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February 2000

## **EVALUATING THE IMPACT OF A PROPOSED INCREASE IN CHILD CARE FEES ON LOW INCOME FAMILIES**

California's subsidized child care and development system serves an estimated 600,000 children from working, low income families.<sup>1</sup> The major portion of the program is administered at the state level by the California Department of Education (CDE) and at the local level by public and community-based agencies. Care is provided in licensed centers and family child care homes. The state also subsidizes "licensed-exempt" care in the child's home or in the home of a child care provider.<sup>2</sup>

Parents receiving subsidized care whose incomes exceed a certain threshold are required to pay a family fee or copayment.<sup>3</sup> Fees are assessed on a sliding scale, based on a family's income. The fees are used by child care agencies to provide child care to additional numbers of low income and at-risk children. A proposal by the CDE and Department of Social Services (DSS) would alter the basis for these fees and increase the amount families are required to pay.<sup>4</sup> This report analyses that proposal and evaluates it with respect to three basic principles:

- Very low income families who cannot reasonably be expected to contribute should be exempt from fees.
- Fees should be affordable to families at all points of the income eligibility scale.
- Any new child care fee structure should minimize pressure on families to select poor quality care.

### **THE EXISTING CHILD CARE FEE SCHEDULE**

The current fee schedule, issued by the CDE in September 1998, establishes fees for families with incomes at or above 50 percent of the state median income (SMI), adjusted for family size.<sup>5</sup> Based on the

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<sup>1</sup> Estimates reflect actual funding levels and estimated costs per child, based on unpublished data from the Department of Finance. Actual enrollment figures are not available.

<sup>2</sup> Child care centers and family child care homes are eligible to care for children from several families if they retain an up-to-date child care license from their county or the state Department of Social Services. Licenses specify the number of children that may be served and certify that the program complies with health and safety requirements. Care that is exempt from licensing regulations may be provided to children from only one family other than a provider's own.

<sup>3</sup> For care provided to children referred by Child Protective Services, agencies may waive fees at the request of the protective services worker. Child Development Division, Management Bulletin #98-19, July 1998.

<sup>4</sup> California Department of Education and California Department of Social Services, Report To The Legislature, *Proposal For A New Family Fee Schedule For Subsidized Child Care and Development Programs* (October 1998). Hereafter, CDE/DSS Fee Proposal.

<sup>5</sup> Found at [www.cde.ca.gov/syfsbranch/child\\_development/familyfee.htm](http://www.cde.ca.gov/syfsbranch/child_development/familyfee.htm). A family earning less than 50 percent of SMI is not currently required to pay fees. In addition to family fees, families may be required to pay the difference between a provider's actual cost of care and the market rate cap on reimbursement provided by the state. For example, if the maximum payment rate for a preschool age family child care home in a particular area is \$500 per month, and the provider charges \$550 per month, a parent may be required to make up the \$50 per month difference.

proposed schedule, a family earning 50 percent of the SMI (\$1,881 per month for a family of three) pays a daily fee of \$2.00, approximately \$43 per month (Table 1). A family earning 75 percent of the SMI (\$2,821 for a family of three) pays \$10.10 per day for child care, or \$219 monthly.

<b>Table 1: Current Family Fee Schedule</b>					
<b>Family Income (Percent of SMI<sup>6</sup>)</b>	<b>Family Size of 1 or 2</b>	<b>Family Size of 3</b>	<b>Family Size of 4</b>	<b>Daily Family Fee</b>	<b>Monthly Equivalent Fee</b>
20%	\$702	\$752	\$836	0	0
30%	\$1,053	\$1,128	\$1,254	0	0
40%	\$1,404	\$1,504	\$1,672	0	0
50%	\$1,755	\$1,881	\$2,090	\$2.00	\$43.45
60%	\$2,106	\$2,257	\$2,507	\$4.50	\$97.77
70%	\$2,457	\$2,633	\$2,925	\$8.25	\$179.24
75%	\$2,633	\$2,821	\$3,134	\$10.10	\$219.43

Source: California Department of Education Family Fee Schedule, September 1998.

Two features characterize the current schedule. First, family fees are based on family income rather than the number of children receiving subsidized care. A family of three with one child in care pays the same fee as a similarly situated family with two children in care. Second, fees do not depend on the amount the family's child care provider charges. For example, a family of four earning \$2,090 per month will pay a monthly fee of \$43, regardless of whether the provider charges \$200 or \$400 per child for caring for the family's children.<sup>7</sup>

## THE CDE/DSS PROPOSED CHILD CARE FEE SCHEDULE

The proposed fee schedule, in a departure from current practice, bases fees on provider charges and the number of children receiving subsidized child care. In addition, families would begin to pay fees at far lower levels of income.

