$132,417</b>	<b>\$136,918</b>	<b>\$125,831</b>	<b>-\$11,087</b>	<b>-8.1%</b>
Contingent & Back of Bill Reductions			-81	-81	
<b>Adjusted Total</b>	<b>\$132,417</b>	<b>\$136,918</b>	<b>\$125,750</b>	<b>-\$11,168</b>	<b>-8.2%</b>

- The fiscal 2006 allowance decreases by \$11.2 million, a decrease of 8.2%. The majority of the decrease occurs in the Purchase of Care (POC) program which declines by \$8.8 million.

***Personnel Data***

	<u>FY 04 Actual</u>	<u>FY 05 Working</u>	<u>FY 06 Allowance</u>	<u>FY 05-06 Change</u>
Regular Positions	198.00	204.50	203.50	-1.00
Contractual FTEs	0.00	0.00	0.00	0.00
<b>Total Personnel</b>	<b>198.00</b>	<b>204.50</b>	<b>203.50</b>	<b>-1.00</b>

***Vacancy Data: Regular Positions***

Turnover, Excluding New Positions	8.00	3.93%
Positions Vacant as of 12/31/04	9.00	4.00%

- One position is abolished in the fiscal 2006 allowance as a general cost containment measure. When the vacancies are adjusted for this abolition, the vacancy rate drops to 3.93% which matches the budgeted turnover. This means that the Child Care Administration has no funds to fill any of the vacant positions during fiscal 2006 unless other positions become vacant during the course of the year.

Note: Numbers may not sum to total due to rounding.

For further information contact: Steve McCulloch

Phone: (410) 946-5530

## ***Analysis in Brief***

---

### **Major Trends**

***Child Care Is Safe:*** As in previous years, at least 95% of child care facilities are in compliance with critical health and safety standards.

***Fiscal Constraints Continue to Limit Accessibility:*** The percent of eligible families receiving Purchase of Care (POC) subsidies has declined dramatically since fiscal 2000 when 35% of eligible families were receiving subsidies. In fiscal 2006, it is estimated that only 15% of families that are eligible for subsidies will receive them. Affordability also continues to worsen. In fiscal 2003 85% of families receiving subsidies had co-payments of 10% or less of their gross income. By fiscal 2006 only 65% of families receiving subsidies will have co-payments of 10% or less.

### **Issues**

***Purchase of Care (POC) – The Program That Keeps on Giving:*** The POC program continues to bear the brunt of the efforts to close the foster care funding gap. Between fiscal 2004 and 2005, \$45.5 million in funding was shifted away from POC. Meanwhile, the wait list continues to grow.

***Credentialing Program Revisions Proposed – Performance Still Low:*** Low child care provider participation continues in the Credentialing Program. In response to committee narrative adopted last year, the department did an assessment of the barriers to participation and recommends program changes.

### **Recommended Actions**

1. Adopt committee narrative requesting the department to develop a list of alternative methods for improving the quality of child care.

**N00D01**  
**Child Care**  
**Department of Human Resources**

## ***Operating Budget Analysis***

---

### **Program Description**

The Child Care Administration (CCA) sets standards to ensure the safety of children in child care; regulates all child care centers and family child care homes; and encourages the development of additional child care facilities and quality improvements through collaboration with other agencies and community organizations.

CCA also supports the delivery of Purchase of Care (POC) services by Family Investment staff in local departments of social services. The POC program provides child care subsidies to eligible families to enable them to achieve and maintain economic self-sufficiency and avoid dependency on public assistance. Until December 2002, families with an income up to 50% of the State Median Income were eligible for immediate assistance. However, due to cost containment efforts, families not on cash assistance or those that have been off cash assistance for over one year are now placed on a waiting list.

Key goals for CCA include:

- child care is safe;
- child care is available and meets the needs of children and families;
- child care is accessible to low-income families; and
- child care providers pursue professional development to improve the quality of child care.

