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FALLING SHORT: THE ADMINISTRATION'S CHILD CARE REVIEW

The Davis Administration's long-awaited review of state child care policy was released on May 22, 2001 as a report to the State and Consumer Services Agency (SCSA).[1] Contrary to expectations, the SCSA report did not advocate any particular policy change, but instead outlined several options for serving additional children in subsidized child care within existing resources.[2] These options fail to address the principal challenges confronting California's subsidized child care system.[3] Moreover, several would limit low income working families' access to the child care they need to seek and maintain employment.

SEVEN SCENARIOS

The SCSA report considered several strategies for extending services to additional children without increasing state funding. These include increasing fees on low income parents receiving subsidized care; lowering income eligibility levels for families attempting to qualify for or retain subsidies; lowering maximum child care payment rates; establishing time limits on child care subsidies; and reducing the maximum age of children that can receive subsidies from 13 to 12.

Seven scenarios were evaluated. All spread existing dollars among more families, shift costs to low income families, and restrict access to providers. If enacted, these proposals would remove some of the insulation from costs and other market pressures that the current system provides to low income families. The impact on many families could be very harsh. Scenario 1, for example, would cause an estimated 8,600 children to lose the child care subsidy they currently have, while extending service to 17,400 others. Scenario 6 would cause 54,500 children to lose their subsidy, while extending it to an estimated 76,500 others (Table 1).[4]

The report provides no analysis of the potential impacts of eliminating child care subsidies from thousands of currently served families, but there is reason to believe these could be considerable. Take, as one example, the proposed option to reduce the income eligibility ceiling for subsidized child care from 75 percent of the state median income (SMI) to 65 percent of SMI.[5] This would mean that a family of three with a monthly income of $2,730 (70 percent of SMI for a family of three) would no longer be eligible for even a partial child care subsidy. Based on typical state costs of living – including rent, transportation, food, and utilities – such a family may already be earning too little to pick up the full cost of child care without substantial financial sacrifice.[6]

Similarly, the report does not analyze families' ability to pay the proposed higher fees. All of the SCSA report scenarios raise the percentage of family income that could be charged as fees and lower the income threshold below which families are exempt from fees. While the report notes that several states have higher fees and lower exemption thresholds, it ignores the question of whether California's low income working families have the resources to pay additional fees.

Comparable concerns can be raised about proposals to limit child care payment rates. State law currently requires alternative payment programs administering child care voucher subsidy programs to pay provider charges up to the 93rd percentile of the regional market rate.[7] Six of the seven SCSA

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Table 1: Current California Policy and Seven "Scenarios" in the Governor's Child Care Review								
	Current Law	**Scenario 1**	**Scenario 2**	**Scenario 3**	**Scenario 4**	**Scenario 5**	**Scenario 6**	**Scenario 7**
Income Eligibility	75% of State Median Income (SMI)	Reduce to 70% of SMI	Reduce to 65% in low and to 70% SMI in high cost counties	Reduce to 65% of SMI	Reduce to 65% of SMI	Reduce to 65% of SMI	Reduce to 65% of SMI	Reduce to 65% of SMI
Income Threshold for Family Fee Exemption	50% of SMI	Reduce to 30% of SMI	Reduce to 20% of SMI	Reduce to 20% of SMI	Reduce to 20% of SMI	Reduce to 20% of SMI	Reduce to 20% of SMI	Reduce to 20% of SMI
Fee Cap	Effectively 8% of income	Increase to 10% of income	Increase to 10% of income	Increase to 12% of income	Increase to 12% of income	Increase to 12% of income	Increase to 12% of income	Increase to 15% of income
Provider Payment Cap	1.5 standard deviations above mean (approximately the 93rd percentile)	No change	Reduce to 75th percentile	Reduce to 75th percentile	Reduce to 75th percentile	Reduce to 75th percentile	Reduce to 75th percentile	Reduce to 75th percentile
Time Limit: CalWORKs Families	Guaranteed for two years post-aid; continuing assistance in practice	No change	No change	No change	No change	2 years post-aid, then as available	2 years post-aid, then as available	7-year family time limit
Time Limit: Non-CalWORKs Families	No time limit	No change	No change	No change	No change	No change	7-year family time limit	7-year family time limit
Age of Served Child	Through age 13	Through age 12	Through age 12	Through age 12	Through age 12	Through age 12	Through age 12	Through age 12
Estimated Number of Children Losing Child Care	N/A	8,600	8,600	11,000	16,300	52,900	54,500	18,700
Estimated Net Additional Children Served	N/A	8,800	24,700	25,700	24,900	22,200	22,000	30,600

Source: SCSA report

report scenarios would limit this market rate ceiling to the 75th percentile of the distribution of provider charges. While families may continue to choose higher cost providers, they might be required to make up the difference between the lower state ceiling and provider charges. Families who cannot afford to pay the higher fees, due to high housing costs or other demands, would be effectively precluded from using such care.[8] Reducing provider rates also raises child care quality concerns, to the extent quality is found to be correlated with cost, but the SCSA report does not address such considerations.

What is Gained?

None of the seven scenarios in the SCSA report allows the state to reach all the children who are eligible and in need of subsidized child care.[9] To achieve this goal, additional funding will inevitably be needed.

The promised benefit implicit in each of the seven SCSA scenarios is that more children can be served than under the current system. However, the cost calculus must include the impact of lives disrupted by earlier-than-anticipated elimination of child care subsidies. No doubt some families, with the help of extended family, friends, or charities, will be able to absorb the loss and maintain their current child care arrangements. Others face the loss of a critical element in their ability to obtain and maintain employment.

