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Hobbs, Ong & Associates, Inc. has been requested by the Children's Advocacy Alliance to review certain factors critical to the operation of the Nevada Child Assistance and Development Program (the "Program"). The areas of particular interest are the levels of state and federal funding that flow to the Program and the impact of the Program Reimbursement Rates upon clients and service providers to the Program. Our efforts include the following primary tasks:

1. Preparation of a summary of the two major revenues supporting the Program:
    a. Child Assistance and Development funding from the State of Nevada, Department of Health and Human Services
    b. Federal funding administered by the Department of Health and Human Services Administration for Children and Families.
2. A discussion of the relationship of the reimbursement rates used by the State agency to reimburse qualifying program participant service providers. This element was also to include a discussion of the impact upon the Program of the current practice to reimburse service providers based upon 2004 rate data, when more current data is available.

Background

The following discussion sets out our understanding of the situation confronting the Program.

The Program recognizes the importance of early education opportunities and environments for children in poverty and works to obtain desired child care for these children in qualified programs that provide the necessary services. The Program serves children ages zero to 13. Qualification and benefit levels are based upon household income.

Pursuant to Circular No. 93.575, Child Care and Development Block Grant ("CCDBG"), Uses and Use Restrictions, Congress directs that funds appropriated for CCDBG must be used to supplement, not supplant, state general revenue funds for child care assistance for low-income families. The circular also sets out current priorities, to include: making systemic investments in quality child care to promote child development and health and safety; and creating a system that is child focused, family friendly, and fair to providers.

Generally, the Program is intended to provide child care services to families with household incomes at or below 75% of Nevada's median income level. Depending upon the household income, the child care subsidy can be up to 100% of the approved reimbursement rate. Any unpaid amount is the responsibility of the client or in some cases forgiven by the service provider.

Regulations of the Department of Health and Human Services and the Division of Welfare and Supportive Services ("DWSS") set out program services delivery priorities: "In the event of identified program shortfalls, otherwise eligible households will be prioritized by program in the following order:

1. NEON
2. At-Risk Certificate
3. Discretionary Certificate
4. At-risk Wrap Around
5. Discretionary Contracted Slots

If sufficient funds are not available in the At-Risk or Discretionary funding categories, the Division of Welfare and Supporting Services ("DWSS") Child Care & Development may implement a waiting list. Applicants who are eligible for NEON funded benefits must not be placed on a waiting list or have services delayed.

Child care services are generally provided through the following methods:

1. Licensed Child Care Center, Nursery School, Preschool – 13+ children
2. Licensed Group Home – 7 to 12 children
3. Licensed Family Care Home – 1 to 6 children
4. Informal Care (i.e., family, friend, or neighbor) – Must be registered with the Child Care Program
5. (a) Before and After School-Unlicensed Recreation Program (e.g.,) City Parks and Recreation, Boys & Girls Clubs) Care Center
   (b) Before and After School-Unlicensed Recreation Program (track, summer or holiday break)

Typically, the care becomes more costly as the care providing venue becomes more formalized. The programs can become more expensive depending upon accreditation and licensing status; therefore, the Informal care setting would likely be the least costly and the licensed center based care, particularly those that are nationally accredited, would likely be the most costly among the care providers.

Payments for services are made pursuant to Market Reimbursement Rates (the "MRR"), which are survey-based rates gathered by DWSS contracted Child Care Resource and Referral Agencies ("CCR&Rs"). Currently, the State Program is making reimbursements at the 2004 MRR. This is the current practice even though the data to determine Market Reimbursement Rates for 2011 is available. It is within the State's discretion to determine which MRR are used to calculate benefit payments.

The MRR levels are important because those are the rates at which the State pays or reimburses for care, not necessarily the amount that the service provider charges for the service. When there is a difference, the family pays the difference or the service provider can waive the amount; however, many service providers do not or cannot wave this difference given the often limited shoe string budgets that these small businesses operate upon. Given the income levels of the clients seeking the services of the Program, they typically do not have the resources to make up the difference and therefore abandon the Program outright or seek less expensive and potentially less safe environments to meet their child care needs.

