

1 **Discussion, Consideration and Possible Action Regarding**
2 **Local Workforce Development Board Childcare Allocations & Target Adjustments for Board Contract**
3 **Year 2023**

4 **Introduction**

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

9 The Commission previously approved targets earlier this year but those targets were based on baseline
10 data from the period July 2021 to June 2022 (which was available at the time). However, there were
11 two known issues with this:

- 12 1) TWC set new “minimums” for maximum rates which were considerably higher than in the past
13 and that didn’t occur until August 2022:
- 14 2) Texas employment levels were still active recovery from the pandemic July 2021 to November
15 2021 (at which point the state passed-prepandemic numbers of jobs) and the CC system in
16 particular was still recovering (and arguably still is or at least is struggling to keep up with
17 demand).

18 With these known limitations in the data available for our initial estimates, staff recommended and the
19 Commission approved a plan by which we would re-run our modeling with updated data and perform a
20 mid-year target adjustment. This is not the first time we’ve done such a mid-year adjustment and the
21 updated data (based on December 2021 to November 2022) shows that costs were considerably higher
22 than expected based on the newer data – meaning that we were not able to afford as many kids per day
23 as we originally anticipated.

24 **Process Overview**

- 25 1) Child Care Allocations are approved by the Commission.
- 26 2) 4% of Board Allocations are reserved for Quality Activities. The remaining 96% is available for
27 program administrative and operational expenses (Admin/Ops) and direct care costs and this
28 amount is “distributed to target.”
- 29 3) Admin/Ops assumptions are determined in two forms:
 - 30 a. Semi-Fixed Costs that should not increase or decrease as the number of kids or families
31 being served change (e.g., rent, utilities, oversight, etc.)
 - 32 b. Variable Costs that should increase or decrease with the number of kids or families being
33 served (more kids/families, reasonably means higher Admin/Ops but the Variable Cost
34 per Kid per Day is unchanged in the model in a given year).
- 35 4) Each Board casemix requires estimating 165 combinations of:
 - 36 a. Provider Type (Licensed CC Center, Licensed CC Home, Registered CC Home, & Relative
37 Care);
 - 38 b. Certification Type (Regular, TRS, or Texas School Ready);
 - 39 c. Age of Child (infant, toddler, preschool, school age); and
 - 40 d. Duration (full-time, part-time, blended).

41 In a “normal year,” we tend to assume that the casemix won’t change a great deal from the
42 baseline casemix. However, the 87th Texas Legislature passed legislation which required all TWC

- 1 subsidized child care provider partners to become Texas Rising Star certified. Therefore, we
 2 needed to assume more kids would be TRS kids in BCY23 than in the prior year (and more again
 3 in BCY24, etc until the system fully transitions).
- 4 5) We estimate the Average Cost for per Day for a unit of child care for each Board using each
 5 Board’s Maximum Reimbursement Rates, recent Parent Share of Cost (PSOC) trends, and the
 6 difference between the Maximum Rates and the Published Rates (because we only pay the lesser
 7 of the Max Rate or the provider’s Published Rate). We also factor some inflation in.
- 8 6) Affordable Number of Kids per Day (Target) is calculated by dividing the Total Amount Available
 9 for Variable Costs and Direct Care Costs by the average system cost per unit and then again by
 10 the number of child care days in the year. Originally, this involved using a standard denominator
 11 of 262 childcare days which set BCY23 targets totaling 139,979.

12 **Mid-Year Updates**

13 The following table lays out differences between our original work and our updated model.

Factor/Item	Original	Update
CC Days for BCY23	262 – we had originally tried to standardize the number annually	260 – this is the actual number of weekdays in BCY23 and is the way the program is administered.
Presumed Average Cost per Day per Child inclusive of both Direct Care Expenditures to the Provider and Variable Admin/Ops Costs	\$28.53	\$29.86 – partially the result in more expensive casemix, partially related to higher provider rates (or parents selecting providers with higher rates)
Average % of Maximum Rate Paid	86.2% in base period which we originally assumed would increase to 89.2%	91.95% in new base period which we now assume will rise by an additional 1.5% (not as much as before because we priced some of that into the new base period)
Affordable Kids per Day per Originally Allocated/Distributed Funds	139,979	134,775 – CC is zero sum. If costs are higher than expected, the number served goes down

14 **Additional Allocation to allow system to Serve 140,046 kids per day from April 2023 to September**
 15 **2023**

16 The Commission approved targets of totaling 140K kids per day earlier this year but our analysis shows
 17 that the care is more expensive than originally assumed and Boards are still ramping enrollments up to
 18 reach 140K. They are on pace to achieve it by April but will need additional funding to sustain it for the
 19 remainder of the year.

20 Under the Commission’s rule §800.51(f) , the level of funding allocated to a workforce area may be
 21 determined, modified, or reallocated in order to respond to caseload changes. TWC has reviewed
 22 updated case mix information for child care, which reveals that the average cost of child care has
 23 increased, relative to the costs that were initially used to establish Board’s BCY23 child care targets. In
 24 order to provide sufficient funding to allow Boards to serve approximately 140,000 children per day, as

1 initially established by the Commission as the BCY23 performance target, staff recommends that the
2 Commission distribute additional funding, as authorized under §800.51(f), based on updated case mix
3 data.