Inequities Real and Imagined

The authors of the SCSA report were motivated not only by a desire to extend services to additional families within existing resources, but also to redress a perceived inequity between the availability of child care to families who obtain child care as a result of receiving cash assistance through the CalWORKs program and those who have not received assistance. The report notes that families who received child care when they were on the CalWORKs program thus far have been able to retain it under the CalWORKs Stage Two and Stage Three child care programs after they have become employed and no longer receive cash aid.[10] Specifically, a family that formerly received CalWORKs may continue to receive child care assistance even though its income may exceed that of other low income working families who are waiting for child care subsidies.

However, this purported inequity is really less than meets the eye. It is constructed from a snapshot view of families currently served in CalWORKs-linked child care programs and those waiting for non-CalWORKs child care program openings. A closer look at the progression of families through the three CalWORKs child care stages suggests that the disparity is much smaller than it might first appear.

A more appropriate comparison would note that the family on the Stage Three child care program gained access to child care when it first qualified for assistance through the CalWORKs program. Under current law, the income of a family of three must not exceed $906 per month in order to qualify for CalWORKs.[11] Such a family, according to a distribution chart produced in the SCSA report, would have income lower than approximately 85 percent of families currently served in subsidy programs.[12] A working family with an income that low – roughly 21 percent of SMI – would be placed near the top of a child care eligibility or waiting list and would likely secure one of the first open subsidy slots.[13]

The inequity problem, then, is not between families who receive their child care through CalWORKs and those who apply for it outside the CalWORKs system. Rather, the inequity is between those families who are in subsidized child care and those who are eligible but remain on waiting lists for subsidized care. This is a larger and different problem. Unless policy changes more severe than in the SCSA report are adopted, resolution of this real inequity will likely require additional funding.

Options Still to be Considered

After its discussion of the seven scenarios, the SCSA report suggests several potentially fruitful, if not entirely new, avenues for inquiry. These include consolidating the CalWORKs Stages One and Two child care programs, consolidating state operations and administration into one agency, eliminating duplication of administrative services at the local level, and shifting some service responsibility from local alternative payment programs to community-based subsidized child care centers. Adoption of the first two of these policy options would require legislative action and might best be assessed in the course of a public, deliberative master planning process for child care in California. The other changes appear to be within the administrative discretion of the California Department of Education.

In addition, the SCSA report identifies several compliance issues with potentially important fiscal considerations. These include provider payments above the current market rate ceiling, service to children beyond current age and income eligibility ceilings, and under-collection of required child care fees. The SCSA does not describe the extent to which these violations occur, and it is possible that their identification is an artifact of errors made in surveys of providers and administrators. Assuming, however, that the SCSA report has identified a set of real compliance problems, it is important for the state to consider why the rules that govern the subsidized child care system are not being strictly observed.

ENDNOTES

[1] Michael Wright, Ellen Moratti, Susan Bassein, and Steven Moss, *Child Care Fiscal Policy Analysis: Analyzing Options to Focus the State's Existing Resources to Serve the State's Neediest Families*, A Report to the State of California State and Consumer Services Agency by The Results Group (May 22, 2001). The report (hereafter, SCSA report) may be downloaded from www.otcdkids.com.
[2] SCSA report, p. 4.
[3] See California Budget Project, *Lasting Returns: Strengthening California's Child Care and Development System* (May 2001) at www.cbp.org for a review of those major challenges.
[4] SCSA report, p. 35.
[5] Such a reduction in eligibility would be the second made in recent years. In 1998, California reduced eligibility for maintaining child care subsidies from 100 percent to 75 percent of the state median income (SMI) and reduced entry eligibility from 84 to 75 percent of SMI.
[6] California Budget Project, *Making Ends Meet: How Much Does It Cost to Raise a Family in California?* (October 1999) at www.cbp.org.
[7] At the 93rd percentile, 7 percent of providers in the region charge more and 93 percent of providers charge less.
[8] In fairness, there is also an economic rationale to lowering payment ceilings, i.e., removing the present incentive to providers to raise rates. This incentive effect would need to be balanced against the desirability of enabling very low income families to access higher cost care.
[9] Scenario 7, in the SCSA report, which contains the sharpest fee increases and most severe time limits, generates savings and new revenues to extend service to an additional 15 percent of the population of eligible children in need of care.
[10] Former CalWORKs families are entitled to receive two years of subsidies through the Stage Two child care program. Thereafter, they can continue receiving child care subsidies in the Stage Three program to the extent that funds are available. To date, state practice has been to fully fund Stage Three so as to ensure that former CalWORKs families who work but continue to be income-eligible can retain their child care subsidy.
[11] This example assumes there is one working parent in the family. Source for income eligibility limits: Department of Social Services, *Increases To The Maximum Aid Payment (MAP) And Minimum Basic Standard Of Adequate Care (MBSAC) Levels In The California Work Opportunity And Responsibility To Kids (CalWORKs) Program*, All County Letter 00-50 (July 31, 2000), downloaded from http://www.dss.cahwnet.gov/getinfo/acl00/default.htm on May 29, 2001.
[12] SCSA report, p. 6.
[13] Moreover, subsidy slots are more likely to be available to low income working families because overall funding in the subsidized child care system has tripled since the 1996-97 state fiscal year.

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