In short, the Program suffers because of funding cuts and the administrative practice of using outdated MRR to pay for the child care services. The balance of this discussion is intended to demonstrate the funding reductions experienced by the Program, in particular since Fiscal Year 2009, and identify the estimated additional funding needed to restore the Project funding to a level that meets the mission of the Program as envisioned by the enabling legislation.

Program Funding

Table 1, below, illustrates the level of funding committed to this program from state and federal sources.

Table 1

Nevada Child Assistance and Development Spending

Year	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
State Funds	$9,033,701	$9,033,701	$9,033,701	$9,033,701	$8,453,594	$8,461,590	$2,580,421	$2,580,421	$4,580,666	$4,583,446
Federal Funds	N/A	$13,528,656	$14,230,287	$14,789,490	$15,144,641	$15,328,721	$16,025,838	$16,530,472	$15,198,587	$15,198,585
Total	N/A	$22,562,357	$23,263,988	$23,823,191	$23,598,235	$23,790,311	$18,606,259	$19,110,893	$19,779,253	$19,782,031
State Funds										
Change from prior year		$0	$0	$0	($580,107)	$7,996	($5,881,169)	$0	$2,000,245	$2,780
Cumulative year over year gain (loss)			$0	$0	($580,107)	($572,111)	($6,453,280)	($6,453,280)	($4,453,035)	($4,450,255)
Annual gain (loss) compared to FY 2008-09					($580,107)	($572,111)	($6,453,280)	($6,453,280)	($4,453,035)	($4,450,255)
Cumulative year over year gain (loss) compared to FY 2008-09					($580,107)	($1,152,218)	($7,605,498)	($14,058,778)	($18,511,813)	($22,962,068)
Federal Funds										
Change from prior year		$0	$701,631	$559,203	$355,151	$184,080	$697,117	$504,634	($1,331,885)	($2)
Cumulative year over year gain (loss)			$701,631	$1,260,834	$1,615,985	$1,800,065	$2,497,182	$3,001,816	$1,669,931	$1,669,929
Total Program Funding										
Change from prior year		$0	$701,631	$559,203	($224,956)	$192,076	($5,184,052)	$504,634	$668,360	$2,778
Cumulative year over year gain (loss)			$701,631	$1,260,834	$1,035,878	$1,227,954	($3,956,098)	($3,451,464)	($2,783,104)	($2,780,326)

For the State appropriation levels, there was a consistent funding level in the amount of approximately $9 million per year for several years prior to Fiscal Year 2009-10. For the period 2009-10 through 2014-15, changes in annual appropriation levels compared to the prior year ranged from a decrease of nearly $5.9 million in FY 2011-12 to an increase of approximately $2 million in FY 2013-14. The cumulative impact of the year-over-year gains and losses amount to approximately $4.5 million. Another illustration of these same funding levels compares the gain (loss) of annual State funding levels when compared to the $9 million level which had been the funding level for more than five years prior to FY 2009-10. Those changes to the program funding represented annual losses ranging from approximately $572,000 to nearly $6.5 million. The cumulative loss over the time frame 2008-09 through 2014-15 is a loss of nearly $23 million.

When reviewing the federal funding levels over this same period of time it is seen that there were annual increases in funding ranging from approximately $184,000 to $700,000 from FY 2007-08 through FY 2012-13. Only in FY 2013-14 was there a decrease of approximately $1.3 million. FY 2014-15 funding will remain flat compared to the prior year.

As to the total funding that came to Program from these two combined sources, the dramatic decreases at the State level were only somewhat moderated by the increases in funding from the federal source.

Effect of reduced funding and the stagnant MRR to the Program

As stated earlier, the Program is designed to address needs of a client base that is determined by the level of household income. The governing guidelines allow for child care services to be subsidized for clients with individual and household incomes up to 75% of Nevada's median income level. There is a "triage" system guiding the allocations of the constrained resources. When there is not sufficient funding to pay subsidies to those within the full range, as has been the case for the last several years, those who are the most economically distressed become the priority served within available resources. Thereafter, clients are placed on waiting lists for services. That is, those with the greatest need, i.e., those qualifying for the NEON program are served first. Only when there are funds available after those most needy clients are served, can the Program progress up the percent of poverty income level to serve additional clients. In reality, over the last several years, there has not been sufficient funding to address the subsidies of even those on the extreme end of the poverty income range.

