December 6, 1982

Ms. Heather L. Ruth
Executive Director
Municipal Assistance Corporation
One World Trade Center
New York, New York 10048

Dear Heather,

Enclosed is a copy of a recently prepared summary of the model budget report. You can also have the full report if you want it.

The report is not bad and I think is regarded as satisfactory by Georges Vernez who took over as HRA's maitre d' for the project. It would be better had the agencies not initially refused to submit questionnaires and had we not had a two month blackout on computer processing at FCNY.

You have something due from project proceeds - which I propose to calculate by pro-rating hours against revenue after out-of-pocket expenses. I should warn you that the project did not proceed according to budget; computer expense, for example, totaled $24,333 of which FCNY absorbed $3000. (I have not yet submitted the final bill to HRA.)

I'm glad to hear that you were using Linkages. If you need or could use a number of copies, let me know. (I get them for only $3.27 each - my only financial benefit from the publication.)

I am now winding up not just model budgets but almost everything else. For the first time in years, I do not have a large project running 6 to 9 months in the future. I may have to shift my energies from bill collection to selling.

Sincerely yours,

Fred

Frederick O'R. Hayes

FO' RH: jb

enc.
Model Budget Reimbursement for Child Care Agencies

November 1982
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THE CHILD CARE MODEL BUDGET PROJECT

What We Have Learned

Introduction

Our final report to the Human Resources Administration on the child care model budget project consists of two volumes with a total of about 200 pages. The data support for the report is several times as voluminous. This paper provides a brief overview and assessment of our findings - of what we learned and what we failed to learn.

Our approach focused on four key components of child care costs: child care staff salaries, social service staff salaries, food including preparation and service and space or occupancy costs. We attempted - with varying degrees of success - to identify the determinants of costs (or what costs ought to be) for each of these functions. For other components of costs, we attempted to determine appropriate dollar or percentage allowances developed primarily on the basis of existing practice.

As a result of this approach, little effort was devoted to developing explanations of interagency variance in total costs. We know, however, that there are at least two important factors:

- Total costs tend to increase with the disability level of the children served. The Arthur Young study for New York State found that NYS-DSS program designation explained about one-fourth of the variance and that if data on the composition of program population by designation were used, the proportion explained increased to about

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three-eighths. It is worth adding this may occur, in part, simply because reimbursement rates structure provides more money to programs with higher designations.

The second factor is both more obvious and less fully documented. Spending will, generally, be closely related to reimbursement rates except where the agency has additional resources or the capacity to obtain them. Sustained expenditure at levels significantly above those supportable from reimbursements is possible only for agencies that are well-endowed and/or effective in obtaining outside funding.

The following sections discuss our findings with respect to each of the four key functions as well as other costs. There is also a separate section on the family boarding home program.

**Child Care Staff**

- We found child care staff requirements to be determined primarily by the number of children in the basic child care unit - whether a group home or agency-operated boarding home or a floor, cottage or entry in an institution. This is mainly because a single worker at night and during other passive care periods covers a larger number of children. (The finding seems rather obvious but we reached it only through the almost happenstance discovery of sample child care staffing schedules collected by the SSC staff.) Similar economies result when in a larger facility it is possible for one worker to cover more than one child care unit.
We developed a child care staffing model incorporating passive coverage factors as described above and the child/staff ratios for active periods used by the SSC assessment.

Average salaries for child care workers varied widely. Only a minute proportion of such workers earned salaries above New York City maximums in 1980 but many had salaries much less than the maximums.

The differences in salaries may be partially due to differences in non-cash income (board and, sometimes, room), work hours and duties. Most of the variations center around the handling of nighttime coverage. Some programs
are staffed entirely by regular shifts. In others, full-time day workers have rotating sleep-over assignments. In still others, there are live-in individuals and couples, often with schedules permitting them to work elsewhere during the day. Salary differences may, of course, also reflect differences in worker quality.