Families would pay a flat monthly fee if their income is at or above 20 percent of the SMI (\$752 per month for a family of three). At 35 percent of the SMI, a family's fee would be based on a sliding scale percentage of the cost of care, based on the number of children in care. The percent of monthly costs charged to families reaches its upper limit for families earning 75 percent of the SMI (\$2,821 for a family of three).<sup>8</sup> Such families -- at the upper range of eligibility for California's subsidized child care programs -- would pay 53.2 percent of the monthly cost -- capped at a maximum of \$457 -- for one child in care.<sup>9</sup> The maximum monthly cost for this family would be \$243.

<sup>6</sup> The CDE schedule provides only a few SMI equivalent figures. This brief calculates the SMI equivalents for families between 50 percent and 75 percent of SMI to enable a comparison with the proposed fee schedule detailed in Table 2. The family income scale in the current fee schedule is based on the following state median income levels: Family of two: \$3510 per month. Family of three: \$3761 per month. Family of four: \$4179 per month.

<sup>7</sup> Child care payment rates are capped so that a provider would not be able to charge the state more than the maximum allowed for state payments in a particular category of care in a particular region.

<sup>8</sup> This is true for most families, but not for those with children in subsidized care prior to January 1, 1998, when the family income eligibility ceiling was lowered from 100 percent to 75 percent of the SMI. These families may retain subsidized care until their income reaches 100 percent of the SMI. Correspondingly, their fees would rise until they reached 100 percent of the cost of care for one child, 67 percent of the cost for two, and 57 percent of costs for three -- subject to the maximum of \$457 described in the text below.

<sup>9</sup> The capped amount represents an "adjusted" Standard Reimbursement Rate (SRR). The SRR is a maximum daily rate available to state contracted child care centers on a per-child basis. For 1999-00 the SRR is \$24.73 per day, or \$537 on a monthly basis. According to the CDE, fifteen percent -- an amount equivalent to the maximum allowance for agencies to comply with state regulations and other contract requirements -- is then subtracted from the amount, yielding a maximum of \$456.70 in monthly child care costs to serve as the basis for parent-fee calculations under the CDE/DSS proposal.

A family with income at 75 percent of the state median with two children receiving subsidized care would be required to pay 35.6 percent of costs, up to the capped amount, for each child. A family with three children would pay 31.7 percent of the cost of each child's care (Table 2).<sup>10</sup>

<b>Table 2: Proposed Child Care Fee Schedule: Percent of Cost and Maximum Monthly Family Child Care Fee</b>						
<b>Family Income Percent of SMI</b>	<b>Percent Fee for 1 Child</b>	<b>Maximum Fee</b>	<b>Percent Fee for 2 Children</b>	<b>Maximum Fee</b>	<b>Percent Fee for 3 Children</b>	<b>Maximum Fee</b>
20%	-	\$5.00	-	\$7.50	-	\$10.00
35%	2.0%	\$9.13	1.0%	\$9.13	1.0%	\$13.70
40%	7.0%	\$31.97	4.0%	\$36.54	4.0%	\$54.80
50%	17.0%	\$77.64	10.0%	\$91.34	10.0%	\$137.01
60%	31.5%	\$143.86	20.2%	\$184.50	18.7%	\$256.21
70%	46.0%	\$210.08	30.5%	\$278.58	27.4%	\$375.40
75%	53.2%	\$242.96	35.6%	\$325.17	31.7%	\$434.32

Source: CBP calculations based on data from CDE/DSS fee proposal and CDE current fee schedule.

As an example, a family of three with two children in care and a monthly income of \$2,633 (75 percent of SMI) may use child care that costs \$600 per child. Family fees under this proposal would be based on a maximum monthly charge of \$457 per child. This family, then, would be required to pay a family fee of \$325 per month ( $0.356 \times 2 \times \$457$ ).

However, a second family with the same number of children in care earning the same income may pay a far lower fee if their provider charges an amount that is substantially below the capped amount. If the second family's provider charges \$300 per month for each child's care, this family's monthly family fee would be \$214 ( $0.356 \times 2 \times \$300$ ).

