

1 **Discussion, Consideration and Possible Action Regarding Local Workforce Development Area**
2 **Performance Expectations for Board Contract Year 2021**

3 **Introduction**

4 Child Care Target Setting is essentially a Zero-Sum algebra problem. There is a fixed amount of money available to
5 the program to spend on direct care, admin/ops, and quality. More of one requires less of one or both of the others.
6 Target setting involves taking allocations and other disbursements and “distributing” them to these three cost areas.
7 This is the basic process (which was also used in BCY20):

- 8 1) The Commission approves Board CCF and CCM Allocations developed by TWC Finance.
- 9 2) 2% of Board Allocations are reserved for Quality Activities as required by Texas Education Code 2308.317(c).
- 10 3) If there are supplemental distributions (e.g., \$33.3M in CARES Act Funding and 18 Boards moving money
11 from BCY20 to BCY21), then those amounts are added to 98% of the Total Allocations (Step 2) to determine
12 how much money is “Available to Operate the Subsidized Childcare Program” (i.e., “distributed to targets”).
- 13 4) Presumed Semi-Fixed Admin/Ops Costs are subtracted from the Amount Available to Operate the Subsidized
14 Childcare Program (from Step 3) and the remainder is presumed to be the Amount Available to pay for Direct
15 Care and Variable Admin/Ops Costs associated with care.
- 16 5) A presumed Variable Admin/Ops Cost per Kid per Day is created.
- 17 6) Board casemixes are estimated based on recent trends and projections.
 - 18 a. Casemixes are estimated for each type of care:
 - 19 i. Mandatory Care)(Choices, Ex-General Protection, Other Mandatory Care
 - 20 ii. Discretionary (other low income, At Risk/Transitional family) Care
 - 21 b. Each Board casemix requires estimating 165 combinations of
 - 22 i. Provider Type (Licensed CC Center, Licensed CC Home, Registered CC Home, & Relative Care);
 - 23 ii. Certification Type (Regular, TRS, or Texas School Ready);
 - 24 iii. Age of Child (infant, toddler, preschool, school age); and
 - 25 iv. Duration (full-time, part-time, blended).
- 26 7) Average Direct Care Costs per Unit are estimated based on the Maximum Reimbursement Rates, providers’
27 published rates, and recent Parent Share of Cost (PSOC) trends so that we end up with a projected:
 - 28 a. Average Direct Care Cost per Kid per Day for Mandatory Care; and
 - 29 b. Average Direct Care Cost per Kid per Day for Discretionary Care.
- 30 8) The number of Mandatory Kids to be Served per Day is projected from recent trends.
- 31 9) Total Amount Needed for Mandatory Care is estimated by multiplying the Projected Mandatory Kids per Day
32 (from Step 8) by the Projected Total Mandatory Cost per Day [the sum of the Projected Mandatory Cost per
33 Day (from step 7a) and the Presumed Variable Admin/Ops Cost per Kid per Day (from step 5)] and then again
34 by the number of CC days in the year (262).
- 35 10) Total Amount Available for Discretionary Care is determined by subtracting Total Amount Needed for
36 Mandatory Care (from step 9) from the Amount Available to pay for Direct Care and Variable Admin/Ops
37 (from step 4).
- 38 11) Affordable Number of Discretionary Kids per Day is calculated by dividing the Total Amount Available for
39 Discretionary Care (from step 10) by the Projected Total Discretionary Cost per Day [the sum of the Projected
40 Discretionary Cost per Day (from Step 7b) and the Presumed Variable Admin/Ops Cost per Day (from step 5)]
41 and then again by the number of CC days in the year.
- 42 12) The Total Target is the sum of the Projected Mandatory Kids per Day (step 8) and the Affordable Number of
43 Discretionary Kids per Day (Step 11).

44 The remainder of this document lays out key challenges/assumptions with the above-described methodology for
45 BCY21 Child Care Target Setting and the shows the data used to set specific Board target recommendations.

