

4. Required Definitions

4-A. Introduction

Each First Steps county partnership must comply with legislative requirements regarding items such as how to arrive at your 8% administrative overhead cap, the uses of private funding, and how to avoid duplication of local services. To help you comply with these requirements, you need clarification on three important concepts specified in the legislation: administrative overhead, supplantation and capital expenses.

Some guidance on the meaning of supplantation can be found in sections 59-152-20 and -110 in the First Steps legislation; furthermore, for information on administrative overhead and capital expenses, please see sections 59-152-70(B) and 59-152-120 respectively. Because it is not expected that you'll be an immediate expert on First Steps requirements, OFS has developed this chapter to promote your understanding of concepts and policies required for producing compliant budgets and spending plans.

What follows is a general explanation of the manner in which these requirements should be applied to your First Steps program operations, including examples. In brief, the definitions are as follows:

Administrative Overhead

Administrative overhead can be described as the cost of operating the administrative functions of your county partnership office. County partnership spending on administrative costs is limited to 8% of your OFS state-funded allocation. Your administrative overhead cap includes all non-programmatic, state-funded costs. These costs *may* include staff duties such as payroll processing and data entry; the non-program-related costs of operating a county First Steps office including space, supplies, and phone costs; and the administration of sub-contracts, such as those with an accounting firm.

Supplantation

Supplantation exists when a county partnership uses its First Steps state or private funds to pay for First Steps services and/or activities that another funding source is paying for or could pay for either through available funds or funds that could be made available. Some examples of supplantation include funding 5 year-old kindergarten classes; providing literacy services that duplicate "Act 135" programs; providing immunizations for children who would have this service paid from federal programs; paying for breakfasts at a low-income education center.

Capital

First Steps law places certain limits on capital expenditures. These limits include not using state funds to add to or re-design existing office space, installing new carpet, etc. If you need to renovate, refurbish, or upgrade existing facilities, you can only use private funds. OFS recommends that you raise these funds locally. When funding gaps exist, OFS may provide where available, "OFS state-private funds" to assist with the financing of your project. Chapter 4d discusses this issue in detail.

Budget

Your Budget portion of the Budget Spending Plan (BSP) is used as a planning tool to project county expenses over a specific period of time. In the Universal Management System (UMS), budget is loaded as an annual amount down to the line item/model code level. The Budget Spending Plan must equal UMS budgets. Budget Reallocation Forms are required to move budget amounts. UMS software will NOT allow invoices to be paid if there is not enough available budget.

Cash

This is the quarterly check sent to the RFM and deposited into the county bank account. The check amount is loaded into the UMS in the cash account. The current quarterly advance check is reduced based on the amount of cash-on-hand two quarters previous. (i.e. the 4th quarter county request is reduced based on the amount of cash you have on-hand at the 2nd quarter's end).

Revenue

As cash is loaded into UMS in the cash account, it is simultaneously loaded into revenue accounts. Revenue is loaded into UMS at the program code level only. You should expect that revenue amounts will very rarely equal budget amounts because of cash-on-hand reductions and budget reallocations. Budget Reallocation Form completion is NOT required to move revenue. Your RFM may move revenue (with ED email/letter approval) at anytime to pay invoices. This is important to remember because UMS software will NOT allow invoices to be paid if there is not enough available revenue. UMS revenue/cash automatically rolls over to the next quarter and to the next fiscal year

Match

Match is defined as any funding source other than state appropriated dollars. For example: State-level private, local-level private, in-kind or federal grants. Only expenditures in these categories (other than state appropriated funds) will count towards a partnership's 15% match requirement. The collection of a donation does not count unless it is actually spent on partnership operations or programs. In-kind contributions must be received in order to count towards a partnership's 15% match requirement.

4-B. Overhead

The First Steps enabling legislation states: *Overhead costs of [each county partnership's] operations may not exceed eight percent of its implementation/ management [Level Two] grant allocation unless prior approval is received from the First Steps to School Readiness Board of Trustees.*

The following criteria are set forth to enable each county partnership to calculate administrative costs in developing its budget. Note the following: the 8% administrative overhead cap is pertains to “all” grant funds. However, all county partnerships are encouraged to keep administrative overhead as low as possible so that more money can go directly to programs and initiatives that will improve school readiness. For smaller counties, it may be harder to cover administrative costs due to smaller overall state-fund allocations. Smaller counties are encouraged to consider partnering with other counties to share administrative expenses wherever possible, as well as to consider other approaches such as sharing an administrator with another small non-profit in the county.