### **Performance Analysis: Managing for Results**

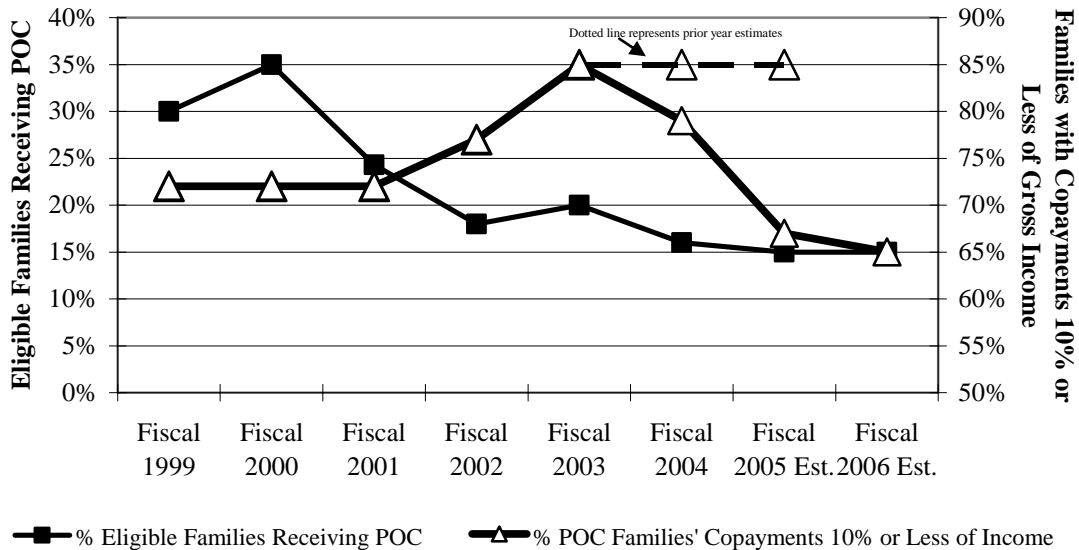
CCA aims to make child care safe, available, accessible, and of high quality for Maryland families. Child care in Maryland had been and continues to be safe. As in previous years, at least 95% of child care facilities are in compliance with critical health and safety standards.

The department is projecting an improvement in the availability of day care in fiscal 2005 compared to 2004. In fiscal 2004 there were 3.05 children under age 12 with mothers in the workforce for each slot. For 2005 and 2006 the department is predicting that there be only 2.6 children for each slot. This prediction should be viewed with caution, however, in light of similar predictions for increased availability made the past two years which did not materialize. **The department should comment on the factors which lead to the predicted increase in availability and the likelihood that the increased availability will actually materialize in fiscal 2005.**

*Analysis of the FY 2006 Maryland Executive Budget, 2005*

To measure whether child care is accessible for low income families, the Department of Human Resources (DHR) reports the percentage of eligible families receiving subsidies through the POC program and the percentage of POC families with co-payments at or below 10% of their annual gross incomes. As **Exhibit 1** demonstrates, accessibility for low income families has worsened in recent years. This reflects imposition of the wait list in fiscal 2003 and the increase in co-payment in fiscal 2004.

**Exhibit 1**  
**Accessibility Measures**  
**Fiscal 1999 – 2006**



Source: Maryland State Budget

## Governor's Proposed Budget

The fiscal 2006 allowance is \$11.2 million less than the current fiscal 2005 working appropriation as shown in **Exhibit 2**. There are personnel savings of \$332,000 due primarily to the reduction in funding for health insurance but also due to the abolition of one vacant position.

### Child Care Providers Pursue Professional Development to Improve the Quality of Child Care

The only area of the CCA budget to show an increase is in the Office of Credentialing which received an increase of \$833,433. The largest part of this increase is \$413,000 for child care provider bonuses (See Issue 2). The rest of the increase is included in the personnel components (\$200,000) and spread throughout the rest of the budget objects.

**Exhibit 2  
Governor's Proposed Budget  
DHR Child Care  
(\$ in Thousands)**

<b>How Much It Grows:</b>	<b>General Fund</b>	<b>Federal Fund</b>	<b>Total</b>
2005 Working Appropriation	\$49,004	\$87,914	\$136,918
2006 Governor's Allowance	43,617	82,213	125,831
Contingent & Back of Bill Reductions	-44	-37	-81
Adjusted Allowance	<u>43,573</u>	<u>82,176</u>	<u>125,750</u>
Amount Change	-\$5,431	-\$5,737	-\$11,168
Percent Change	-11.1%	-6.5%	-8.2%
<b>Where It Goes:</b>			
<b>Personnel Expenses</b>			
Increments .....			\$242
Retirement .....			91
Reduce overtime .....			-18
Position reclassifications .....			-28
Increased turnover .....			-51
Abolished position .....			-54
Health insurance .....			-377
Other fringe benefit adjustments .....			-139
<b>Child Care Providers Pursue Professional Development to Improve the Quality of Child Care</b>			
Child care provider bonuses .....			413
<b>Child Care Is Available and Meets the Needs of Children and Families</b>			
State Child Care Resource Center Network contract.....			-1,858
<b>Child Care Is Accessible to Low-income Families</b>			
Reduced Purchase of Care (POC).....			-8,771
<b>Other</b>			
Reduced contractual services.....			-474
Other fringe benefit adjustments .....			-144
<b>Total</b>			<b>-\$11,168</b>

Note: Numbers may not sum to total due to rounding.