## CAN FAMILIES AFFORD THE PROPOSED FEES?

The proposed fee schedule will require families served by subsidized child care and development programs to pay significantly higher fees. The additional costs will be lowest for families with one child, and highest for families with three or more children. The burden will be especially great for larger families with incomes close to the eligibility ceiling.

Moreover, many very low income families will be required to pay fees for the first time. For example, the proposed fee schedule charges families with two children that earn 20 percent of the SMI (based on the current fee schedule income thresholds) a monthly fee of \$7.50. For families with total earnings of \$752 per month -- 64 percent of the federal poverty level for a family of three -- the added charge may present a substantial burden.

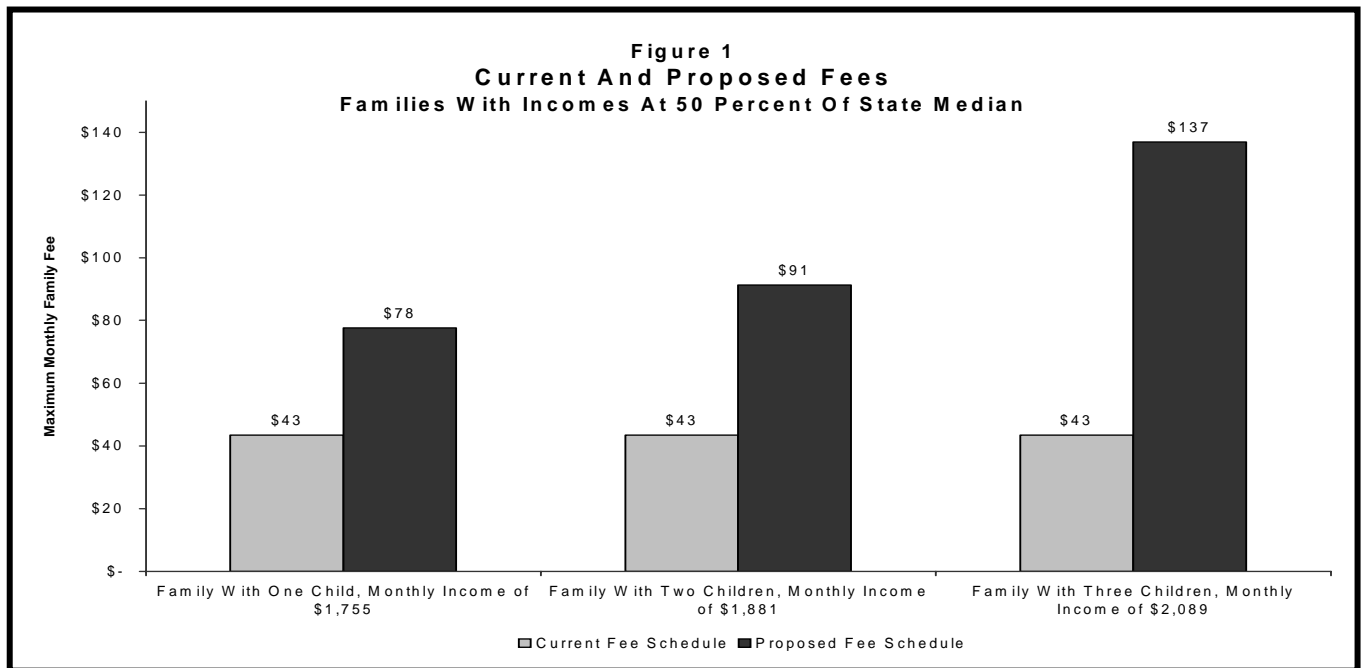
By proposing to lower the income threshold for family fees from 50 percent of the SMI to 20 percent, the CDE/DSS fee plan assumes there is a minimum income standard below which families cannot afford to contribute to the cost of child care. In their report to the Legislature, the CDE and DSS suggest the lowest income families that would be subject to fees have incomes "at the national poverty level."<sup>11</sup> However, the 2000 federal poverty level is equivalent to 31 percent of the SMI used in the current fee

<sup>10</sup> Again, subject to the \$457 maximum monthly charge. See maximum fee columns in Table 2.

<sup>11</sup> CDE/DSS Fee Proposal, p. 8.

schedule, while the CDE/DSS proposal applies fees to families with incomes at 20 percent or more of the SMI.<sup>12</sup> More important, the federal poverty level is increasingly recognized as an inadequate standard by which to measure a family's ability to make ends meet.<sup>13</sup>

Families will receive sharply increased fees under the CDE/DSS fee proposal. Currently, families with incomes lower than 50 percent of SMI pay no fee and families at 50 percent of SMI pay a fee of \$43 per month. Under the CDE/DSS fee proposal, families with two children at 50 percent of the SMI would pay up to \$91 per month, a 110 percent increase. Where such families have three children in care, the fee would be up to \$137, an increase of 215 percent (Figure 1).