1 **Key Issues/Assumptions in BCY21 Child Care Target Setting**

2 **Admin/Ops:** In BCY19 TWC moved to a new model whereby Administrative, Information System, and Operational
3 (Admin/IS/Ops or just Admin/Ops) cost assumptions had two components: 1) semi-fixed costs to operate a program
4 (e.g. infrastructure, program oversight) and variable costs (e.g. program and contractor operations staff) that rise and
5 fall based on service volume. Staff applied this approach again in BCY20 and is using it again in BCY21. As was the
6 case in BCY20, the model assumes an “inflation factor” of 2%. The following outlines the basic approach to
7 developing the Admin/Ops model for BCY21:

8 • **Presumed Semi-Fixed Costs**

- 9 ○ We used the BCY19 Cost Survey which requires local Boards to break out their Admin/Ops
10 expenditures into 20+ categories to identify the amount that is presumed to have been “semi-fixed
11 costs” and divided it by the total reported Admin/Ops expenditures to get a “Presumed Semi-Fixed
12 Cost” percentage. This was 28.65% for BCY19.
- 13 ○ We then applied that percentage to each Board’s “Base Admin/IS/Ops” level. This is generally the
14 greater of the BCY18 or BCY19 Admin/IS/Ops expenditures except where BCY19 was more than 20%
15 higher than BCY18; in those cases, we used the average of BCY18 and BCY19 Admin/IS/Ops
16 expenditures.
- 17 ○ We then increased that amount by the inflation factor (2%).

18 • **Presumed Variable Admin/Ops Costs**

- 19 ○ We projected BCY20 year-end Presumed Variable Admin/Ops expenditures using nine R12 month
20 snapshots of estimated Presumed Variable Costs
- 21 ○ Upon graphing the data, we found a very tight pattern – there were 4 “positive” and 4 “negative”
22 outliers (where Presumed Variable Admin/Ops costs were considerably lower or higher than
23 expected).
- 24 ○ We developed a set of “Normed” values using the 20 Boards whose Presumed Variable Admin/Ops
25 costs did not appear to be outliers.
- 26 ○ We set the BCY20 Presumed Variable Admin/Ops Cost per Unit by:
 - 27 ▪ Taking the Average of the BCY20 Year End Estimate and the “Normed” number
 - 28 ▪ Raising that number by the inflation factor (2%).

29 • **Estimated Total Admin/Ops Set Aside**

- 30 ○ We calculated the estimated Total Admin/Ops set aside using the Presumed Semi-Fixed and Variable
31 Admin/Ops Costs, with a minimum Total Admin/Ops set aside matching BCY18 Admin/Ops
32 expenditures for some Boards.
- 33 ○ If the sum of Presumed Semi-Fixed and Variable Admin/Ops Costs is less than the BCY18 baseline
34 level of Admin/Ops expenditures and the Board receives less than \$10M in total Childcare Funding,
35 we raised their total Admin/Ops set aside to reach the BCY18 baseline level. This is a feature added
36 to the methodology at the suggestion of smaller Boards at a time when the program funding was
37 lower and many smaller Boards were seeing their total funding reduced. Their argument was that
38 there are certain minimum costs to operating a program of any size and that the methodology in use
39 at that time was starting to go below those levels.
- 40 ○ Only one Board (Concho Valley) required this “Admin/Ops Floor” adjustment for BCY21.

41 **2020 Market Rate Survey and Application of the “Minimum” Reimbursement Rules:** After applying the
42 Commission’s “standard” minimum reimbursement rate rules we applied our projected BCY21 casemix to the old
43 BCY20 and new BCY20 Reimbursement Rates to simplify the analysis of the differences between the 2019 and 2020
44 Market Rate surveys. Generally, our weighted average maximum reimbursement rates are about 4.5% higher using
45 BCY21 rates than BCY20.

46 **Casemix:** We believe that BCY21 casemix is going to tend slightly more towards Full Time Care for School Age Kids
47 than a “normal year” due to COVID-19 causing disruptions in school operations. We accounted for this by assuming
48 that 50% of the “normal” number of school age kids in Blended Care in a normal year would be in Full Time Care for
49 BCY21. This is a relatively conservative methodology in that it assumes increased costs for school age kids but not a
50 “worst case scenario” methodology (which would be to assume that all School Age care would be in Full Time Care).

1 **Accounting for Differences between Maximum Reimbursement Rates and Providers' Published Rates:** By rule,
2 TWC and the Boards pay the LOWER of the Maximum Reimbursement Rate or the provider's Published Rate. While
3 many providers are reimbursed at the Maximum Reimbursement Rate, the reality is that many are not. The
4 differences vary Board by Board and are also different for Mandatory and Discretionary care (Mandatory Care tends
5 to skew towards younger children and many Boards are paying a higher percentage of the market rate for younger
6 children, especially infants). We used the comparison between the theoretical maximum for BCY20 vs. what was
7 actually paid to help set presumed direct care costs for BCY21. A conservative accounting for this difference results
8 in targets of just under 125K vs 120K kids per day.