To better frame the impact of the stagnant MRR to the Program clients and service providers, the following tables summarize for comparative purposes the 2004 MRR and the 2011 MRR. The Program administration is advocating a transition to the 2011 MRR for the reasons enumerated in this report.

Table 2

Current (2004) Reimbursement Rates				
CLARK	Infants	Toddlers	Pre-K	SA
Center	$31.00	$28.00	$23.00	$19.00
Group	$28.00	$24.00	$21.00	$21.00
FCC	$30.00	$27.00	$26.00	$23.00
Informal	$23.00	$20.00	$19.00	$18.00
Rec.			$15.00	$15.00
WASHOE				
Center	$35.00	$30.00	$26.00	$26.00
Group	$28.00	$24.00	$21.00	$23.00
FCC	$31.00	$27.00	$24.00	$23.00
Informal	$23.00	$20.00	$18.00	$17.00
Rec.			$15.00	$15.00
CARSON/DOUGLAS				
Center	$29.00	$24.00	$24.00	$21.00
Group	$24.00	$23.00	$21.00	$21.00
FCC	$27.00	$24.00	$22.00	$22.00
Informal	$20.00	$18.00	$17.00	$15.00
Rec.			$15.00	$15.00
RURAL				
Center	$27.00	$24.00	$22.00	$19.00
Group	$24.00	$23.00	$21.00	$21.00
FCC	$24.00	$22.00	$21.00	$21.00
Informal	$18.00	$17.00	$16.00	$16.00
Rec.			$15.00	$15.00
STATE WEIGHTED AVG.				
Center	$31.41	$28.01	$23.49	$20.24
Group	$27.67	$23.92	$21.00	$21.33
FCC	$29.79	$26.66	$25.29	$22.87
Informal	$22.66	$19.79	$18.62	$17.63
Rec.			$15.00	$15.00

2011 75th Percentile Rates				
CLARK	Infants	Toddlers	Pre-K	SA
Center	$45.00	$40.00	$35.53	$33.50
Group	$34.50	$32.00	$30.17	$28.00
FCC	$35.00	$33.13	$32.00	$32.00
Informal	$26.83	$24.54	$23.38	$25.04
Rec.			$25.00	$25.00
WASHOE				
Center	$42.00	$37.45	$32.38	$30.80
Group	$29.00	$27.00	$25.16	$26.00
FCC	$35.00	$31.88	$30.00	$30.00
Informal	$25.97	$23.61	$22.50	$22.17
Rec.			$25.00	$25.00
CARSON/DOUGLAS				
Center	$33.00	$28.39	$27.00	$26.53
Group	$27.50	$27.50	$24.17	$17.50
FCC	$32.00	$30.00	$29.00	$29.00
Informal	$23.70	$22.50	$22.41	$19.77
Rec.			$25.00	$25.00
RURAL				
Center	$29.00	$28.75	$29.60	$25.00
Group	$25.00	$25.00	$25.00	$25.00
FCC	$27.60	$27.90	$27.00	$25.50
Informal	$20.70	$21.56	$20.57	$19.43
Rec.			$25.00	$25.00
STATE WEIGHTED AVG.				
Center	$43.34	$38.64	$34.43	$32.41
Group	$32.90	$30.68	$28.88	$27.14
FCC	$34.56	$32.57	$31.33	$31.26
Informal	$26.30	$24.17	$23.07	$24.12
Rec.			$25.00	$25.00

