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Subsidized Child Care Providers – and Children – Can’t Afford a Pay Cut

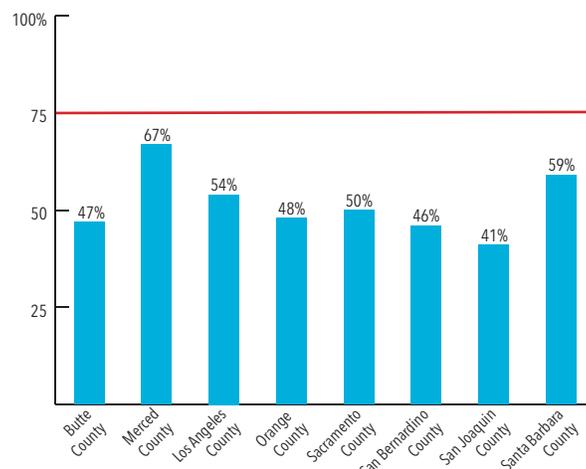
During this unprecedented health and economic crisis, many subsidized child care providers in California have stepped up to the challenge of providing early learning and care for families with low and moderate incomes – particularly for children with parents who are essential workers. While the state and federal government have both provided emergency funding to support subsidized child care providers, total support falls far short of the estimated level necessary to sustain child care providers. In addition, the Governor’s May Revision would cut provider payment rates by 10%. These rate cuts could be detrimental for child care providers who were already underpaid and operating on thin margins prior to the COVID-19 pandemic. Now, during this crisis, providers are faced with dramatically higher costs due to smaller class sizes, increased staffing per child, and the added expense of keeping facilities clean as they care for and educate children.

Subsidized child care providers are paid in one of two basic ways: by contracting directly with the state or by accepting vouchers from families. Providers who accept vouchers are reimbursed based on the Regional Market Rate (RMR) Survey, which provides “rate ceilings” for all 58 California counties by the type of care and the age of the child. The rate ceilings in use in the 2019-20 state fiscal year are based on the 75th percentile of the 2016 survey. In theory, this should allow families to access 75 out of every 100 providers in their county. However, because the state is currently using an outdated survey, families are able to access far fewer providers.

A 10% decrease to the current, outdated rate ceilings would further restrict families’ access to care. For example, in Los Angeles County where one-quarter of children eligible for subsidized child care live, the proposed rate ceiling for full-time, center-based care for an infant would be \$1,435 per month, which means that families would have access to just 54% of providers in their community based on the most recent survey from 2018. Across California, the proposed rate ceilings for many counties would fall far short of the 75th percentile benchmark from the most recent survey.

Proposed Subsidized Child Care Provider Payment Rates Would Dramatically Limit Access for Families

Percentage of Providers That Would be Accessible to Families Who Use Child Care Vouchers

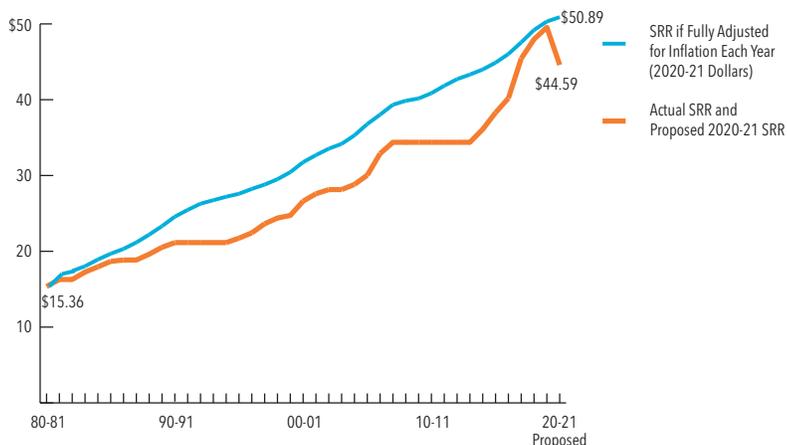


Note: Data reflect the proposed maximum monthly rate for full-time infant care in licensed child care centers compared to the 2018 Regional Market Rate Survey. Federal regulations establish the 75th percentile of the most recent market rate survey as the benchmark to ensure equal access to subsidized child care. Source: Budget Center analysis of the 2016 and 2018 Regional Market Rate Surveys

Providers that contract directly with the state are reimbursed with a statewide rate called the Standard Reimbursement Rate, which is adjusted based on different factors such as the age of the child. Contract-based providers have to meet quality standards, in addition to meeting the health and safety standards that voucher-based providers are held to. Given the additional standards required by the state, a higher rate should be provided for contract-based providers. However, in 14 counties contract-based centers caring for preschool-age children are paid at a monthly rate that is *less than* vouchers for center-based providers. One reason for this is because policymakers have not consistently increased the Standard Reimbursement Rate each year, and this key payment rate has lost value over time. A 10% cut would erase some of the gains made after the Great Recession in boosting the Standard Reimbursement Rate.

Under the May Revision, a Key Child Care Reimbursement Rate Would Lose Gains Made After Great Recession

Daily Standard Reimbursement Rate (SRR) Per Child for Licensed Centers



Note: Licensed child care providers that contract directly with the state are reimbursed with the SRR. The SRR is a statewide rate that varies based on specific criteria such as the age of the child or the presence of physical disabilities. The 2020-21 May Revision proposes to reduce the SRR by 10%. Source: Budget Center analysis of data from the California Department of Education and Legislative Analyst's Office

Child care providers' ability to offer subsidized care depends, in part, on the state's reimbursement rates. When providers are not paid at a level that allows them to operate their businesses, attract and retain qualified staff, and afford materials and supplies to educate children, they may be unable to offer care to families with low incomes. Some may be forced to permanently close their doors.

While the May Revision proposes to use \$125 million in federal emergency funds to provide one-time stipends to subsidized providers, the value of these stipends will likely fall far short as compared to the long-term loss in income due to the Governor's proposed 10% payment rate cut. In the meantime, California could lose an invaluable number of child care providers and diminish families' access to care.

Child care providers are offering early learning and care for thousands of California children and are playing an outsized role as essential workers who ensure that other vital workers in our communities can go to work. Policymakers should use all available funds to stabilize subsidized child care providers by providing stipends for increased costs as proposed in the May Revision *and* maintaining provider payment rates. This is critical to helping providers survive the COVID-19 crisis, supporting families with low incomes who must leave their homes to work, and aiding the state's economic recovery.

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