### Child Care Is Available and Meets the Needs of Children and Families

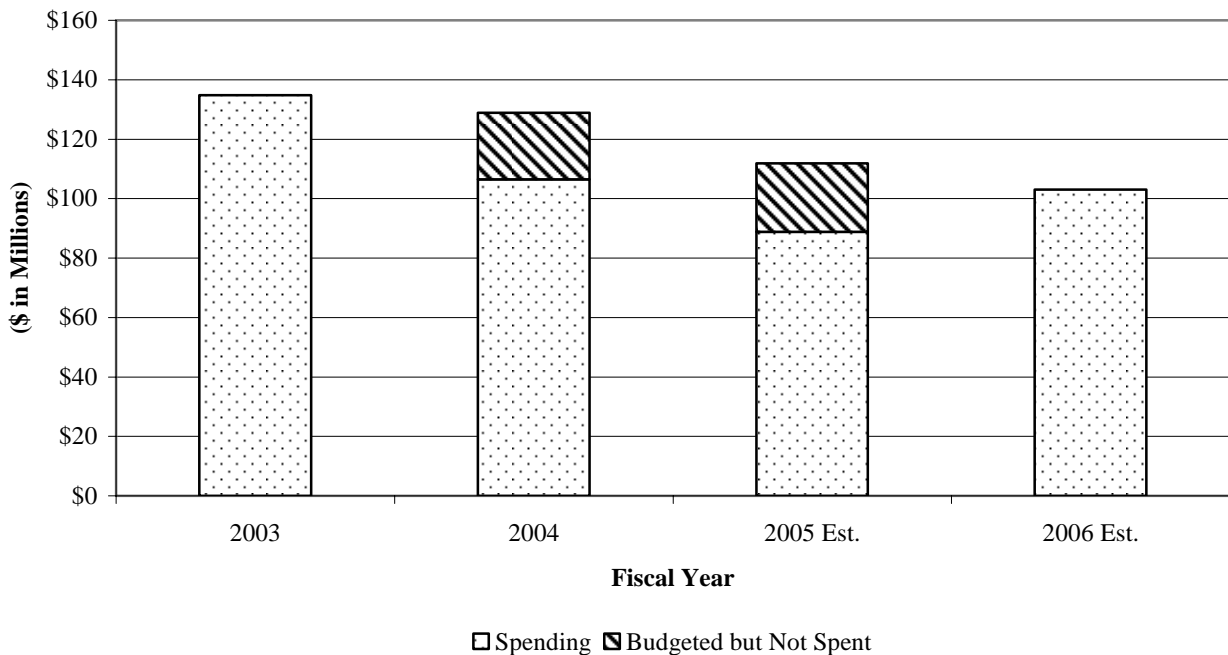
The contract for operation of the State Child Care Resource Center Network is funded in the fiscal 2006 budget at 50% of the level in the fiscal 2005 working appropriation. The reduction is \$1.9 million. The State Child Care Resource Center Network comprises 12 centers throughout the State that provide assistance to parents in locating child care services. The reduction is made as a general cost savings measure, and DHR indicates the reduction will have minimal impact. **DHR should inform the committee on the likely impact of this reduction with regards to reductions in services and closures of centers.**

### Child Care Is Accessible to Low-income Families

The POC program’s fiscal 2006 budget is \$8.8 million less than the fiscal 2005 working appropriation. This continues the trend from fiscal 2004 of using POC to help fund costs in foster care (See Issue 1). Reductions in POC funding decrease accessibility to child care for low-income families.

**Exhibit 3** shows the funds budgeted for POC from fiscal 2003 through 2006 and highlights the amounts used to cover shortfalls elsewhere in DHR’s budget.