Percent Change from 2004 to 2011 Rates				
CLARK	Infants	Toddlers	Pre-K	SA
Center	45.2%	42.9%	54.5%	76.3%
Group	23.2%	33.3%	43.7%	33.3%
FCC	16.7%	22.7%	23.1%	39.1%
Informal	16.7%	22.7%	23.1%	39.1%
Rec.			66.7%	66.7%
WASHOE				
Center	20.0%	24.8%	24.5%	18.5%
Group	3.6%	12.5%	19.8%	13.0%
FCC	12.9%	18.1%	25.0%	30.4%
Informal	12.9%	18.1%	25.0%	30.4%
Rec.			66.7%	66.7%
CARSON/DOUGLAS				
Center	13.8%	18.3%	12.5%	26.3%
Group	14.6%	19.6%	15.1%	-16.7%
FCC	18.5%	25.0%	31.8%	31.8%
Informal	18.5%	25.0%	31.8%	31.8%
Rec.			66.7%	66.7%
RURAL				
Center	7.4%	19.8%	34.5%	31.6%
Group	4.2%	8.7%	19.0%	19.0%
FCC	15.0%	26.8%	28.6%	21.4%
Informal	15.0%	26.8%	28.6%	21.4%
Rec.			66.7%	66.7%
STATE WEIGHTED AVG.				
Center	38.0%	38.0%	46.6%	60.1%
Group	18.9%	28.3%	37.5%	27.2%
FCC	16.0%	22.2%	23.9%	36.7%
Informal	16.1%	22.1%	23.9%	36.8%
Rec.			66.7%	66.7%

SOURCE: Children's Advocacy Alliance

The impacts of the lagging MRR to the Program are clearly illustrated in the tables above. Increases to the MRR range from slightly less than 5% to nearly 70% when 2004 rates are compared to the rates calculated for 2011. Such reimbursement disparities create significant burdens to a population that is the least able to afford additional costs in their day-to-day living expenses.

The State funding reductions suffered by the Program beginning in FY 2009-10, and the Federal reduction in FY 2013-14, in combination with the lagging reimbursement rate by which service providers are compensated has had a crippling effect on the Program. Fewer dollars translate to fewer clients served. And the inadequate reimbursement rates make it more difficult to find service providers willing to serve this population in greatest need.

In an analysis prepared by the Children's Advocacy Alliance, information provided demonstrated that in December 2011, there were 7,481 children that received services. These benefits were paid using the 2004 reimbursement rates. If those client services had been reimbursed at the 2011 MRR, there would have been an additional cost to the Program of approximately $13 million. Stated another way, the Program was short that amount in paying service providers a fair price for the services they provided.

In September 2013, the Program was only able to serve 4,475 children. In this case too, the reimbursement or payment for services was based upon 2004 MRR. In an updated analysis, the Children's Advocacy Alliance determined that if these client services had been paid at the 2011 MRR, the additional cost to the Program would have been approximately $7.7 million. The difference that caused the nearly fifty percent reduction was a reduction in the number of clients served which had been constrained by available funding.

Clearly, the reductions in funding levels over the last several years have dramatically impacted the ability of the Program to accomplish its mission. The result has been that when the funding cuts are combined with the lagging MRR, a much needed Program, serving an identified qualifying client base, has been severely hampered.

This review is not written as an advocacy piece. Rather, it was prepared to review Program funding sources, how the subsidies are apportioned and, then, to make observations about the information reviewed in context of the Program's mission. It is hoped that this background information and the attached Table 3, Estimate of Funding Required to Achieve Program Goals will assist policy makers in their deliberations.

In closing, Table 3 developed by Hobbs, Ong & Associates, Inc. and the Children's Advocacy Alliance sets out various funding scenarios for consideration by policy makers. The schedule identifies the cost associated with servicing clients among the five different classifications of the Program. The costs were based on the 2011 MRR.

If the 2013 services were reimbursed at the 2011 MRR, additional funding in the estimated amount of $9.3 million would be required. This amount is identified as the "Gap" in the attached Table 3. If the Gap is not funded, the Program will be able to provide services only until the funding is exhausted. For purposes of this illustration, the $9.3 million was proportionately shared among the four other service categories. Those with the greatest need are the NEON program clients and are required to be fully funded.

The Children's Advocacy Alliance would be pleased to address any questions the reader may have relating to the Program and its request for funding support.

