

<h1>ACYF</h1> <p>Administration on Children, Youth and Families</p>	U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES Administration for Children and Families	
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INFORMATION MEMORANDUM [with Attachments]

[Venn diagram and explanation](#)

[Summary table on perceived barriers](#)

[Distribution of costs in a Head Start budget](#)

TO: Head Start and Early Head Start Grantees and Delegate Agencies

SUBJECT: Budgeting for Partnerships between Child Care and Head Start

LEGAL AND RELATED AUTHORITY: The Head Start Act, as amended; 45 CFR Parts 74 and 92; 48 CFR Part 31. Office of Management and Budget (OMB) Circulars A-21 "Cost Principles for Educational Institutions;" A-87 "Cost Principles for State, Local and Indian Tribal Governments;" and A-122 "Cost Principles for Non-Profit Organizations." The Child Care and Development Block Grant Act of 1990 as amended by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PL 104-193).

RELATED ISSUANCE: ACYF-IM-HS-01-06 "Financial Management Issues in Head Start Programs Utilizing Other Sources of Funding" issued 03/08/2001.

PURPOSE: As Head Start grantees and delegates continue to try to meet the expanding needs of parents for child care while maintaining Head Start's traditionally high Program Performance Standards, barriers--or perceived barriers--remain, especially in regard to cost allocation and related requirements. This memorandum will propose that many barriers may be eliminated by different approaches to budgeting and creative program designs to meet the growing need for full-day, full-year Head Start services for the children and families we serve.

BASIC BUDGETING CONCEPTS FOR HEAD START GRANTEEES

The term "budget" is used in its dictionary meaning, e.g., "to plan in advance the expenditure" of time or money. When a Head Start grantee submits a proposed budget to the Federal funding office, it must first have performed an assessment of the community that includes the eligible population to be served. It must ascertain the

costs of providing the services needed in the community in terms of administrators, teachers, and other staff; space for administration, classrooms, and playgrounds; equipment and supplies, including transportation of children; and finally for other costs such as food, medical services, insurance, etc. Costs for these various components of the total budget will vary considerably since some grantees may receive donated or low-cost space, donated food or medical services, and have widely varying costs of personnel and space depending on physical location (urban, rural), type of sponsoring agency (school system, private non-profit), and many other factors. Thus, the grantee is planning in advance what the delivery of Head Start services will cost. The proposed budget is submitted to and reviewed by the Federal funding office in terms of two major factors: 1) the availability of funds; and 2) the allowability and reasonableness of the proposed costs. Once the grantee and Federal officials have agreed and negotiated any necessary changes in the budget, Federal funds are awarded prospectively and services are provided.

COST PER CHILD

One of the perceived barriers to partnerships between Head Start and other child care programs is the concept of "cost per child." The perception is that because the cost per child in Head Start is so much higher than in child care programs, a partnership is not possible. Therefore, it is important to put this concept in perspective. "Cost per child" in Head Start is an after-the-fact calculation, not a beginning point in the budget process. Only after the budget has been developed is the concept relevant or appropriate. Cost per child is merely a number calculated by dividing a budget by the number of children served. For example, the national cost per child is calculated in this manner and can be useful in comparing the cost of Head Start with the cost of other Federally-funded programs. However, one must be careful to understand the widely varying service and related cost components of the programs; otherwise one will be "comparing apples and oranges."

In analyzing a grantee's proposed budget, "cost per child" has limited utility. It can be a flag which causes a budget analyst to look closely at costs which vary widely from one grantee to another, or as a way to compare a grantee's cost in one budget period with another. But it is essential that the reason for the varying cost per child be identified. For example, donated versus leased space may be a major difference in the cost per child of two grantees otherwise similarly situated. Inappropriate use of the "cost per child" beyond these obvious purposes can seriously distort discussions about budgets between 1) grantees and their funding office, 2) grantees and their delegate agencies, and 3) grantees and potential child care partners. An analysis of the proposed budget must consider all of the major costs of providing services as they actually exist for the grantee, and should ensure that costs are reasonable compared to other entities in the relevant geographic area.

Head Start grantees are funded to meet the reasonable costs of providing needed quality services to children and families within the bounds of Federal funds

appropriated for the program. **Head Start budgets are not premised on a "cost per child."**

BASIC BUDGETING CONCEPTS IN CHILD CARE PROGRAMS

While the above applies to the Head Start program, Congress has taken different approaches in other programs, including the Child Care and Development Fund (CCDF). CCDF funds are made available to States, Territories, and Tribes to assist low-income families in obtaining child care so they can work or attend education/training. Actual child care services are typically provided by private, for-profit or non-profit entities. In CCDF, maximum reimbursement rates for child care are typically based on what child care providers charge privately paying families. In such an arrangement, there is a maximum reimbursement to the provider for each child which may not represent the actual costs to a specific provider of services. A child care provider must operate its program, control its costs, and possibly identify other resources so that it does not exceed available revenue.