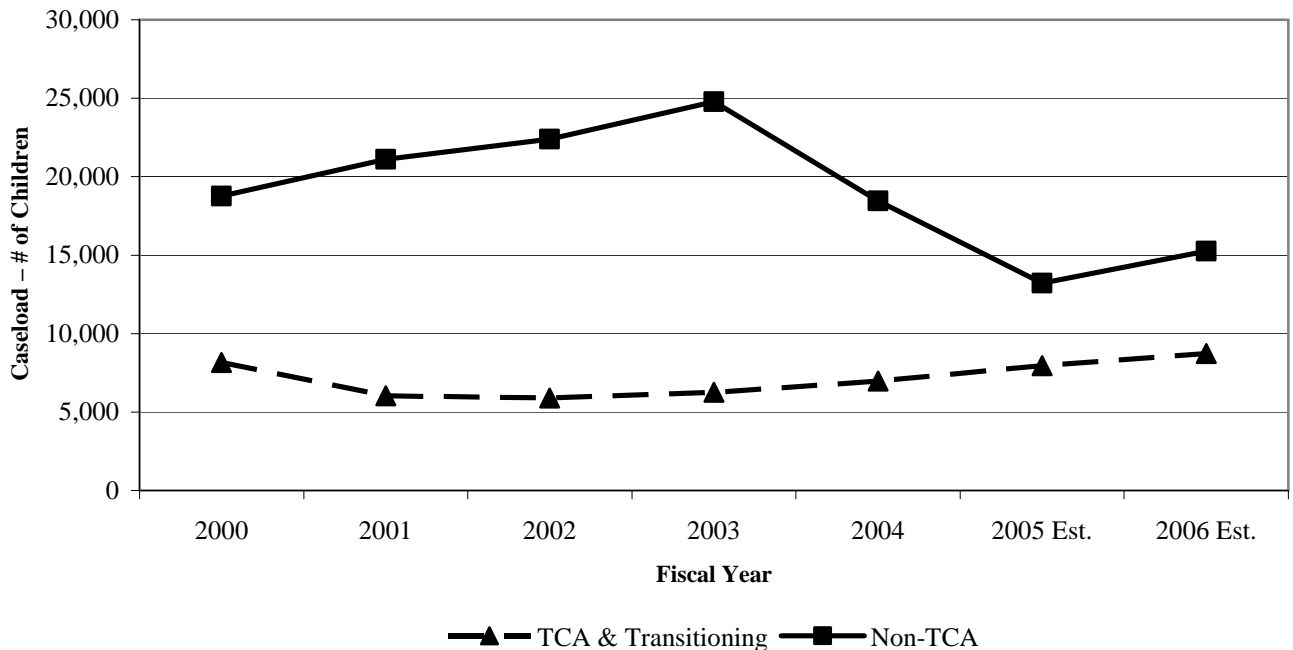
**Exhibit 3**  
**Purchase of Care Budgeted and Planned Spending**



Source: Maryland State Budget; Department of Human Resources

**Exhibit 4** shows the change in the POC caseload mix from fiscal 2000 through 2006. The non-Temporary Cash Assistance (TCA) caseload steadily increased from fiscal 2000 until 2003 when the wait list was established. The non-TCA caseload is expected to continue to decline through fiscal 2005 and then rebound slightly based on the assumption that the program will be reopened to a portion of the wait list population. The caseload for TCA recipients and those transitioning from TCA showed a decline from fiscal 2000 to 2002 and has shown a small but steady increase which is projected to continue through fiscal 2006. The increase since fiscal 2004 can be explained in part by DHR’s movement towards universal engagement of the TCA caseload. As greater work requirements have been imposed a greater demand for day care has resulted.

**Exhibit 4  
Purchase of Care Caseload Mix**



Source: Department of Human Resources

### Recommendations of the Joint Committee on Children, Youth, and Families

The Joint Committee on Children, Youth, and Families held a series of hearings during the 2004 interim on the goal of children entering school ready to learn. One of the recommendations contained in the committee’s *2004 Interim Report* was that the Purchase of Care program (POC) be fully funded to provide services to all individuals on the waiting list. As discussed above, the fiscal 2006 allowance provides \$8.8 million less in funding than is provided in the current year. The waiting list will continue in fiscal 2006 and is expected to be larger than in the current year (See Issue 1.)