9 **Commission Request:** Staff seek Commission approval to apply the above-described childcare target setting
10 methodology and assumptions to set the BCY21 Child Care Targets for Local Workforce Development Boards. The
11 Board by Board details and resulting targets are shown on pages 4 and 5.
12

Determination of Amounts Available for Direct Care and Variable Admin/Ops

Board Name	#	Total BCY21 Allocation	2% Quality	nonQ Allocation	BCY20 Money Moved into BCY21 by Boards	Supplemental CARES Act Disbursement	Semi-Fixed Admin/Ops Set Aside	Available for Direct Care and Variable Admin/Ops
Panhandle	1	\$11,864,374	\$237,288	\$11,627,086	\$681,360	\$527,161	\$485,923	\$12,349,684
South Plains	2	\$11,840,422	\$236,809	\$11,603,613	\$667,962	\$531,573	\$415,732	\$12,387,416
North Texas	3	\$5,424,911	\$108,499	\$5,316,412	\$530,353	\$242,995	\$245,936	\$5,843,824
North Central	4	\$50,557,050	\$1,011,141	\$49,545,909	\$0	\$1,768,311	\$1,914,790	\$49,399,430
Tarrant County	5	\$51,376,320	\$1,027,527	\$50,348,793	\$5,457,018	\$2,209,137	\$1,462,277	\$56,552,671
Dallas County	6	\$88,693,578	\$1,773,872	\$86,919,706	\$0	\$3,942,554	\$1,449,726	\$89,412,534
North East	7	\$7,911,770	\$158,236	\$7,753,534	\$0	\$369,901	\$263,334	\$7,860,101
East Texas	8	\$22,215,964	\$444,320	\$21,771,644	\$2,276,727	\$1,011,482	\$714,325	\$24,345,528
West Central	9	\$8,100,368	\$162,008	\$7,938,360	\$827,668	\$359,570	\$373,005	\$8,752,593
Borderplex	10	\$29,339,261	\$586,786	\$28,752,475	\$1,300,964	\$1,395,062	\$990,179	\$30,458,322
Permian Basin	11	\$11,708,866	\$234,178	\$11,474,688	\$1,547,181	\$459,449	\$446,308	\$13,035,010
Concho Valley	12	\$3,428,201	\$68,565	\$3,359,636	\$299,478	\$139,269	\$170,506	\$3,627,877
Heart of Texas	13	\$10,258,462	\$205,170	\$10,053,292	\$892,268	\$475,385	\$398,837	\$11,022,108
Capital Area	14	\$26,082,123	\$521,643	\$25,560,480	\$1,422,401	\$1,059,506	\$1,293,552	\$26,748,835
Rural Capital	15	\$18,234,396	\$364,688	\$17,869,708	\$0	\$650,769	\$1,235,902	\$17,284,575
Brazos Valley	16	\$8,491,854	\$169,838	\$8,322,016	\$235,482	\$368,479	\$414,939	\$8,511,038
Deep East	17	\$10,530,452	\$210,610	\$10,319,842	\$485,224	\$493,924	\$370,002	\$10,928,988
Southeast	18	\$10,360,262	\$207,206	\$10,153,056	\$0	\$464,701	\$358,327	\$10,259,430
Golden Crescent	19	\$5,042,066	\$100,842	\$4,941,224	\$739,662	\$223,235	\$221,308	\$5,682,813
Alamo	20	\$66,072,503	\$1,321,451	\$64,751,052	\$0	\$2,899,005	\$1,616,607	\$66,033,450
South Texas	21	\$13,697,634	\$273,953	\$13,423,681	\$1,563,995	\$689,236	\$401,108	\$15,275,804
Coastal Bend	22	\$16,421,649	\$328,433	\$16,093,216	\$0	\$746,426	\$682,017	\$16,157,625
Lower Rio	23	\$44,062,056	\$881,242	\$43,180,814	\$1,749,067	\$2,227,413	\$1,143,774	\$46,013,520
Cameron	24	\$18,743,435	\$374,869	\$18,368,566	\$0	\$948,922	\$516,991	\$18,800,497
Texoma	25	\$4,893,642	\$97,873	\$4,795,769	\$0	\$217,317	\$143,663	\$4,869,423
Central Texas	26	\$13,495,673	\$269,914	\$13,225,759	\$33,254	\$590,241	\$606,208	\$13,243,046
Middle Rio	27	\$6,351,964	\$127,040	\$6,224,924	\$573,734	\$308,377	\$231,622	\$6,875,413
Gulf Coast	28	\$184,602,612	\$3,692,053	\$180,910,559	\$0	\$7,980,600	\$3,546,461	\$185,344,698
Sum of Boards	99	\$759,801,868	\$15,196,054	\$744,605,814	\$21,283,798	\$33,300,000	\$22,113,359	\$777,076,253