**Social Services Staff**

- In many multi-program agencies, a single social services staff serves all of the children in the agency's programs. We found so many anomalies in the allocation of staff and costs among programs in such agencies that we doubt the
validity of social service staff and salary expenditures as reported by program.

- Most of the anomalies are removed if agency-wide average costs per child day and average child/staff ratios are used. In 1980, there were in most agencies 9-13 children per FTE social services staff member including supervisors. In most agencies with higher child/staff ratios, family boarding home care accounted for a high proportion of the children served. Ratios were consistently lower only in critical level and emergency family boarding home care.
- The tentative staffing yardsticks used in the SSC program assessment produce - when adjusted to allow for super-
visory staff - child/staff ratios ranging from 8:1 to 16:1. The great majority of the agencies fell within this range concentrated, however - as the data in the preceding paragraph suggest - in the lower half of that range.

- Differences in average salary per FTE social worker were significant but much less important than those for child care workers. Average salaries were heavily concentrated in the $13,000 - $14,000 neighborhood.

- We recommended the use of a basic staffing ratio in the vicinity of the median value of 10.3 children per worker with adjustments on the basis of case work organization and the proportion of agency charges in the FBH program.

**Food Costs**

- The food budgets for child care agencies cover not just the feeding of children but also a substantial number of meals - varying widely among programs - served to staff. Food budgets will also reflect interprogram differences in the number of meals per child per day.

- We adjusted food costs for differences in reported staff meals and average number of meals per child day and attempted to explain the variance through differences in average age of the child population. It didn't work.

- We found, however, that in most programs raw food costs per child (after allowance for staff meals) were fairly close to the average per person food costs in the BLS intermediate urban family budget. The highest costs were more than double that level. A standard at or somewhat
below the BLS figure is feasible.

Expenditures for food service staff salaries in institutions and group residences ranged as high as $5.85 per child day but, in most programs, were in the general vicinity of $2 per child day. Only a few group homes reported any food service staff; the function in group homes and agency-operated boarding homes is best treated as an element of child care staff responsibilities.
Space Costs

- We learned less about space costs than we had hoped.
  We obtained usable data from fewer agencies than on any other aspect of child care costs and much of the data was flawed by inconsistencies and anomalies. There were, nonetheless, some important findings.

- Underutilization of facilities was the major contributory factor in a significant proportion - probably one-fourth to one-third - of the programs with the highest space costs per child day.

- There were significant variations in the average amount of space per child. Median *residential* space per child
at full utilization in 171 facilities was about 350 square feet; in 15% of the facilities, residential space per child was over 500 square feet while in 11% of the facilities, it fell between 101 and 200 square feet per child. **Total** space — including non-residential space — was substantially greater in institutions and group residences — over 500 square feet per child in two-thirds of the 25 facilities for which data were available.

- Even though space per child was, on the average, significantly greater in institutions and group residences, rent and use charges were ordinarily much less per child day. This is because most institutional facilities are owned by the agency or its parent organization and use charges are calculated on the basis of construction and acquisition costs well below those now prevailing. Group homes and agency-operated boarding homes are, on the other hand, more often leased than owned and rental rates tend to reflect current or relatively recent market rates.

- The major components of space expenditures in institutions and group residences were utilities and maintenance staff salaries. These two cost categories accounted for 60% of mean space expenditures in institutions and 57% in group residences. Group homes and agency-operated boarding homes, with a few exceptions, did not have separate maintenance staffs and expenditures for utilities were, on the average, much lower than in institutions and group residences.
Most of the reported facilities with high costs per square foot were rented offices. They represented a small proportion of total space costs.

Agency capacity to control space costs is limited, especially in the short run. At the same time, space costs in most programs do not appear to have been excessive. Assuming an average of 650 square feet of space - including office and ancillary space - the interquartile range in institutional space costs per child day would translate into costs of $3.66 to $5.60 per square foot. The comparable figures for group homes based on an average of 400 square feet of space per child would be $4.94 to $7.69 per square foot. The component rental and use charges on the same basis would be $1.02 - $1.56 per square foot for institutions and $2.95 - $4.60 per square foot for group homes.