All county partnerships should use the same criteria to calculate their administrative costs to maintain consistency and equity. Any questions about administrative overhead or other budgetary matters should be directed to OFS at (803) 734-0479.

There are two basic types of administrative overhead costs when operating a program:

- Costs related to operating and administering the county partnership office and activities. Examples of these costs are salaries for an administrative clerk, paper and pens, and the cost of your partnership’s telephone.
- Certain costs contained in your funding recipient’s budgets. These recipients will be referred to as your sub-contracts or sub-contractors. Examples of these costs might be a portion of a supervisor’s salary if she/he manages employees providing direct services for your program, and custodial services for a facility in which you are providing family literacy classes at night.

For purposes of identifying administrative costs **that must be counted** within the 8% administrative overhead cap, include all costs related to operating the county partnership office and any costs contained in sub-contracts whose **primary purpose** is administrative support to the county partnership. The 8% administrative overhead cap **does not** include any administrative costs included in sub-contractor budgets where the primary purpose of the contract is direct services.

Administrative costs related to sub-contracts

Nearly all of your county partnership’s sub-contracts in Level Two will be used to provide direct services. Direct services would include, but not be limited to, early education programs, parent education, child care subsidies, family literacy, health screenings, information and referral services to help families access child care programs in your area, transportation, capacity building, and quality enhancement.

All direct service programs will require a minimal degree of administrative overhead and, as a result, you will find that some sub-contractors have included administrative costs in their budgets. Examples of some of these items might be:

- Custodian services to clean up after an early childhood program
- Certain furnishings
- Clerical and accounting support to enable an early childhood program to operate
- A portion of a supervisor's time if that person is managing the time of the direct service providers for whom you are paying
- Office space to enable an early childhood program to operate

Whenever these costs relate directly to school readiness, they **do not** fall within the 8% administrative overhead cap. If the nature of the subcontract is programmatic in nature, the entire contract is treated as programmatic. While it is true that a small amount of administrative costs will be included in these sub-contracts, the **purpose** of the sub-contracts is to improve school readiness and provide services to families. Therefore the small administrative cost is considered part of the direct service provided, and not considered part of your 8% administrative overhead cap.

However, occasionally the purpose of a sub-contract may be purely administrative in nature (e.g., the cost of an accountant to produce payroll and annual reports). In these cases, all costs are counted within the administrative overhead cap.

In making a decision about whether sub-contractor administrative costs should be included in your county partnership's administrative overhead cap, you should ask yourself:

What is the purpose of this sub-contract?

If the answer is – “*to directly provide school readiness services to children and their families*” you **do not** need to include any sub-contractor administrative costs within your 8% administrative overhead cap.

If the answer is – “*to assist the county partnership carry out its administrative duties*” all costs **must be included** within your 8% administrative overhead cap.

It is important to note that while administrative costs that naturally follow from direct service sub-contracts do not fall within the 8% administrative overhead cap, the county partnership may choose to limit or not fund administrative expenditures by a direct service sub-contractor. Limiting administrative costs within your direct service sub-contracts helps to provide services to a greater number of children and families. Note: Remember that First Steps funds can never be used to replace funds from any source that are available or could be made available.

County Partnership Administrative Costs

County partnership administrative costs are those costs necessary to operate the county partnership office and board. Some administrative costs may be funded with matching dollars (cash or in-kind). In these cases, as with any such funded sub-contractor costs, the costs do not fall within the 8% administrative overhead cap because the 8% cap is based on the total annual county budget (all funds). **In program code 1012, each element of cost (model code) must be a minimum of 25% of that particular model code in your county-wide budget.**

Examples of some administrative costs that should generally be included within the 8% administrative overhead cap:

- The salary of state-funded county partnership employees unless some or all of such persons' activities are classified as program-related (see "Split Positions" below)
- Benefits related to state-funded administrative employees
- Telephone and postage
- Office equipment and supplies
- Liability insurance
- Travel
- Computer/fax
- Office/meeting space
- Sub-contractor services, as necessary, for accounting, legal services, etc.

Split Positions

Some staff members included in your county partnership's central administrative budget may perform both administrative and programmatic functions. To correctly divide these employees' salaries between administrative and programmatic functions for determining what percentage of their salaries and benefits should be included in the cap, they must keep careful track of their time each week. Time sheets should accurately document how many hours a person worked on administrative functions versus how many hours worked on program functions. Please note that clerical staff time is never programmatic in nature.

It is critical that any such staff person documents a split of duties because county partnerships will be asked to document that they kept their state-funded administrative costs within 8%. The following page contains an example showing a week of a director's time and how to do this calculation.

