

April 1998

## RESIDENTIAL CHILD CARE FACILITIES - INCOME AND EFFECT ON INCOME OF PROPOSED ADMINISTRATIVE RULES

This memorandum includes information on sources of income of residential child care facilities and group homes and what effect on income may result from the proposed administrative rules being considered by the Department of Human Services. The information is based on survey responses from three of the residential child care facilities/group homes in the state.

Major sources of income for these facilities in fiscal year 1997 include:

Revenue Source	Combined FY 97 Income	Percentag e
Department of Human Services	\$5,938,602	57.3
Fundraising/donations	1,690,601	16.3
Department of Public Instruction/schools (education or school lunch)	1,485,062	14.3
Private/third-party payers	545,537	5.3
Other states	479,754	4.6
Other sources	219,709	2.2
<b>Total</b>	<b>\$10,359,265</b>	<b>100.0</b>

The facilities reported that the major costs that are not adequately reimbursed by the state which result in the facilities needing to raise additional funds privately include:

1. Salaries and wages - The reimbursement formula limits payroll projections that are eligible for reimbursement by the consumer price index (CPI). This limiting factor results in the facilities needing to rely on fundraising to support staff salaries and benefits.
2. Social service costs - The reimbursement formula provides for a maximum monthly reimbursement rate for a facility's social service costs of \$300 per child per month. Because most facilities' costs for social service-related activities exceed the \$300 maximum amount, facilities must rely on fundraising to support these activities at an appropriate level.

The Department of Human Services is considering a number of changes to the administrative rules affecting the residential child care facility reimbursement system. The facilities indicated that overall, the changes will have a very minimal effect on their state reimbursement amount or on the amount of fundraising necessary for their facilities. They did, however, indicate that a substantial negative impact could occur under the proposed rules if a facility receives grant income from philanthropic organizations. The expenses associated with the grants may not be included in the facility's reimbursement formula for the year the grant is received. As a result, during the year following the receipt of the grant, funding would not be provided by the state to pay for the expenses that were paid for by the grant income during the previous year.

Comments and concerns identified by the facilities relating to the proposed administrative rules being considered by the Department of Human Services that may affect income or fundraising needs of the facilities include:

1. Support the proposed rule that would consistently set a facility's new rate for maintenance and service on the first day of the seventh month after the close of the facility's fiscal year rather than when the rate is finalized after the audit or rate resolution process.
2. Support the proposed rule that requires capitalization of repair projects that cost more than \$5,000 rather than \$1,000.
3. Support the proposed rule using the CPI as an inflator for determining allowable salaries rather than limiting salaries by the CPI; however, facilities indicated that the change will not likely result in additional revenue because salary and fringe benefit increases including health insurance generally exceed the CPI. As a result, facilities will need to continue to make up for these differences from other revenue sources.
4. Concern regarding the proposed rule that requires facilities to offset certain revenues received up to appropriate actual costs. These revenues include vending income; gain on the sale of assets; rental

income; grant income from federal, state, or philanthropic organizations; restricted gifts; and gifts from endowments. The major concern is with the provision requiring the offset of income received from philanthropic organizations. Under

the current version of the proposed rules, all income received from organizations or foundations and income received from individuals which is designated for a specific purpose would be offset to the appropriate costs in the year received.