

Children's Services
Alternate Funding Model
Proposal – 2004

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Background

The existing attendance based funding model does not provide adequate funding for some providers viability to ensure that these valued services continue to be available in our communities. A number of our service providers have experienced financial difficulties over the last few years and have been faced with difficult decisions that impact ongoing program delivery. When faced with difficult financial pressures, programs begin to suffer as cost cutting measures, sometimes extreme, are implemented in order for programs to survive. Changes/refinements to the existing funding model are necessary to address this issue and help provide a quality and safe learning environment for our children.

Alternate Funding Model

Under the Alternate Funding Model, attendance is still key in determining subsidy, however, the alternate funding model provides **minimum service level (MSL)** funding for providers when the existing attendance based funding model does not provide adequate funding to ensure the continued viability of the provider. The CMSM and the Provider will establish an approved budget annually which will be used to determine the MSL for their specific program. The MSL sets the minimum funding level for the Provider and will also be used to calculate cash flow.

One twelfth (1/12) of the approved MSL will be paid at the beginning of each month. This will ensure the Provider has adequate working funds without waiting for attendance records to be reconciled. This cash flow will be reconciled quarterly to the actual attendance as reported in OCCMS and any necessary adjustments made.

The CMSM will also perform a year-end reconciliation to determine the final settlement. This settlement will be based on a number of factors including actual expenditure, budget performance, actual attendance and cash flow.

Alternate Funding Model Process

1) Provider Submission

Each Provider must submit an annual budget and a fee schedule to the CMSM by no later than December 1st for the following calendar year.

The annual budget must be complete and include all revenue and expenditures required to operate the program. The CMSM **may** prescribe the format to be used for the budget submission. The budget must be approved by their Board of Directors prior to submission. It is understood that the annual budget will be used to establish an approved annual budget for MSL funding purposes.

The fee schedule must include the rates for all services delivered or eligible for subsidy. These rates **must** reflect the full fee rate. These rates will be used to calculate funding based on attendance utilizing the existing OCCMS program. Any changes to the fee schedule will be reported to the CMSM prior to being implemented.

2) Establish Approved Budget and Per Diem

The CMSM and the Provider will negotiate an approved budget annually based on their submission. This will be used to establish the MSL and maximum annualized funding. It should be noted that the approved budget is the maximum funding available to the Provider outside of OCCMS (attendance based funding) while the MSL determines the minimum funding available and cash flow. Reasonableness of the budget is determined by but not limited to comparison to prior year's budgets, prior year's actual and the break even point.

The approved budget will be categorized into fixed costs, variable costs and ineligible costs according to the template in APPENDIX 1 to facilitate the calculation of MSL.

Note: Once the base (first) year is set, subsequent years can be established by utilizing standard cost factors if available.

It is important that Providers understand the need to calculate breakeven points to properly access their fee schedule and to determine the adequacy of the number of children utilizing the facility.

In addition, the CMSM should have an operational review process in place to communicate any shortcomings with regard to operating and business practices. Sharing best practices can help Providers to deliver programs more effectively and efficiently.

The CMSM and the Provider determine approved Per Diem rates. Reasonableness of the Per Diem rates is determined by but not limited to comparison to neighboring providers, what the market will bare and the break-even analysis.

These approved Per Diem rates will be utilized within OCCMS to calculate subsidy based on attendance reporting.

3) Establish MSL Utilizing Approved Budget

The negotiated budgeted expenditure and revenue (excluding subsidy) is divided into categories – fixed, variable and ineligible (SEE APPENDIX 1). MSL funding is then established as being equal to 100% of the fixed category plus 80% of the variable category.

Example – Calculating MSL

Category	Approved Budget	MSL
Fixed	\$ 80,000	\$ 80,000
Variable	50,000	40,000
Total	\$ 130,000	\$ 120,000

In this example, the Provider has an approved budget of \$130,000 and is eligible for MSL funding in the amount of \$120,000.

Note: This example will be carried forward and expanded on throughout this document.

4) Calculate Monthly Cash Flow Based on MSL

The monthly cash flow is based on the calculated MSL as this is the minimum funding the Provider will be eligible for on an ongoing basis. This will provide a stable cash flow to the Provider to meet their ongoing operating requirements.

Example (Continued)

Category	Approved Budget	MSL
Total	\$ 130,000	\$ 120,000
Monthly Cash Flow		\$ 10,000

With an approved budget of \$130,000 and an MSL of \$120,000, the Provider would receive \$10,000 per month ($\$120,000 / 12$).

5) Reconcile Cash Flow to OCCMS Attendance Based Funding Quarterly to Determine if any Funds are Owing to Provider.

The CMSM reviews the amount of MSL subsidy paid to the Provider quarterly. If the amount paid for the quarter is less than what the Provider would have received under the OCCMS attendance based funding calculation, the difference is paid to provide the OCCMS funding.