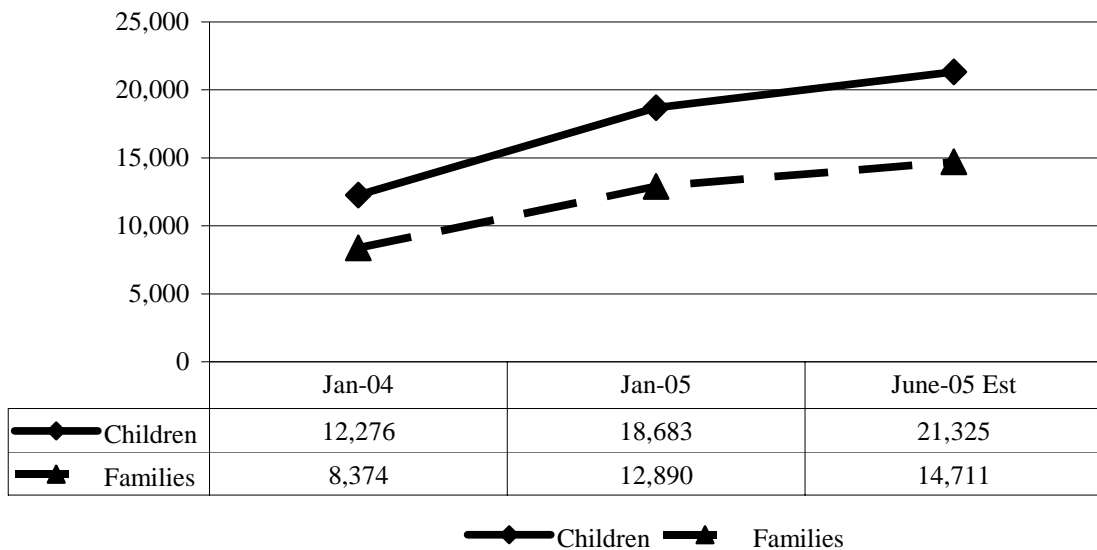
*Issues*

**1. Purchase of Care (POC) – The Program That Keeps on Giving**

The POC program continues to bear the brunt of efforts to close the shortfall in foster care funding. In fiscal 2004, \$22.5 million of unexpected federal funding appropriated to the program was cancelled at close-out to allow the funds to be used to help close the fiscal 2004 foster care shortfall. Similarly, DHR plans to transfer \$6.5 million general funds and \$16.5 million federal funds from POC in fiscal 2005 to help fund the foster care shortfall and prevent the need for a deficiency appropriation for foster care. (See DHR Overview – Issue 1 for more details on the fiscal 2005 fund switch plan.)

The fiscal 2004 and 2005 fund transfers are made possible by the continuation of the waiting list imposed in December 2002. Currently, in order to begin receiving POC subsidies, applicants must be Temporary Cash Assistance (TCA) recipients or be transitioning from TCA (have received TCA within the previous 6 months.) Low-income applicants who are not current or recent TCA recipients are placed on the waiting list. **Exhibit 5** graphs the growth in the waiting list and shows both the number of children and the number of families affected. **Exhibit 6** gives this information by jurisdiction.

**Exhibit 5  
Purchase of Care Wait List**



Source: Department of Human Resources

**Exhibit 6  
Purchase of Care Wait List by Jurisdiction**

<b>Local Department of Social Services</b>	<b>1-28-04 Children</b>	<b>1-1-05 Children</b>	<b>6-30-05 (Est.) Children</b>
Allegany	254	364	415
Anne Arundel	555	871	994
Baltimore City	2,085	3,163	3,610
Baltimore	1,601	2,776	3,168
Calvert	190	310	354
Caroline	102	147	168
Carroll	237	334	381
Cecil	313	473	540
Charles	596	778	888
Dorchester	199	293	334
Frederick	162	323	369
Garrett	57	75	86
Harford	335	570	650
Howard	307	465	531
Kent	47	89	102
Montgomery	2,000	3,021	3,448
Prince George's	1,714	2,491	2,843
Queen Anne's	61	87	99
St. Mary's	326	458	523
Somerset	80	111	127
Talbot	81	147	168
Washington	513	698	797
Wicomico	327	472	539
Worcester	134	167	191
<b>Total</b>	<b>12,276</b>	<b>18,683</b>	<b>21,325</b>