To be eligible for child care subsidies under CCDF, a child must reside in a household in which the parent or parents are low-income and working according to the State's definitions. States may also choose to serve families in which parents are attending school, or where a child is in need of protective services. Under the Federal CCDF statute and regulations, States are required to: provide parents with choice among the various types of care, enforce health and safety standards for providers of care under CCDF, have a sliding fee scale whereby parents contribute to the cost of care, and establish provider reimbursement rates that allow parents access to the child care market. Typically, States set their maximum reimbursement at a percentile of the distribution of market rates for a type of care. Market rates tend to be lower in low-income communities, reflecting what parents can afford to pay for child care. This, in turn, results in lower State reimbursement rates in low-income communities. Providers are reimbursed at their usual and customary rates or the State's maximum, whichever is less. Almost half of the States allow providers to charge parents the difference between the State's maximum reimbursement and a provider's customary rates.

When a Head Start grantee decides to offer full-day services with reimbursement through CCDF, or partners with a child care center or family child care home for Head Start enrolled children, the "cost per child" may be radically different in the two settings. By the nature of the program, child care providers have limited flexibility--their income is limited by what they can charge privately paying families and the maximum State-established reimbursement rates for children receiving subsidies.

For children receiving child care subsidies, the child care provider must deal with other budgetary realities. In almost all instances, payment is made to the provider as reimbursement after services have been rendered, while Head Start funds are released

to grantees before services are provided. As a result, child care providers must have sufficient funds to provide services and then wait for reimbursement, which can be delayed. Depending on the State, child care provider income may be limited by State policies related to full- versus part-time care and days of absence. Head Start grantees have a stable source of operating funds, and are subject only to tests of allowability and reasonableness, absent any programmatic concerns.

BUDGETING IN A PARTNERSHIP BETWEEN HEAD START AND CHILD CARE

Head Start grantees have flexibility which can be very important in collaborating with other programs. As discussed above, Head Start is funded for the reasonable cost of providing needed services within the bounds of available funds. When the service needs in the community change, the grantee should seek Head Start and other relevant funds that are required to provide the new services. This means that grantees must propose a new budget at the new level of services.

For example, consider a grantee which has been providing only part-day services but wishes to provide extended-day services. (The following discussion assumes that the grantee is expanding services to Head Start participants only). The grantee needs to develop a new budget with the new package of services. The new budget will have to meet the same test of reasonableness and availability of funds and it must reflect the new revenue available for the child care services through the CCDF. The "cost per child" in the part-day-only Head Start program is entirely irrelevant. The new budget must be rethought; it cannot be achieved by merely adding a fixed cost per child (as revenue and expense) for child care to the old budget. The revenue expected is not program income to the Head Start program and no portion of it, including parent co-pay, may be counted as non-Federal share. Head Start grantees may not pay the co-pay for parents who have difficulty making payment. Doing so would violate a basic tenet of the CCDF and the cost is not allowable under the Head Start program. (However, failure to make the co-payment should not result in denial of services. While eligibility for the child care subsidy might end, the child remains eligible for Head Start services as provided for in 45 CFR Part 1305.7)

In preparing the new budget, the Head Start grantee is not constrained by many of the factors that affect the child care services. Because Head Start releases funds in advance to provide services, delayed child care reimbursement should not be a major budgetary issue. If reimbursement appears to be falling short of projections as the program operates, the grantee should request approval from the Federal funding office to restructure the budget, especially if additional Federal funds are not available. The grantee should also use historical data to project revenue and plan on a conservative percentage of the potential revenue for its budget. If the grantee actually receives reimbursement beyond what is budgeted, the result would be unexpended Head Start funds which could be reprogrammed for other Head Start purposes.

Although the Head Start grantee is preparing a new budget with a new level of services, it is not necessary that the reimbursement from the other program cover all of the costs of providing the additional services. However, grantees are strongly urged to avoid paying for services for which another Federal or non-Federal program has the funds to pay. It is considered good business practice for grantees to maximize the amount of reimbursement from such programs, thus freeing Head Start funds for other non-reimbursed services. If no reimbursement is available, Head Start funds may be used to cover a reasonable difference between the full cost of allowable services and reimbursement available for them.

COST ALLOCATION CONSIDERATIONS

Some grantees mistakenly believe that all costs in a partnership arrangement must be allocated and that cost allocation is a complex and burdensome requirement. In addition, some grantees appear to be confusing the process of formulating a budget that includes child care reimbursement with cost allocation. A partnership arrangement does not automatically lead to a requirement for cost allocation. **Cost allocation--and the development of a cost allocation plan--is required only in situations in which Head Start resources (funds, space, personnel) are shared with another program which is not Head Start. This would include a program which may be similar to Head Start, but is not providing the full range of Head Start services.** The purpose of cost allocation is to ensure that every program which benefits from the shared use of resources is paying its fair share of the costs of that resource.