Families at the top of the eligibility scale -- 75 percent of SMI -- would experience the largest dollar increases. These families currently pay \$219 per month, regardless of the number of children in care. Under the CDE/DSS proposal, a family with two children would pay up to \$325 in fees. If the family had three children in care, the family fee would rise to a maximum of \$434 per month.

In regulations implementing the federal Child Care and Development Fund, the Department of Health and Human Services instructed states to set family fees at affordable levels and recommended that a subsidized family be required to pay "no more than ten percent of its income for child care, no matter how many children are in care...."<sup>14</sup>

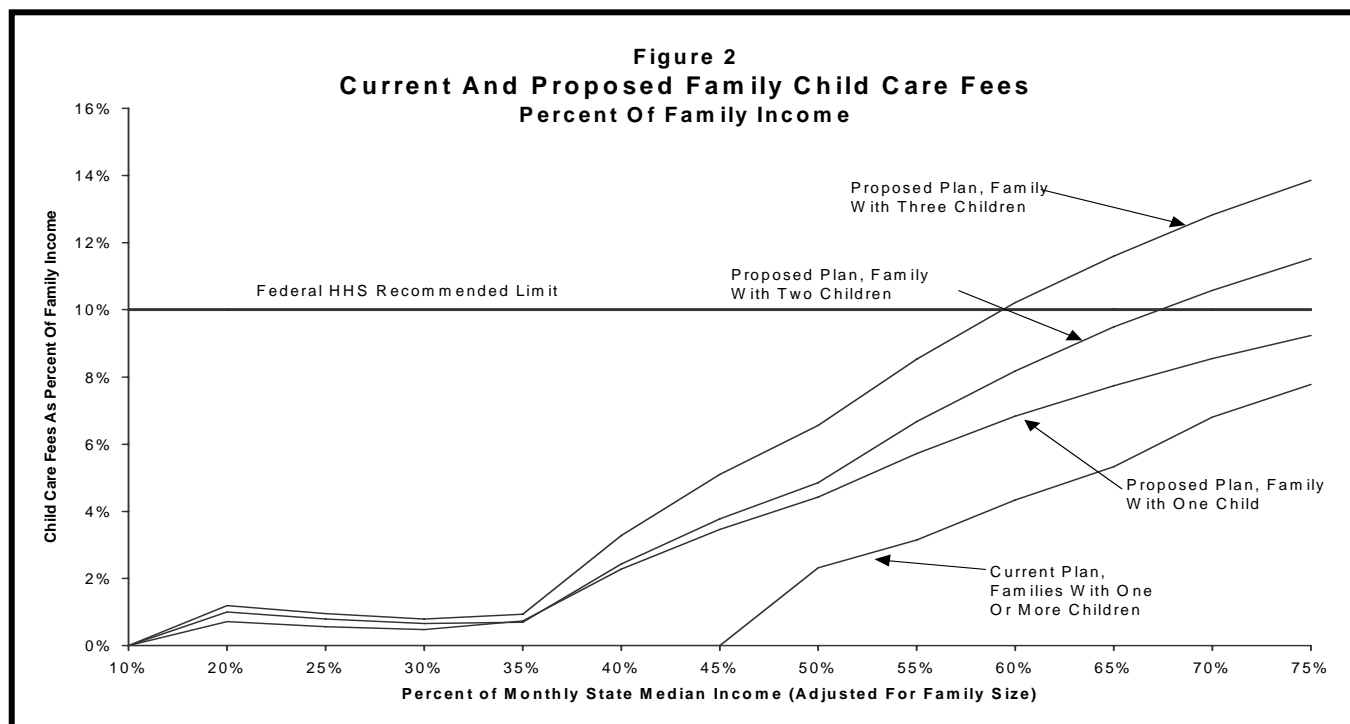
The current fee schedule stays well within the ten percent benchmark, climbing from zero to eight percent of a family's monthly income as income climbs from 50 to 75 percent of SMI. The CDE/DSS fee

<sup>12</sup> The 2000 poverty level for a family of three is \$14,150, or \$1179 per month. The current family fee schedule, updated on 7/6/99, sets the SMI for a family of three at \$3761 per month. Federal poverty level found at <http://aspe.hhs.gov/poverty/00poverty.htm>.