Programs with significantly higher space costs tended to evidence special problems, some of which may be soluble. Better utilization planning and management might, for example, reduce the number of cases where high space costs resulted from underutilization. Energy audits and investment in energy-saving programs are, similarly, likely to be cost-effective in programs with very high utility costs.

Other Costs

Costs other than those for the four key cost centers were not given the same detailed attention. Most would
be appropriately budgeted as lump sum allowances or a percentage add-ons to the costs of the basic functions.  

- Fringe benefits, one of the larger components of other costs, raise a pricing problem. Reported fringe benefits as a percentage of salaries ranged from zero to 27.2%; the means for four of the five program categories fell in the 14%-16% range but the AOBH mean was only 11.5%. Only a few programs had fringe benefits in the 20% plus range characteristic of governments and the rate in all but a handful of programs was at least enough to cover the employer contribution to social security.

- Child support staff salaries - other than food service personnel - proved to be zero in most group residence, group home and AOBH programs. Most institutions reported expenditures for this purpose but the median amount was only $0.78 per child care day.

- There was a wide variation in expenditures per child day for salaries of administrative staff. Mean expenditures for the four program categories (excluding FBB) ranged from $3.74 for AOBHs to $5.41 for group residences. The means, as a percentage of total expenditures, ranged from 8.3% to 9.8%. Interagency differences are undoubtedly partially due to anomalies in cost allocations in multiprogram agencies, to differences in the categorization of some staff members and to the purchase by some agencies of some administrative services from parent organizations and others - as well as more substantive
differences. We recommended a flat or percentage allowance for administrative staff based on mean expenditures.

**Family Boarding Homes**

- Family Boarding Home expenditures consist of two kinds of items: (1) payments to foster families and (2) agency expenses. Each constituted roughly half of mean 1980 FBH expenditures of $16.83 per child care day.

- The average payment to foster families in 1980 was $8.30 per child day, an amount reasonably close to the average per person per day of consumption expenditures exclusive of medical costs in the lower BLS urban family budget. The incremental cost of adding one person to the family budget would be less than the average. The amount paid cannot, however, be evaluated solely in terms of need; it must also be sufficient to attract the needed number of foster families.

- Average 1980 payments by most agencies are clustered in the general vicinity of the mean. The most significant exceptions included ten high cost programs where average payments ranged from $9.21 to $18.83 per child day. Most of these programs appear to address special needs.

- Agency expense averaged $8.53 per child day. About 43% of this amount is accounted for by social service salaries ($3.22) plus fringe benefits on those salaries ($0.48); the mean social service expenditure is somewhat below (by about fifty cents) the amount that would result from use of the general social services budget factors we have.
suggested.

- We have no appropriate standards for judging agency expense other than social service costs. Our tests suggest that the mean expenditures for administrative staff and space would not be difficult to justify.

- Some agencies report expenses significantly above the mean. Higher expense may, in some cases, be justified by special needs and conditions. Most agencies with high expenses also make higher than average payments to foster families.

**Model Budget Formulation**

- We have included in our report a model budget formulation including recommended factors or allowances for determining yardstick amounts for each cost component with the exception of space costs.

- This approach should be regarded more as a beginning than an end to the process. The model budget provides a framework for refining standards and for learning more about the characteristics of actual practice.

- The proposed model budget follows present reimbursement methods by developing costs on a per child per day basis. This reimbursement method creates strong financial incentives for agencies to keep beds filled because marginal costs per child are significantly lower than average costs. It rewards agencies with above average utilization - in some of which average occupancy exceeded capacity in 1980 - and penalizes those with below average...
utilization. There are feasible alternatives to the present per diem reimbursement by some form of support on an annual basis for fixed costs or by adjusting basic reimbursement rates for differences in utilization.