Distributing Funding to Targets

Board Name	#	Variable Admin/Ops per Unit	Projected Avg Direct Care at LESSER Rate: Mandatory	Projected Avg Direct Care at LESSER Rate: Discretionary	Projected Mandatory Kids per Day	Total Cost of Projected Mandatory Kids	Available for Discretionary Care	Affordable Discretionary Kids per Day	Total Target (Est Affordable under LESSER Rate)
Panhandle	1	\$2.23	\$25.27	\$20.32	120	\$864,682	\$11,485,002	1,944	2,064
South Plains	2	\$1.65	\$23.51	\$18.84	330	\$2,175,109	\$10,212,307	1,903	2,233
North Texas	3	\$2.07	\$21.31	\$16.95	130	\$796,531	\$5,047,293	1,013	1,143
North Central	4	\$2.72	\$29.55	\$23.47	752	\$6,357,842	\$43,041,588	6,273	7,025
Tarrant County	5	\$2.34	\$32.25	\$26.83	1,238	\$11,219,398	\$45,333,273	5,932	7,170
Dallas County	6	\$1.28	\$28.79	\$23.09	1,803	\$14,202,349	\$75,210,185	11,781	13,584
North East	7	\$1.70	\$21.42	\$17.85	151	\$914,557	\$6,945,544	1,356	1,507
East Texas	8	\$2.18	\$22.16	\$18.07	285	\$1,816,979	\$22,528,549	4,246	4,531
West Central	9	\$2.50	\$22.36	\$19.18	95	\$618,700	\$8,133,893	1,432	1,527
Borderplex	10	\$1.54	\$22.04	\$17.70	503	\$3,107,742	\$27,350,580	5,426	5,929
Permian Basin	11	\$2.44	\$22.65	\$19.18	80	\$525,944	\$12,509,066	2,208	2,288
Concho Valley	12	\$1.49	\$19.50	\$15.46	40	\$219,986	\$3,407,891	767	807
Heart of Texas	13	\$1.93	\$20.94	\$17.16	185	\$1,108,460	\$9,913,648	1,982	2,167
Capital Area	14	\$3.31	\$35.96	\$31.26	358	\$3,683,415	\$23,065,420	2,547	2,905
Rural Capital	15	\$3.80	\$30.66	\$24.61	266	\$2,401,750	\$14,882,825	1,999	2,265
Brazos Valley	16	\$3.09	\$27.11	\$23.07	105	\$830,939	\$7,680,099	1,120	1,225
Deep East	17	\$1.75	\$23.02	\$18.36	95	\$616,686	\$10,312,302	1,957	2,052
Southeast	18	\$1.86	\$22.07	\$19.17	166	\$1,040,713	\$9,218,717	1,673	1,839
Golden Crescent	19	\$2.28	\$20.94	\$17.42	56	\$340,734	\$5,342,079	1,035	1,091
Alamo	20	\$1.81	\$28.23	\$24.00	1,352	\$10,639,646	\$55,393,804	8,192	9,544
South Texas	21	\$1.97	\$21.60	\$17.23	100	\$617,501	\$14,658,303	2,915	3,015
Coastal Bend	22	\$2.39	\$24.48	\$19.97	240	\$1,689,778	\$14,467,847	2,470	2,710
Lower Rio	23	\$1.38	\$20.99	\$16.57	301	\$1,764,256	\$44,249,264	9,405	9,706
Cameron	24	\$1.33	\$21.40	\$18.21	276	\$1,643,386	\$17,157,111	3,351	3,627
Texoma	25	\$2.02	\$23.73	\$19.85	94	\$634,217	\$4,235,206	739	833
Central Texas	26	\$2.14	\$21.04	\$16.06	411	\$2,495,652	\$10,747,394	2,254	2,665
Middle Rio	27	\$1.60	\$18.59	\$14.07	49	\$259,208	\$6,616,205	1,612	1,661
Gulf Coast	28	\$1.44	\$28.68	\$23.55	2,918	\$23,026,205	\$162,318,493	24,798	27,716
Sum of Boards	99	\$1.84	\$27.33	\$21.32	12,499	\$95,612,365	\$681,463,888	112,330	124,829