Functions	Mon	Tue	Wed	Thurs	Fri	Total
	4-1-00	4-2-00	4-3-00	4-4-00	4-5-00	
Administration (reports, staff management)	6	8	4	4	8	30
Direct Program Work – Developed quality standards for area child care centers	2	0	4	0	0	6
Direct Program Work – Hosted a family reading night, working with mothers, fathers and children	0	0	0	4	0	4
TOTAL:						40

4-C. Supplantation

What is supplantation?

Supplantation exists when a county partnership uses its First Steps public or private funds to pay for First Steps services and/or activities that another funding source is paying for or could pay for either through available funds or funds that could be made available.

The First Steps legislation, Section 59-152-20, specifically prohibits supplantation:

First Steps funds must not be used to supplant or replace any other funds being spent on services but must be used to expand, extend, improve, or increase access to services or to enable a community to begin to offer new or previously unavailable services in [the] community.

Further, Section 59-152-110 offers more legislative guidance on the supplantation issue:

Grant funds may not supplant current expenditures by counties or state agencies on behalf of young children and their families, and may not be used where other state or federal funding sources are available or could be made available.

Why is supplantation an issue for First Steps?

First Steps is working to improve school readiness by offering new and/or expanded existing services to families with young children. Supplantation would be a problem for First Steps if other state, federal, private or local programs shifted their existing responsibilities to First Steps. For example, a school district could decide to no longer fund a parent educator so that it could use those funds for something else and expect the First Steps county partnership to pick up the cost. As a result of any such supplantation, fewer dollars would be available for First Steps to expand, extend, improve or increase access to services as required by law. Examples of permissible expanded, extended, and improved services and increased access to services are as follows:

Expand/Extend Services:

Example One: In your community, the school district currently offers 4 year-old kindergarten to many children. However, school district 4-year-old kindergarten programs generally have a long waiting list.

- You would be expanding services if you funded increased capacity that allowed more 4-year-old children to attend kindergarten or if you funded a new 3-year-old program.
- You would be supplanting funds if you paid for the existing level of services being provided by the school district for 4-year-old kindergarten.

Example Two: In your community, a non-profit provides parenting services to parents of children that have serious emotional needs. However, more staff is needed to reach the number of children/families needing services and currently not receiving them.

- You would be extending services if you paid for additional staff for the non-profit in order to provide services to parents in need that currently do not receive services.
- You would be supplanting funds if you paid for staff in an area that is already receiving services, thereby allowing the non-profit to decrease its existing funds allocated to the program.

Improve Services:

Example One: In your community, many child care centers do not have accreditation by the National Association for the Education of Young Children (NAEYC) and their staff members do not have advanced degrees. You want to improve the knowledge and skill level of staff members in order to help them to meet NAEYC requirements.

- You would be improving services if you helped these existing programs - funded by other agencies to provide child care - seek accreditation and thereby creating higher quality programs.
- You would be supplanting funds if the Child Care Development Fund (CCDF) quality enhancement funds were set aside for your community for these purposes but were not being accessed.

See section below entitled “Quality enhancement for child care providers” for additional information on child care staff training.

Increase Access:

Example One: In your community many children lack appropriate medical care including vaccinations, and this is shown by your needs/resources assessment to negatively affect school readiness. You find that many eligible children are not enrolled in the state’s health insurance program for children.

- You would be increasing access if you worked with the local Department of Social Services (DSS) office to improve outreach and enrollment (assuming that no other funds are available for the planned outreach efforts).
- You would be supplanting funds if your partnership covered immunizations and health screenings for these children because currently federal funds are available for these services.

Contact your local health department for specific information regarding available children’s health services.

Whether supplantation of funds exists must be assessed for each requested budget line item in your county partnership's Level Two application. For each line item you are proposing, you should ask:

Is another funding source currently paying for this line item? Could another funding source be accessed to pay for this line item?

Your needs and resources assessments should help you answer these questions. In addition, some common areas for which funding sources are available to pay for services and activities are as follows:

Medical Services: It is possible that certain unmet medical needs in your community affect school readiness. Medicaid funds are available for comprehensive children's medical services for many children and must be used instead of First Steps funds whenever possible.

- Recent legislative changes have increased the number of children eligible to receive services.
- Coverage in South Carolina has been extended to children within 150% of the Federal Poverty Level (FPL).
- The Department of Health and Human Services (DHHS) and DSS determine eligibility.
- To learn more about this program in your area and how to improve collaboration – call DHHS at (888) 549-0820 or speak with the DSS representative on your county board.

