

**Discussion, Consideration and Possible Action Regarding
Local Workforce Development Board Childcare Targets for Board Contract Year 2023**

Introduction

Child Care Target Setting is essentially a Zero-Sum algebra problem. There is a fixed amount of money available to the program to spend on direct care, admin/ops, and quality. More of one requires less of one or both of the others. Target setting involves taking allocations and other disbursements and “distributing” them to these three cost areas.

Process Overview

- 1) The Commission approves Board Child Care Fund (CCF) and Child Care Match (CCM) allocations developed by TWC Finance – For this year, the Commission approved base allocations of \$1B.
- 2) 2% of Board Allocations are reserved for Quality Activities as required by Texas Education Code 2308.317(c) but the Commission increased this to 4%. For BCY23, that totals \$40M and leaves \$961M available to be spent on subsidized childcare (Direct Care Costs) and administrative and operational costs (Admin/Ops Costs)¹.
- 3) In addition, the Commission approved \$120.7M in supplemental distributions using one-time federal funds which is also to be “distributed to target” based on Direct Care and Admin/Ops modeling assumptions. This brings the total available to Operate the Subsidized Childcare Program to \$1.08B for BCY23 and TWC’s 2023-2025 Legislative Appropriations Request was built to allow a stable number of children to be served over the next 3 years (with the models including assumptions around inflation, rate changes, the transition from a Texas Rising Star (TRS)-optional to TRS-mandatory program, and the implementation of a standardized Parents’ Share of Cost (PSOC) model that is expected to reduce PSOC for most Boards.
- 4) Admin/Ops data reported by local Boards in the prior year end cost survey are analyzed and a model is built to determine how much of the amount should be considered “Semi-Fixed” costs (essentially base costs of operating the program that might increase over time with inflation but which should generally not scale with changes in allocations or other available funding). These Presumed Semi-Fixed Admin/Ops Costs are subtracted from the Amount Available to Operate the Subsidized Childcare Program (from Step 3) and the remainder is presumed to be the Amount Available to pay for Direct Care and Variable Admin/Ops Costs associated with care. For BCY23, we assume Semi-Fixed Costs of \$35.4M which leaves \$1.046B for Variable and Direct Care Costs.
- 5) We develop a presumed Variable Admin/Ops Cost per Kid per Day by analyzing Admin/Ops data reported by local Boards deemed to be associated with Variable Costs and dividing by the amount of care purchased and then projecting for BCY23 (which we put at \$1.72 per unit for BCY23).
- 6) Each Board casemix requires estimating 165 combinations of:
 - a. Provider Type (Licensed CC Center, Licensed CC Home, Registered CC Home, & Relative Care);
 - b. Certification Type (Regular, TRS, or Texas School Ready);
 - c. Age of Child (infant, toddler, preschool, school age); and
 - d. Duration (full-time, part-time, blended).
- 7) Board casemixes were estimated using baseline data from June 2021 to May 2022 but assume that more children will be in TRS care in BCY23 than the baseline period as we ramp-up the shift to a TRS-mandatory childcare program. Specifically, the model assumes that:
 - a. 12.5% of the Regular Care would move to TRS 2 Star
 - b. 5% of TRS 2 Star would move to TRS 3 Star
 - c. 2.5% of TRS 3 Start would move to TRS 4 Star
- 8) Average Costs per Unit are estimated based on the Maximum Reimbursement Rates, recent Parent Share of Cost (PSOC) trends, and the difference between the Maximum Rates and the Published Rates (because we only pay the lesser of the Max Rate of the provider’s Published Rate). We found that we paid 86.2% in the

¹ Boards are also permitted to spend CCF money on quality efforts as long as they meet their enrollment targets.

1 baseline period and are assuming a 3.5% increase to 89.2% for BCY23 so that we end up with a projected
2 average cost (direct care + variable admin/ops costs) per child of:

- 3 a. \$28.53 per day (with average PSOC at \$3.64 per day); or
- 4 b. \$643.98 per month (with average PSOC at \$79.47 per month).

5 9) Affordable Number of Kids per Day is calculated by dividing the Total Amount Available for Variable Costs and
6 Direct Care Costs from step 4 (\$1.046B) by the average system cost per unit from Step 8 (\$28.53) and then
7 again by 262 childcare days which sets BCY23 targets totaling 139,979.