In the example on page 4, services are being expanded to eligible children. In this case, no cost allocation would be required. However, if the grantee is expanding services to include non-eligible children, then costs associated with those children must be allocated to each funding source, as appropriate. For example, if a Head Start grantee wanted to permit a child care provider to use a Head Start classroom after hours to serve children other than Head Start participants, then the cost of that occupancy (and related expenses) would have to be allocated to that provider. Grantees need systems and data to track the reimbursement budgeted and received from other programs, but cost allocation is not required for that reimbursement revenue.

In some collaborative arrangements (e.g., when children are being served who are not eligible for Head Start services), costs must be fairly allocated to another program or programs. However, cost allocation need not be complex. See "Financial Management Issues in Head Start Programs Utilizing Other Sources of Funding" (ACYF-IM-HS-01-06 date 3/8/01) for a full discussion of when and how costs must be allocated, and for suggestions about simple, straightforward ways to do it.

APPROACHES TO PARTNERSHIPS

In a September 1, 1999 joint letter to Head Start grantees and State and Tribal Child Care Administrators, the Head Start and Child Care Bureaus encouraged communities

to explore and initiate partnerships that expand high quality comprehensive, full-day, full-year services for low-income children and families. The letter stated:

ACF further encourages consideration of the following approaches...:

- Head Start and Early Head Start programs are encouraged to contract with child care centers or networks of family child care providers to serve Head Start-eligible children in the full-day, full-year settings of these centers and networks.
- Head Start and Early Head Start grantees are also encouraged to explore approaches to utilizing a wide range of funding sources to reach additional children with high quality, full-day, full-year services.

A partnership will most likely be successful when both parties have clear and important gains from participation. Head Start grantees gain the additional hours of child care needed by the families they serve and can potentially obtain funds to provide those services from such programs as the CCDF. (Grantees should bear in mind that funding through CCDF is limited, and many States have waiting lists and can only serve a portion of the eligible children). For child care eligible children already enrolled in Head Start, the Child Care program can provide needed full-day care by reimbursing the Head Start program for the additional cost of the longer day, thus making child care funds available for other children. The partnership should be based on a solid assessment of community needs, and continuity of care for the children (i.e., children remaining in a quality setting with consistent teachers and caregivers) is an important consideration in developing the details of the partnership arrangement.

There are several basic approaches to partnership which have been developed over the past decade:

- **Full-day Head Start (within Head Start).** In this approach, the Head Start grantee, in collaboration with the State or Tribal child care funding source (CCDF), provides a full day of Head Start services which meet all of the Performance Standards for the entire period at the Head Start facility. The grantee includes in its proposed budget reimbursement from CCDF through direct funding from the State or Tribe or through certificates or vouchers from the parents. Because all children are enrolled in Head Start and are receiving services which meet the Performance Standards, no cost allocation is required. This approach is the simplest and most direct, and it provides seamless services for children and families.
- **Head Start purchases services from child care providers.** In this approach, the Head Start grantee contracts with a child care center or family child care home provider to provide some or all of the Head Start services (typically the

education services), while the provider also collects CCDF subsidies to provide full-day, full-year services. As long as the child care provider meets all of the Performance Standards for the services it provides, and the Head Start program provides the other required services, the entire day would be considered Head Start. Cost allocation would not be required since the grantee would be purchasing services from another agency, not sharing resources with it.

- **Head Start with child care before and/or after.** Sometimes called "wrap-around" services, one variation of this approach has start/stop times when Head Start services (and full compliance with the Performance Standards) begin and end. Although child care (i.e., providing extended hours of service) is an allowable service in Head Start, it must be an integral part of the program and meet the Performance Standards. Therefore, the before/after periods of child care technically would not be considered Head Start. Costs for such periods would have to be fully allocated to the program providing the funds for them. This approach was used widely in early collaboration efforts. Another variation is when the wrap-around services do meet the Performance Standards; in this variation, the program would be essentially the same as Full-day Head Start described above, and costs would not have to be allocated.
- **Combinations of the above and other approaches.** Grantees have developed a wide range of ways to collaborate with other programs, and a variety of terms (wrap-around, blended funding, braided funding) have been used, but they are essentially variations on the approaches outlined above. Your Regional Office and the Head Start and Child Care Training and Technical Assistance Networks can provide you with practical examples of partnerships that might be useful in your program's setting and circumstances.

CONCLUSION

This Information Memorandum (IM) provides Head Start grantees, their delegates, and State Child Care programs with information about how budgeting can be significantly different in the two programs. Hopefully, a better mutual understanding of the differences will facilitate partnership discussions. Attachment 1 is a Venn diagram that summarizes the main budgeting points in the IM. Attachment 2 briefly summarizes the discussion of two major perceived barriers to collaboration and how those barriers can be overcome. Attachment 3 is a summary of the major cost distribution requirements in a Head Start budget.

The Bureau hopes that grantees who have not found ways to collaborate with child care programs will find the information helpful in understanding that Head Start grantees may collaborate in simple, straightforward ways with other child care programs while meeting the objectives of both programs to their benefit and advantage. **A partnership arrangement which provides seamless Head Start services which meet the needs of eligible children and families--including**

full-day, full-year services when appropriate-- is strongly encouraged.

Douglas Klafehn
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Head Start Bureau



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