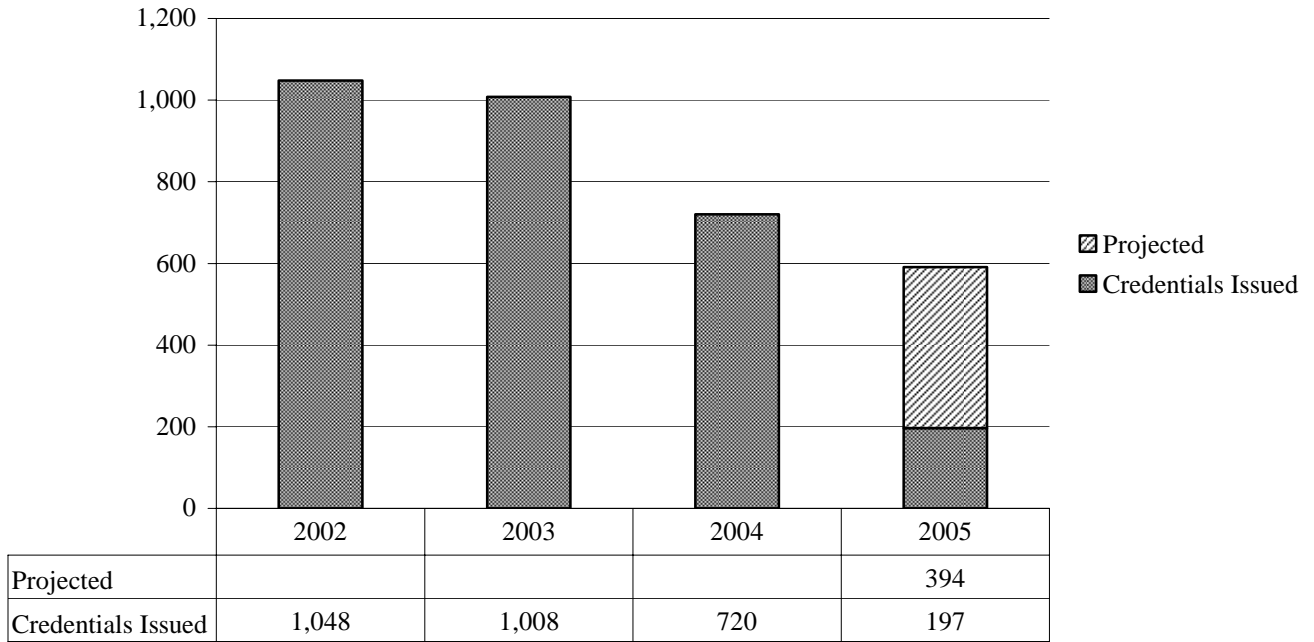
Source: Department of Human Resources

According to DHR, the fiscal 2006 budget is based on the assumption that there will be a partial lifting of the wait list restrictions to allow participation of working families at income level “D” (\$16,470 for a family of three or 105% of the Federal poverty level). Reauthorization of Temporary Assistance for Needy Families (TANF) funding is likely to increase the work requirements of people receiving TCA. This would put additional pressure on the POC program. **DHR should comment on the likely affect increased work requirements under a TANF reauthorization would have on the POC program and the ability of the department to allow a portion of the clients on the POC wait list to receive subsidies in fiscal 2006.**

## 2. Credentialing Program Revisions Proposed – Performance Still Low

Low day care provider participation rates during the first three years of the Child Care Credentialing Program prompted the committees to include narrative in the 2005 *Joint Chairmen’s Report* urging DHR to make an assessment of the barriers to provider participation in the credentialing program and to develop a program improvement plan to overcome those barriers. As **Exhibit 7** indicates, participation as measured by new credentials issued has continued to decline since the inception of the program.

**Exhibit 7  
Credentials Awarded**



Note: The fiscal 2005 projection represents the annualization of the average number of credentials issued during the first four months of the fiscal year.

Source: Department of Human Resources

### *N00D01 – DHR – Child Care*

The performance measure included in the fiscal 2006 budget does show slight improvement as the percent of child care providers participating in the credentialing program is projected to increase from 9% in fiscal 2004 to 10% in fiscal 2005.

The Credentialing Program is funded with federal funds distributed to address and improve the quality of child care. Funding for the program is part of the mandated amount that must go towards quality expansion/improvement. It is clear that unless participation in the program increases, little improvement or expansion in quality will take place.

In its report in response to the committee narrative, DHR indicates that better outreach will be made through presentations to provider groups, articles appearing in a newsletter distributed to all providers in Maryland, development of a brochure explaining the program, and advertising to draw attention to the importance of quality childcare. DHR also plans to work with other State and private entities to help promote the program.

To improve the availability and appropriateness of training to meet credentialing requirements DHR proposes maintaining the availability of training across the State through the statewide Child Care Resource Network, yet the fiscal 2006 budget reduces funding for the network by half (-\$1.8 million). **DHR should explain how cutting funds for the State Child Care Resource Center is consistent with efforts to improve the quality of child care in Maryland.**

To provide incentives for participation DHR has re-instituted the issuance of training vouchers to assist in paying for the cost of additional training in levels two through six. The department is recommending that the way bonuses are paid be changed to provide half the bonus at the time of achievement and half at the time of renewal. Currently bonuses are paid 12 months after achieving a level and only if the participant remained in the child care field the entire time. Also being proposed beginning in fiscal 2006 is to pay annual bonuses to those participants achieving levels five and six (both of which require a college degree to attain).