8 The remainder of this document lays out key challenges/assumptions with the above-described methodology for
9 BCY22 Child Care Target Setting and the shows the data used to set specific Board target recommendations.

10 **Additional Details regarding BCY23 Child Care Target Setting**

11 **Max Rates:** The U.S. Office of Child Care has been pushing states to move their lowest maximum reimbursement
12 rates to the 75th percentile for each category of care. The BCY23 model does this and then sets TRS & and Texas
13 School Ready Rates in accordance with Texas statute and TWC rules. Because TWC does not pay the max rate unless
14 the provider's published rate is equal to or exceeds the Max Rate, this increase in Max Rates will not have as
15 significant an impact on program costs as was thought in prior years. In addition, this year's market rate survey
16 primarily showed increases in rates in the pre-school and school-age published rates which again limits the impact of
17 the change. However, in accordance with the Commission's previously approved policies, in no case does any Max
18 Rate drop below the prior year's level. The rates used for targets setting are the same or higher than last year but
19 the impact to the system is expected to be affordable.

20 **Inflation:** Over the past several years, TWC has incorporated inflation factors in elements of the child care model.
21 Over the past year, the levels of inflation has been higher than in 40 years and it is likely that it will take much of
22 BCY23 for it to be brought back to a more traditional level. In addition we know that child care providers are having
23 difficulty finding and retaining qualified staff which is also likely to impact costs and prices.

24 **Admin/Ops:** We made no changes to our basic methodology for evaluating Board expenditures on Admin/Ops and
25 building a model that addresses what appear to be outliers from BCY22. We used a 5% inflation factor for presumed
26 semi-fixed costs and 7% for presumed variable costs.

27 **Mid-year Review:** Given the number of changes occurring in the program between the program's expansion and
28 shift towards TRS-mandatory program along with some of the rate actions, staff plan to review data again later in
29 BCY23 to determine whether the assumptions are far enough off so as to warrant the Commission consider target
30 adjustments.