Child Care Subsidies: The DSS, through Child Care and Development Funds (CCDF), administers the ABC Child Care Program. This program helps parents who fall within low-income guidelines and are working, in school, or in training, with the cost of child care services. Families who may be eligible to receive ABC Child Care assistance include participants in job or educational placements through the South Carolina Family Independence Program, and low-income working families who have gross income that is at or below the federal poverty level (FPL) based on their family size. To avoid supplantation, you Families participating in your child care scholarship program are either over the state program's income level, or are on a waiting list for services. Child Care and Development Funds are also used to extend the day and provide full-year care in some Head Start programs. First Steps funds must not be used where this is occurring or where funds not currently accessed could be made available for such services/activities.

To learn about privately-operated child care centers that meet higher program standards contact the ABC Child Care Program.

Quality Enhancement for Child Care Providers: A portion of all CCDF funds must be used for quality improvement initiatives. In South Carolina, DSS provides training and technical assistance to child care providers interested in obtaining a higher level of care e.g. accreditation. Since 1992, the ABC Child Care Program provides higher rates and bonuses to child care providers that achieve higher levels of care. Child care providers receiving grants from First Steps must first use a portion of their funds to achieve license status and then to achieve a higher level of care. First Steps funds must be used to expand, extend or improve the quality of services. Before you commit to fund a

child care quality improvement or capacity building program/strategy, check with the DSS/ABC Child Care Program to ensure services are not being duplicated as well as funding.

The T.E.A.C.H. (Teacher Education and Compensation Helps) Early Childhood® Project is being implemented statewide as of January 2001. T.E.A.C.H. provides scholarships for teachers working in child care to complete course work in early childhood education, and increases compensation upon reaching certain educational objectives. Before you commit to fund scholarships for child care teachers or enhance child care worker compensation, contact the T.E.A.C.H. Early Childhood® Project for additional information.

Early Education: Preschool and kindergarten programs are provided through the public school system. Extended day 5-year-old kindergarten is mandatory and is available for all 5-year-old children. The Early Childhood Development and Academic Assistance Act of 1993 (ACT 135) requires all school districts to provide at least a half-day early childhood development program for 4-year-old children who have significant readiness deficiencies. Some school districts use local funds or Title I funds to serve a larger population of 4-year-old children and some school districts use that funding to extend the day from half-day programs to all day. Five districts use Montessori programs and serve a small population of 3-year-olds in those multi-aged classrooms. A few districts also use local funding and/or Title I funds to serve 3-year-olds. Additionally, Head Start, a federally funded pre-school program, serves children from low-income families. First Steps funding should not be used to provide those services during the times in which these programs operate to children already covered by those programs. However, a partnership might consider extending or expanding these services. Remember that this cannot occur if the First Steps funding would allow the school district to cut existing funding allocated to early childhood education or remove funds from a planned expansion.

When considering offering pre-school programs in the community, first contact the local school district office(s) and the local Head Start office and/or the ABC Program at DSS to learn about existing programs and funding sources. Also, you should gather information concerning plans for school district expansion. Finally, consider those existing early childhood education programs operated by child care centers.

Family Preservation/Development Services: DSS has been mandated to work with families at risk of disruption. These services are provided with the use of a variety of state and federal funds including Social Service Block Grant (SSBG) and Title IV-E funds. Before funding these types of services, you should ask the DSS representative on your county board if this proposed activity/service is - or could be - covered using existing program resources or those that could be made available.

Nutrition: Women, Infants and Children (WIC) and the Free and Reduced Breakfast/Lunch Programs are two examples of programs that exist to help children receive proper nutrition. Before funding a pre-school nutrition program using First Steps funds, you should contact the local health department to learn how these programs work or could work in your area to avoid duplicating funding already available.

Parenting and Family Literacy: The Early Childhood Development and Academic Assistance Act of 1993 (ACT 135) require all school districts to develop and implement parenting/family literacy

initiatives. Initiatives must provide parent education and family literacy to parents who have children ages 0-5 and wish to participate. Special efforts must be made to recruit parents whose children are at risk of school failure. In accordance with ACT 135 requirements, staff members from the Office of Early Childhood Education provide statewide, regional and local training and technical assistance to facilitate the development and implementation of district parent education and family literacy initiatives. Currently more than 4,000 families remain on school district waiting lists statewide for these types of activities/services. Please contact OFS for the Office of Early Childhood staff person assigned to work with your county. Also, the State Department of Education manages the “Even Start” program, a federally-funded family literacy program.