It is unclear whether the changes proposed by the department will be successful in increasing participation in the credentialing program. If participation rates do not increase significantly, the question becomes one of how long to continue before alternative means of improving the quality of child care are tried. To move the department towards considering other methods of improving the quality of child care in Maryland, committee narrative is included in the Recommended Actions section.

## ***Recommended Actions***

---

1. Adopt the following narrative:

**Improving the Quality of Child Care in Maryland:** The committees note the disappointing performance of the Child Care Credentialing Program during its first four years of operation. The Department of Human Resources (DHR) has suggested changes to the program to increase provider participation. While it is hoped that the department’s efforts in this regard will be successful, DHR should begin to develop concepts for alternative means of improving the quality of child care in Maryland. In developing these concepts, DHR should survey activities other states are doing in order to improve the quality of day care and report to the committees on the most promising of these activities in terms of adaptability here in Maryland. The department should present this report to the committees by November 1, 2005.

<b>Information Request</b>	<b>Author</b>	<b>Due Date</b>
Report on efforts other states are making to improve the quality of child care.	DHR	November 1, 2005

***Current and Prior Year Budgets***

**Current and Prior Year Budgets  
Child Care Administration  
(\$ in Thousands)**

<b>Fiscal 2004</b>	<b><u>General Fund</u></b>	<b><u>Special Fund</u></b>	<b><u>Federal Fund</u></b>	<b><u>Reimb. Fund</u></b>	<b><u>Total</u></b>
Legislative Appropriation	\$46,525	\$0	\$93,690	\$0	\$140,214
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	95	16,143	0	16,239
Cost Containment	-1,568	0	0	0	-1,568
Reversions and Cancellations	0	0	-22,468	0	-22,468
<b>Actual Expenditures</b>	<b>\$44,957</b>	<b>\$95</b>	<b>\$87,365</b>	<b>\$0</b>	<b>\$132,417</b>
<b>Fiscal 2005</b>					
Legislative Appropriation	\$49,015	\$0	\$87,938	\$0	\$136,953
Budget Amendments	-11	0	-25	0	-36
<b>Working Appropriation</b>	<b>\$49,004</b>	<b>\$0</b>	<b>\$87,914</b>	<b>\$0</b>	<b>\$136,918</b>

Note: Numbers may not sum to total due to rounding.

**Fiscal 2004**

The fiscal 2004 budget for the CCA closed out \$7.8 million less than the legislative appropriation. The administration lost \$1.6 million general funds as part of cost containment. Budget amendments added a total of \$16.1 million federal funds comprising a \$16.5 million TANF bonus received by Maryland for reducing the number of out-of-wedlock births offset slightly by a reduction of \$357,000 in attainment due to the loss of general funds in cost containment. The \$16.5 million TANF bonus was not spent in the POC program as originally intended because the department instituted a waiting list for POC in order to avoid a deficit in that program. As a result, \$22.5 million in federal funds were cancelled in the close-out.

**Fiscal 2005**

The 2005 budget has decreased slightly from the legislative appropriation. General funds decrease by \$11,000 representing an increase of \$146,000 offset by a reduction of \$157,000 as funds were transferred to support development of the Maryland Children’s Social Services Information Exchange (CHESSIE) system. The federal fund reduction of \$25,000 was also to support CHESSIE.

## ***Audit Findings***

---

Audit Period for Last Audit:	July 1, 1997 - December 17,2000
Issue Date:	July 2001
Number of Findings:	5
Number of Repeat Findings:	0
% of Repeat Findings:	0%
Rating: (if applicable)	NA

**Finding 1:** Child care costs, totaling approximately \$2.5 million over a three-year period, were being funded by the State’s General Fund rather than by Federal funds available under the Child Care Development Fund block grant.

**Finding 2:** (Policy Issue) The Administration’s policy only requires that 10% of child care centers be inspected on an unannounced basis each year even though such inspections have been more effective in identifying child safety violations and are more frequently performed by 41 other states.

**Finding 3:** Unannounced inspections of child care homes were not always performed timely in accordance with the law.

**Finding 4:** The severity of complaints against child care providers was not always properly assessed.

**Finding 5:** The Administration did not adequately restrict the access capabilities of system users on the Child Care Administration Management Information System and allowed several users to share numerous critical user access codes.