31 **Commission Request:** Staff seek Commission approval to apply the above-described childcare target setting
32 methodology and assumptions to set the BCY23. The Board by Board details and resulting targets are shown on page
33 3.
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Board Name	#	BCY23 Base Allocation	4% Quality Allocation	Amount Available to Operate the Subsidized CC Program	Presumed Semi-Fixed Admin/Ops Set Aside	Supplemental Distribution	Available for Direct Care (DC) & Variable Admin/Ops	Variable Admin/Ops per Unit	Estimated Avg Provider Reimbursement Rate	Presumed PSOC	System Cost Per Unit	BCY23 Target
Panhandle	1	\$15,190,703	\$607,629	\$14,583,074	\$1,036,832	\$1,973,907	\$15,520,149	\$1.95	\$27.86	\$3.37	\$26.44	2,240
South Plains	2	\$15,610,715	\$624,429	\$14,986,286	\$485,474	\$2,028,484	\$16,529,296	\$1.84	\$27.40	\$2.92	\$26.32	2,397
North Texas	3	\$7,164,795	\$286,592	\$6,878,203	\$232,720	\$931,006	\$7,576,489	\$2.17	\$25.35	\$4.06	\$23.47	1,232
North Central	4	\$66,087,595	\$2,643,504	\$63,444,091	\$4,258,544	\$4,293,770	\$63,479,317	\$2.11	\$33.83	\$4.65	\$31.30	7,741
Tarrant County	5	\$65,776,161	\$2,631,047	\$63,145,114	\$2,091,071	\$17,094,143	\$78,148,186	\$2.36	\$35.95	\$4.14	\$34.16	8,732
Dallas County	6	\$107,966,692	\$4,318,668	\$103,648,024	\$1,837,948	\$28,058,768	\$129,868,844	\$1.37	\$33.82	\$4.41	\$30.78	16,102
North East	7	\$9,995,611	\$399,825	\$9,595,786	\$517,579	\$1,298,848	\$10,377,055	\$1.34	\$23.21	\$3.19	\$21.35	1,855
East Texas	8	\$29,913,194	\$1,196,528	\$28,716,666	\$1,815,999	\$1,943,487	\$28,844,154	\$1.49	\$23.69	\$3.77	\$21.40	5,144
West Central	9	\$10,371,169	\$414,847	\$9,956,322	\$601,733	\$673,824	\$10,028,413	\$2.23	\$25.59	\$3.45	\$24.38	1,570
Borderplex	10	\$40,754,166	\$1,630,167	\$39,123,999	\$1,759,688	\$2,647,835	\$40,012,146	\$1.65	\$23.02	\$3.16	\$21.51	7,100
Permian Basin	11	\$16,075,349	\$643,014	\$15,432,335	\$561,617	\$2,088,860	\$16,959,578	\$2.29	\$27.78	\$2.53	\$27.55	2,350
Concho Valley	12	\$4,489,005	\$179,561	\$4,309,444	\$319,823	\$583,310	\$4,572,931	\$1.53	\$22.43	\$3.85	\$20.10	868
Heart of Texas	13	\$14,005,058	\$560,203	\$13,444,855	\$736,095	\$1,819,842	\$14,528,602	\$1.41	\$26.14	\$3.34	\$24.20	2,291
Capital Area	14	\$33,825,546	\$1,353,022	\$32,472,524	\$1,879,782	\$2,197,676	\$32,790,418	\$2.48	\$41.92	\$3.46	\$40.94	3,057
Rural Capital	15	\$24,774,705	\$990,989	\$23,783,716	\$1,921,161	\$1,609,635	\$23,472,190	\$2.55	\$35.63	\$4.38	\$33.80	2,651
Brazos Valley	16	\$11,248,362	\$449,935	\$10,798,427	\$962,810	\$2,923,264	\$12,758,881	\$2.42	\$28.68	\$2.71	\$28.39	1,715
Deep East	17	\$14,342,206	\$573,689	\$13,768,517	\$320,065	\$931,826	\$14,380,278	\$1.75	\$24.48	\$2.87	\$23.37	2,349
Southeast	18	\$13,434,135	\$537,366	\$12,896,769	\$528,668	\$1,745,656	\$14,113,757	\$2.00	\$23.88	\$1.94	\$23.94	2,250
Golden Crescent	19	\$6,453,799	\$258,152	\$6,195,647	\$378,794	\$838,618	\$6,655,471	\$1.61	\$23.09	\$3.64	\$21.06	1,206
Alamo	20	\$91,258,296	\$3,650,332	\$87,607,964	\$1,513,112	\$5,929,133	\$92,023,985	\$1.79	\$31.61	\$2.66	\$30.74	11,427
South Texas	21	\$16,555,303	\$662,213	\$15,893,090	\$972,728	\$4,302,451	\$19,222,813	\$1.70	\$23.75	\$3.68	\$21.77	3,370
Coastal Bend	22	\$22,759,775	\$910,391	\$21,849,384	\$1,842,843	\$5,914,891	\$25,921,432	\$2.06	\$29.34	\$4.01	\$27.39	3,612
Lower Rio	23	\$57,240,493	\$2,289,620	\$54,950,873	\$2,063,857	\$7,437,932	\$60,324,948	\$1.57	\$26.74	\$3.18	\$25.13	9,163
Cameron	24	\$24,653,854	\$986,155	\$23,667,699	\$745,420	\$3,203,566	\$26,125,845	\$1.27	\$29.79	\$3.22	\$27.84	3,581
Texoma	25	\$6,372,550	\$254,902	\$6,117,648	\$319,766	\$414,030	\$6,211,912	\$1.31	\$26.09	\$3.17	\$24.23	979
Central Texas	26	\$19,288,579	\$771,544	\$18,517,035	\$922,722	\$1,253,196	\$18,847,509	\$1.90	\$25.11	\$3.89	\$23.12	3,112
Middle Rio	27	\$8,602,529	\$344,102	\$8,258,427	\$342,170	\$558,914	\$8,475,171	\$1.24	\$24.74	\$3.69	\$22.29	1,451
Gulf Coast	28	\$246,814,884	\$9,872,596	\$236,942,288	\$4,460,624	\$16,035,783	\$248,517,447	\$1.45	\$33.52	\$3.80	\$31.17	30,434
Sum of Boards	99	\$1,001,025,229	\$40,041,022	\$960,984,207	\$35,429,644	\$120,732,655	\$1,046,287,218	\$1.72	\$30.45	\$3.64	\$28.53	139,979