Example (Continued)

1st Quarter Review

	Scenario 1	Scenario 2
OCCMS Subsidy Calculation	\$ 35,000	25,000
MSL Cash Flow	30,000	30,000
Owing to Provider	\$ 5,000	Nil

Scenario 1

Under scenario 1, the Provider would have received more funding under OCCMS, therefore, the CMSM pays the Provider the difference which is \$5,000.

Scenario 2

Under scenario 2, the MSL cash flow was more than what the Provider would have received under OCCMS, therefore, no adjustment is required. MSL is the minimum cash flow the Provider is eligible for.

6) Perform Year-end Reconciliation and Final Settlement.

The Provider must submit their audited financial statement within three months of year-end and any other information requested by the CMSM in order to complete the final reconciliation and year-end settlement.

Final Reconciliation Process

The CMSM compares actual expenditure and revenue to the approved budget for eligibility and identifies significant variances that require explanation. Eligible net expenditure is equal to eligible expenditure less eligible revenue (excluding CMSM fee subsidy). Once eligible net expenditure has been identified and

significant variances explained, the CMSM can calculate the final settlement.

The CMSM determines the final settlement by comparing the eligible net expenditure to the approved budget and actual cash flow for the year as follows:

- A. If the eligible net expenditure is less than the OCCMS calculated funding, then the recoverable/owing is the difference between the OCCMS funding and the cash flow.
- B. If the eligible net expenditure is less than the approved budget, then the recoverable/owing is the difference between eligible net expenditure and the cash flow.
- C. If the eligible net expenditure is more than the approved budget, then the recoverable/owing is the difference between the approved budget and the cash flow. The amount over the approved budget must be submitted to the CMSM for consideration.

Other Considerations

Establishing and maintaining adequate capital reserves should be part of the normal budget cycle. Providers should have capital plans in place to properly budget for capital reserves and to plan the timing of capital projects.

APPENDIX 1

Fixed, Variable and Ineligible Categories

Fixed Costs – Eligible for 100% MSL

Expenditure	Description	Comments
Salary and Benefits – Supervisor, Cook, Clerical, Financial and Custodian	Gross salaries and related benefits paid to prescribed positions	Relates to size of facility and the legislative requirements under the DNA.
Food Costs	Food Supplies / Services	Costs incurred to provide meals and snacks for the program.
Accommodations	Rent / Mortgage	Premise rent excluding utilities and taxes unless these costs are inclusive.
Telephone	Basic line and related charges	
Equipment rentals – fax, copier and postage	Fixed rental charges	Any fixed rental charges required to operate the program.
Utilities	Utilities not included in rent	Heat, light and water related to program delivery.
Taxes	Taxes not included in rent	Taxes related to program delivery.
Insurance	Liability, premise, F & E, Directors, etc...	All insurance required / recommended under the service agreement.

Variable Costs – Eligible for 80% MSL

Expenditure	Description	Comments
Salaries and Benefits – not prescribe as fixed above	Gross salaries and related benefits	Relates to size of facility and the legislative requirements under the DNA.
Travel	Travel costs for staff	Costs related to program delivery.
Training	Expenses for staff training	Costs related to program delivery.
Purchased Services	Contracted / Purchased	Costs incurred for services provided by persons / organizations other than staff
Supplies	Ongoing operating supplies	Costs related to program delivery.
Other Rentals – not included above	Miscellaneous rentals	Optional equipment related to program delivery.
Repairs & Maintenance	Repairs and Maintenance required to operate	Costs related to program delivery.
Replacements	Replace furniture and equipment	Currently eligible under Health & Safety – costs related to program delivery.
Furniture & Equipment	New F & E	Currently eligible under Health & Safety – costs related to program delivery.
Advertising and Promotion	Costs related to Program Support	Costs of advertising related to program delivery.
Other	Miscellaneous	Costs related to program delivery.
Allocated Administration	Allocated Admin Costs	Negotiated with CMSM – may be subject to a cap.
Revenue	All Revenue excluding CMSM Fee Subsidy.	Includes parent fees, fund raising and subsidy related to program delivery excluding fee subsidy.

Not Eligible for MSL – Unless Approved by CMSM

Expenditure	Description	Comments
Vehicles	Operation and maintenance	Costs must be related to a CMSM funded program to be considered.
Capital	Major Repairs, Replacements or Purchases	Costs must be related to a CMSM funded program to be considered.

Alternate Funding Model Process Flow Chart

1. Provider submission.
 - Annual budget (for MSL purposes only).
 - Fee rates (to determine Per Diem for OCCMS purposes only).
2. Establish approved budget and per diem.
 - Approved expenditure and revenue.
 - Approved Per Diem for OCCMS.
3. Establish MSL utilizing approved budget.
 - 100% of fixed costs
 - 80% of variable costs
4. Calculate monthly cash flow based on MSL.
5. Reconcile cash flow to OCCMS attendance based funding quarterly to determine if any funds are owing to Provider.
 - MSL funding versus attendance (OCCMS) based funding.
6. Perform year-end reconciliation and final settlement.
 - Actual expenditure.
 - Budget performance (variance analysis).
 - MSL funding versus attendance (OCCMS) based funding.