**Fiscal 2006 Cost Containment Actions  
As Submitted by the Agency  
Estimated Fiscal 2006 Savings  
Compared to Fiscal 2005**

<u>Cost Saving Action/Efficiency Measure</u>	<u>Sub-Program Name</u>	<u>Total Funds</u>	<u>General Funds</u>	<u>Special Funds</u>	<u>Positions Reduced</u>	<u>Impact of Action</u>
Position Abolition	Regional Operations	42,054	22,343		1.00	Note 1
Other Contractual Services	State CC Res. Ctr. Network Contract Costs	1,858,107	1,858,107			Note 2
Stipends and Tuition	Regional Operations	11,686	1,903			Note 2
Background Checks	Regional Operations	128,159	20,877			Note 2

Notes:

- (1) Duties assumed by existing staff
- (2) Minimal

Source: Fiscal 2006 Cost Containment Actions as Submitted by the Agency

**Object/Fund Difference Report  
DHR Child Care**

<u>Object/Fund</u>	<u>FY04 Actual</u>	<u>FY05 Working Appropriation</u>	<u>FY06 Allowance</u>	<u>FY05 - FY06 Amount Change</u>	<u>Percent Change</u>
<b>Positions</b>					
01 Regular	198.00	204.50	203.50	-1.00	-0.5%
<b>Total Positions</b>	<b>198.00</b>	<b>204.50</b>	<b>203.50</b>	<b>-1.00</b>	<b>-0.5%</b>
<b>Objects</b>					
01 Salaries and Wages	\$ 11,762,762	\$ 12,343,817	\$ 12,092,505	-\$ 251,312	-2.0%
02 Technical & Spec Fees	7,573	14,997	4,100	-10,897	-72.7%
03 Communication	272,590	303,846	319,820	15,974	5.3%
04 Travel	101,934	112,393	130,345	17,952	16.0%
07 Motor Vehicles	32,176	52,032	36,685	-15,347	-29.5%
08 Contractual Services	113,830,095	122,861,038	111,758,072	-11,102,966	-9.0%
09 Supplies & Materials	53,888	45,624	51,172	5,548	12.2%
10 Equip - Replacement	1,436	0	0	0	0.0%
12 Grants, Subsidies, and Contributions	5,692,489	415,296	674,402	259,106	62.4%
13 Fixed Charges	661,638	768,594	763,750	-4,844	-0.6%
<b>Total Objects</b>	<b>\$ 132,416,581</b>	<b>\$ 136,917,637</b>	<b>\$ 125,830,851</b>	<b>-\$ 11,086,786</b>	<b>-8.1%</b>
<b>Funds</b>					
01 General Fund	\$ 44,956,719	\$ 49,004,054	\$ 43,617,363	-\$ 5,386,691	-11.0%
03 Special Fund	95,339	0	0	0	0.0%
05 Federal Fund	87,364,523	87,913,583	82,213,488	-5,700,095	-6.5%
<b>Total Funds</b>	<b>\$ 132,416,581</b>	<b>\$ 136,917,637</b>	<b>\$ 125,830,851</b>	<b>-\$ 11,086,786</b>	<b>-8.1%</b>

Note: The fiscal 2005 appropriation does not include deficiencies, and the fiscal 2006 allowance does not reflect contingent reductions.

**Fiscal Summary  
DHR Child Care**

<u>Program/Unit</u>	<u>FY04 Actual</u>	<u>FY05 Wrk Approp</u>	<u>FY06 Allowance</u>	<u>Change</u>	<u>FY05 - FY06 % Change</u>
01 General Administration	\$ 25,982,655	\$ 25,082,470	\$ 22,766,634	-\$ 2,315,836	-9.2%
09 Purchase of Child Care	106,433,926	111,835,167	103,064,217	-8,770,950	-7.8%
<b>Total Expenditures</b>	<b>\$ 132,416,581</b>	<b>\$ 136,917,637</b>	<b>\$ 125,830,851</b>	<b>-\$ 11,086,786</b>	<b>-8.1%</b>
General Fund	\$ 44,956,719	\$ 49,004,054	\$ 43,617,363	-\$ 5,386,691	-11.0%
Special Fund	95,339	0	0	0	0.0%
Federal Fund	87,364,523	87,913,583	82,213,488	-5,700,095	-6.5%
<b>Total Appropriations</b>	<b>\$ 132,416,581</b>	<b>\$ 136,917,637</b>	<b>\$ 125,830,851</b>	<b>-\$ 11,086,786</b>	<b>-8.1%</b>

Note: The fiscal 2005 appropriation does not include deficiencies, and the fiscal 2006 allowance does not reflect contingent reductions.