Supplantation vs. Supplementation

The First Steps legislation prohibits the use of First Steps funds to “supplant” existing programs; however, it allows First Steps funding to “supplement” existing programs if there is evidence of the existing program’s effectiveness. *Supplementation* is adding First Steps funding to existing effective programs to expand, extend or improve them. The difference between supplantation and supplementation is sometimes hard to define. The important thing to remember is:

Did your resources assessment determine all current or potential funding sources available to meet the needs not covered as determined by your needs assessment?

Steps to Take/Questions to Ask to Avoid Supplantation

1. Did your resources assessment address all current and potential funding sources for this identified community need and still find a gap in funds?
2. Is this item an unfunded mandate required by federal, state or local law?
3. Have you ensured that no existing funds or funds that could be made available could or should pay for this initiative? (Include any funds that your collaborative partners could make available.)
4. If you are considering expanding services, did the board work with its collaborative partners to encourage them to increase their funding for this initiative first?
5. If you fund this activity/service, are you certain that another federal, state, or local program will not decrease its existing funding in the community for that activity/service?

If you are able to answer “yes” to each of these items it is unlikely that you are supplanting any funding. Please note that because the First Steps legislation specifically prohibits supplantation, the OFS pays careful attention to any possibility of supplantation in the Level Two review process.

4-D. Capital

The First Steps legislation Section 59-152-120, states:

Funds received for implementation of a county partnership's implementation/management grant may not be used for capital expenses for new construction. However, funds may be made available for renovating, refurbishing, or upgrading of existing facilities used to support First Steps to School Readiness activities and services for children, families, and providers from funds made available to the partnerships in Section 59-152-150(C) and Section 20-7-9740(A). The county partnership must demonstrate to the satisfaction of the First Steps to School Readiness Board [State Board] that the capital expenditure is:

- (1) a priority need for the local initiative and other state or federal funds for such projects are insufficient; and,
- (2) necessary to provide services to under-served children and families.

What are capital expenses?

These are the costs for new construction or existing building renovations. They include things such as constructing a new building or shed, adding or re-designing existing office space, installing new carpet, etc. Capital improvement is any new item/structure affixed to an existing structure that increases the value of the existing structure.

Can I use First Steps funding for capital expenses for new construction?

State dollars received for implementation of a county partnership's renewal plan **may not** be used to support *any* expenses for new construction or renovating, refurbishing or upgrading of existing facilities. **Your county partnership's local private cash funds (fund code 20) are the ONLY dollars that may be used for new construction projects. Any county considering a new construction project using local private donations should discuss this with OFS.**

What if a program needs to renovate, refurbish or upgrade an existing facility?

County Partnerships are encouraged to seek out private funds to support those expenses. However, such improvements must be demonstrated through the annual renewal plan to be a priority need for the county initiative, other state or federal funds for such projects must be insufficient and the initiative must be necessary to provide services to under-served children and families. To determine if an improvement expense is permissible, ask these questions:

- ⇒ *Is this expense absolutely necessary to ensure the success of the First Steps initiative?*
- ⇒ *Are other state or federal funds available for this project?*
- ⇒ *Is this expense necessary to provide services to under-served children and families?*

If you can justify the need for using private funds for improvement expenses, then conduct an exhaustive search of local private resources to find a funding source. Once a funding source has been identified, list this expense in your Level Two budget under cash or in-kind match funds for the initiative.

What if the expense is a priority need for the initiative and necessary to provide services but no local private dollars are available?

If you have justified the need for using private funds for improvement expenses and have been unsuccessful in identifying available funds locally, contact OFS. On a case-by-case basis, and depending on fund availability, OFS will consider allocating state-held private funds to assist county partnerships with renovations, refurbishing or upgrading existing facilities. You may also be able to use private funds donated at the state level but designated by the donor for your county, to meet such obligations.

Remember, you must demonstrate to the satisfaction of the First Steps State Board that the improvement expenses are a priority need for the county initiative, that other private, state or federal dollars are not available and that the improvement expenses are necessary to provide services to under-served children and families. If you request consideration for state-held private funds in your Level Two budget, list your total request in the column “privately donated funds requested from OFS.”

Do First Steps’ rules on non-duplication and supplantation of funds apply to improvement expenses?

Absolutely. “First Steps funds must not be used to supplant or replace any other funds being spent on services.” S.C. Code § 59-15-20. “Grant funds may not...be used where other state or federal funding sources are available or could be made available.” S.C. Code § 59-152-110.