<sup>13</sup> In *Making Ends Meet: How Much Does It Cost To Raise A Family In California* (October 1999), the California Budget Project estimated that, on average, a single parent in California with two young children will require earnings of \$3,069 to be self-sufficient, or 265 percent of the federal poverty level. Child care costs represent 31 percent of this family's budget. Fully subsidized child care would reduce the required monthly budget to \$2,117, an amount nearly three times the income level at which the CDE/DSS fee proposal begins.

<sup>14</sup> Federal Register, Vol. 63, No. 142, July 24, 1998, P. 39960. The preamble to the regulations indicate, as well, that "basing fees on the cost or category of care is not allowed...." The CDE/DSS fee proposal to base fees on costs up to a certain maximum appears to conflict with these regulations.

proposal stays within the ten percent threshold for families with one child, but exceeds the threshold for families with two or three children, once these families reach 70 and 60 percent of the SMI respectively (Figure 2).



In assessing the level of fees that reasonably can be required of low income parents, it may be useful to consider the range of child care expenditures by all parents with young children in care. A 1995 Census Bureau report found that, overall, families with child care expenses spend about eight percent of their monthly income on child care.<sup>15</sup> However, higher income families spent a lower percentage of their income on child care than did low income families (Table 3).

If a goal of the subsidized child care system is to reduce the financial burden of child care for low income families, the CDE/DSS proposal would need to be adjusted.

Beyond the central question of affordability are questions of practical implementation. The CDE/DSS report to the Legislature provides no analysis of the impact of new and higher fees on low income families. Will very low income parents be able to afford fees in the \$5-10 per month range, or will they drop out of the program? Will families at the upper end of the eligibility scale be forced out of their child care

**Table 3: Child Care Costs For Children Under Age Five As Percent of Family Income**

Family Income	Percent of Income Spent on Child Care
Below Poverty	18%
Above Poverty	7%
Monthly Wages	Percent of Income Spent on Child Care
Less than \$1,200	25%
\$1,200 to \$2,999	12%
\$3,000 to \$4,999	8%
\$4,500 and over	6%

Source: US Census Bureau, Current Population Report P70-52, September 1995.

<sup>15</sup> Lynne Casper, *What Does It Cost to Mind Our Preschoolers?*, Current Population Report P70-52, US Census Bureau (September 1995). This report, the most recent from the Census Bureau on child care costs, is based on 1993 data from the Survey of Income and Program Participation (SIPP).

program before they are able to pay market rate costs? Will child care agencies that are unable to collect fees from the lowest income families continue to carry them in the program by dipping into other funds? Will parents, deterred by the prospect of higher fees, choose lower cost and potentially lower quality programs? Will the added complexities of the new fee schedule be understood by parents and administrators alike? Will parents of preschoolers receiving subsidized care decline to enroll school-age siblings in after-school care to avert higher monthly family fees?

Finally, the CDE/DSS report provides no assessment of the amount of new funds likely to be raised by the higher fees it proposes. As noted above, the CDE/DSS proposal substantially increases fees on low income families. Yet the proposed increase is unlikely to raise significant new revenues, so that it would do little to expand service to many additional families.

## CONCLUSION

The CDE/DSS proposal recommends a progressive fee schedule, in that it would require child care fees that constitute a relatively larger portion of income from higher income families. But the current fee schedule already accomplishes this goal. The current fee schedule appears to be more realistic at the lower and upper ends of the income eligibility scale. At the lower end, the current fee schedule exempts families when their income is below 50 percent of the SMI (approximately 160 percent of poverty). At the upper end, the current fee schedule stays within the federal HHS recommended limit of ten percent of family income, principally by declining to assess additional charges to families that have more than one child in subsidized care.

In contrast, the CDE/DSS fee proposal would require fees even of very low income families, higher fees from families with more than one child in subsidized care, and levels of fees that exceed federal HHS recommendations.

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*The California Budget Project (CBP) is a nonpartisan, nonprofit organization whose goal is to promote a better understanding of state fiscal issues in order to promote a healthy public sector based on a fair and equitable tax system. General operating support for the California Budget Project is provided by grants from the California Endowment, James Irvine, Ford, Charles Stewart Mott, Friedman Family, Streisand, and California Wellness Foundations and individual donations and subscriptions. The Penney Family Fund provided support for this Budget Brief. Dan Galpern wrote this Brief under the supervision of Jean Ross.*

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