Table 3

Early Childhood Education Subsidy Payment Scales

Type of Child Care Recipients	Served	Eligible	Benefits Paid	Average Benefits/Child	Funding Scenarios: 2013 Annualized Cost	2013 Service Levels if paid at 2011 MRR	2013 Services if Funding Gap is Not Closed
NEON – Children who have a parent participating in the New Employees of Nevada (NEON) Program	1,496	2,108	$507,525.04	$339.25	$6,090,300		
70.97% of eligible population, using 2011 Market Rates	1,496	2,108	$663,935.05	$443.81	$7,967,221		
80% of eligible population, using 2011 Market Rates	1,686	2,108	$748,435.87	$443.81	$8,981,230		
85% of eligible population, using 2011 Market Rates	1,792	2,108	$795,213.11	$443.81	$9,542,557		
90% of eligible population, using 2011 Market Rates	1,897	2,108	$841,990.36	$443.81	$10,103,884	$10,103,884	$10,103,884
At-Risk Certificate – Children living at or below 130% of the Federal Poverty Level	1,861	94,760	$649,395.99	$348.95			
1.96% of eligible children with all parents in the workforce, using 2011 Market Rates	1,861	94,760	$849,539.78	$456.50	$10,194,477	$10,194,477	$3,723,241.63
5% of eligible children with all parents in the workforce, using 2011 Market Rates	4,738	94,760	$2,162,879.90	$456.50	$25,954,559		
10% of eligible children with all parents in the workforce, using 2011 Market Rates	9,476	94,760	$4,325,759.79	$456.50	$51,909,117		
20% of eligible children with all parents in the workforce, using 2011 Market Rates	18,952	94,760	$8,651,519.58	$456.50	$103,818,235		
Discretionary Certificate – Children living at or below 75% of Nevada's median income	35	56,606	$7,524.85	$214.00			
0.06% of eligible population, using 2011 Market Rates	35	56,606	$9,798.42	$279.95	$117,581	$117,581	$42,943
5% of eligible population, using 2011 Market Rates	2,830	56,606	$792,356.07	$279.95	$9,508,273		
10% of eligible population, using 2011 Market Rates	5,661	56,606	$1,584,712.14	$279.95	$19,016,546		
20% of eligible population, using 2011 Market Rates	11,321	56,606	$3,169,424.28	$279.95	$38,033,091		
At-Risk Wraparound – Children participating in Head Start and Early Head Start	416	651	$188,156.80	$452.30			
63.90% of eligible children with all parents in the workforce, using current rate	416	651	$188,156.80	$452.30	$2,257,882	$2,257,882	$824,627
70% of eligible children with all parents in the workforce, using current rate	456	651	$206,113.11	$452.30	$2,473,357		
80% of eligible children with all parents in the workforce, using current rate	521	651	$235,557.84	$452.30	$2,826,694		
90% of eligible children with all parents in the workforce, using current rate	586	651	$265,002.57	$452.30	$3,180,031		
Discretionary Contracted Slots – Children participating in before or after school programs	849	249,414	$175,861.86	$207.14			
0.34% of eligible children with all parents in the workforce, using current rate	849	249,414	$175,861.86	$207.14	$2,110,342	$2,110,342	$770,742
5% of eligible children with all parents in the workforce, using current rate	12,471	249,414	$2,583,180.80	$207.14	$30,998,170		
10% of eligible children with all parents in the workforce, using current rate	24,941	249,414	$5,166,361.60	$207.14	$61,996,339		
20% of eligible children with all parents in the workforce, using current rate	49,883	249,414	$10,332,723.19	$207.14	$123,992,678		
Note: Paid and Average Benefits per Child is calculated per month. Amount of eligible participants calculated using ACS 09-12 Children in Poverty with Subsidy Calculations provided by the Children's Cabinet. According to a report by the U.S. Department of Health & Human Services, an average of 18% of potentially eligible children receive subsidies in America.					Client Services Provided	($24,784,167)	($15,465,438)
[1]Number based on children under age thirteen and under 150% of federal poverty level					Administration Costs	($3,645,455)	($3,645,455)
[2]Number based on children under age thirteen, above 150% and below 200% of federal poverty levels.					Total Costs	($28,429,622)	($19,110,893)
[3]Number based on children ages 5-12 and under 200% poverty level.					State & Federal Funds	$19,110,893	$19,110,893
SOURCE: Children's Advocacy Alliance					Gap	($9,318,729)	$0