4
5 As shown on the next page, staff are recommending 27 of 28 Boards receive additional funding to allow
6 them to sustain enrollments equal to their original targets for the second half of BCY23. The one Board
7 that is not recommended to receive additional funding is under-enrolled enough that they should have
8 sufficient funding “saved” in the early part of the year to cover remainder of the year once they achieve
9 their target enrollment level.

10 **Commission Request:** Staff seek Commission approval to allocate funds in accordance with TWC rule
11 §800.51(f) and reset BCY23 targets as described in the above methodology. The Board by Board details
12 and resulting targets are shown on page 4.

Board Name	#	ORIGINAL System Cost Per Unit	UPDATED System Cost Per Unit	Difference	ORIGINAL Target (NOT AFFORDABLE WITH ORIGINAL \$)	UPDATED Affordable Kids (Updated Baseline/Casemix, no new money)	Difference	Dec Kids Per Day	Dec at % of Affordable Kids (Updated Baseline/Casemix, no new money)	Amount needed to get back to Original Target Apr-Sept	Adjusted Target Oct-Mar	Target Apr-Sept
Panhandle	1	\$26.44	\$27.68	\$1.24	2,240	2,156	-84	2,151	99.77%	\$314,894	2,156	2,240
South Plains	2	\$26.32	\$28.13	\$1.81	2,397	2,260	-137	2,440	107.94%	\$521,933	2,260	2,397
North Texas	3	\$23.47	\$24.46	\$0.99	1,232	1,192	-40	1,088	91.29%	\$132,465	1,192	1,232
North Central	4	\$31.30	\$32.81	\$1.51	7,741	7,441	-300	5,314	71.41%	Not Eligible	7,441	7,741
Tarrant County	5	\$34.16	\$35.61	\$1.46	8,732	8,439	-293	9,181	108.80%	\$1,413,088	8,439	8,732
Dallas County	6	\$30.78	\$32.11	\$1.33	16,102	15,554	-548	16,022	103.01%	\$2,383,103	15,554	16,102
North East	7	\$21.35	\$22.23	\$0.88	1,855	1,795	-60	2,017	112.34%	\$180,647	1,795	1,855
East Texas	8	\$21.40	\$21.65	\$0.25	5,144	5,123	-21	4,776	93.23%	\$61,580	5,123	5,144
West Central	9	\$24.38	\$24.76	\$0.39	1,570	1,558	-12	1,640	105.28%	\$40,242	1,558	1,570
Borderplex	10	\$21.51	\$23.07	\$1.56	7,100	6,672	-428	6,905	103.49%	\$1,336,911	6,672	7,100
Permian Basin	11	\$27.55	\$29.13	\$1.58	2,350	2,239	-111	2,393	106.88%	\$437,847	2,239	2,350
Concho Valley	12	\$20.10	\$20.64	\$0.53	868	852	-16	788	92.44%	\$44,719	852	868
Heart of Texas	13	\$24.20	\$25.54	\$1.34	2,291	2,188	-103	2,428	110.98%	\$356,242	2,188	2,291
Capital Area	14	\$40.94	\$42.25	\$1.31	3,057	2,985	-72	2,821	94.51%	\$411,960	2,985	3,057
Rural Capital	15	\$33.80	\$35.47	\$1.67	2,651	2,546	-105	2,695	105.84%	\$504,275	2,546	2,651
Brazos Valley	16	\$28.39	\$29.08	\$0.69	1,715	1,688	-27	1,611	95.41%	\$106,313	1,688	1,715
Deep East	17	\$23.37	\$24.29	\$0.92	2,349	2,277	-72	2,234	98.10%	\$236,801	2,277	2,349
Southeast	18	\$23.94	\$25.21	\$1.26	2,250	2,154	-96	2,448	113.66%	\$327,689	2,154	2,250
Golden Crescent	19	\$21.06	\$21.62	\$0.56	1,206	1,184	-22	1,090	92.05%	\$64,396	1,184	1,206
Alamo	20	\$30.74	\$31.71	\$0.97	11,427	11,163	-264	11,120	99.61%	\$1,133,484	11,163	11,427
South Texas	21	\$21.77	\$22.72	\$0.95	3,370	3,253	-117	3,120	95.91%	\$360,040	3,253	3,370
Coastal Bend	22	\$27.39	\$28.88	\$1.50	3,612	3,452	-160	3,119	90.34%	\$625,820	3,452	3,612
Lower Rio	23	\$25.13	\$26.94	\$1.81	9,163	8,614	-549	9,718	112.82%	\$2,002,500	8,614	9,163
Cameron	24	\$27.84	\$30.32	\$2.48	3,581	3,314	-267	4,210	127.03%	\$1,096,352	3,314	3,581
Texoma	25	\$24.23	\$24.84	\$0.62	979	962	-17	1,092	113.52%	\$57,191	962	979
Central Texas	26	\$23.12	\$24.13	\$1.01	3,112	3,004	-108	3,180	105.87%	\$352,889	3,004	3,112
Middle Rio	27	\$22.29	\$24.55	\$2.26	1,451	1,328	-123	1,556	117.16%	\$408,899	1,328	1,451
Gulf Coast	28	\$31.17	\$32.53	\$1.36	30,434	29,382	-1,052	29,570	100.64%	\$4,634,341	29,382	30,434
Sum of Boards	99	\$28.53	\$29.86	\$1.33	139,979	134,775	-5,204	136,725	101.45%	\$19,546,621	134,775	139,979