April 2002

SHIFTING THE BURDEN ON SUBSIDIZED CHILD CARE
WILL FAMILIES BE ABLE TO AFFORD THE GOVERNOR'S PLAN?

The Governor's proposed budget for 2002-03 includes a proposal that would make far-reaching changes to the state's child care and development program for low-income and at-risk children and families. Budget and state agency documents stipulate these changes would require statutory revisions by July, but to date no such legislation has been introduced.[1] The Governor proposes to restrict income eligibility for child care subsidies, increase fees imposed on parents, and eliminate the Stage Three CalWORKs child care program, among other proposals. The proposal uses the savings from these programmatic changes to extend services to additional families.

This report concentrates on aspects of the Governor's plan that limit eligibility for subsidized child care, raise parent fees, and eliminate the Stage Three child care program. Table 1 summarizes other aspects of the Governor's plan. This report concludes that the Governor's child care restructuring plan would force many low-income working families to decline or withdraw from subsidized child care before they are financially capable of assuming the full cost of quality care for their children. Withdrawal of subsidized care from many economically vulnerable families would constitute an unsustainable burden, disrupting child care arrangements or forcing parents to reduce their work hours.

ELIGIBILITY FOR SUBSIDIZED CHILD CARE

Before 1998, California families were eligible to enroll in subsidized child care services if their income did not exceed 84 percent of the State Median Income (SMI), and could retain their subsidy until their income rose above 100 percent of SMI.[2] A change made as part of California's welfare reform law lowered the income eligibility ceiling to 75 percent of SMI.[3] The Governor's budget proposal for 2002-2003 would further lower the income limit for child care to 66 percent of SMI in the four highest-cost counties in the state, 63 percent of SMI in the 13 counties in the next highest-cost group, and 60 percent of SMI in other counties.[4] The reductions mean that in Santa Clara County – one of the highest-cost counties identified in the Governor's plan – families would lose eligibility for subsidized child care when their income exceeds $2,860 per month.[5] In Alameda County – which is included in the next highest-cost group – families would lose eligibility for subsidized child care when their income surpasses $2,730 per month. Families in other counties would lose subsidy eligibility when their monthly income rises above $2,600.[6]

Budget documents and a recent summary of the Governor's child care plan prepared by the state Department of Social Services note that even after the proposed reduction, California's income eligibility limit will remain somewhat more generous than that of several other large states.[7] Even so, the question of whether the new eligibility ceilings will be adequate for California's families remains.

To answer this question, we can compare the cost of basic necessities with the proposed 66 percent cutoff for subsidized child care in Marin, San Francisco, San Mateo, and Santa Clara counties – the highest-cost counties in the state (Table 2). A family of four needs to earn a monthly income of approximately

Table 1: Comparison Of Current Law And The Governor's Proposal		
	Current Law	**Governor's Proposal**
Income Eligibility	Families are eligible to enroll in subsidized child care if their income does not exceed 75 percent of the state median income (SMI). Families enrolled in subsidized care prior to 1998 whose incomes exceeded 75% of SMI retain care under a "grandfather" clause if their income does not exceed 100% of the SMI. The SMI is based on California family income data derived from Current Population Survey.	Eligible family income may not exceed: 66% of SMI in the four-highest cost counties; 63% of SMI in 13 counties in the next highest-cost group; and 60% of SMI in remaining counties. The new limits would apply to all families, including "grandfathered" families. Annual income limits would be based on the Consumer Price Index (CPI), rather than on annual surveys of income.
Family Fees	Families are exempt from paying fees if their income is below 50 percent of SMI. Families with higher incomes pay fees on a sliding scale depending on family size and income.	All families pay fees on the basis of a three-step fee schedule, depending on length of time receiving care, family size, number of children receiving care, and region of the state. Parents of children enrolled through Child Protective Services (CPS) pay fees after one year.
CalWORKs Stage Three Child Care	Families are entitled to child care while they receive CalWORKs cash assistance and for two years thereafter. Subsequent to the two years, they are eligible for Stage Three child care which, to date, has been fully funded. Families retain their Stage Three child care subsidy as long as they remain income-eligible and have children in need of care.	The Stage Three child care program would be phased out. Currently served families are transitioned to other child care subsidy programs. As of April 1, 2003, the guarantee of continuing child care to families that exhaust their two-year post-CalWORKs child care is terminated.
Market Rate Ceilings	Families receiving subsidized child care through the alternative payment (AP) child care program are eligible to select any care in their region. Local AP programs pay providers as long as provider rates do not exceed the 93rd percentile of the distribution of rates in the local market.	Provider payments would be restricted to no more than the 75th percentile of the regional market rate. Parents selecting child care that costs more than the 75th percentile of the market may be required to pay providers an additional parent copayment.
Age Eligibility	Children of eligible families receiving state general fund subsidies may be served through age 13.	Subsidized care would be terminated for a child upon reaching age 13.
Service Priority	Families seeking subsidized child care are enrolled on the basis of CPS referral first, and then based on lowest income.	Families enrolled based on income would be sorted by income tiers. Those on the bottom tier with children under five years old would receive priority service.

Source: Governor's Budget Summary and Department of Social Services.

$5,133 in order to afford the cost of housing and utilities, child care, transportation, food, health care, clothing, household and other basic expenses, and taxes.[8] However, the Governor's plan would cut off child care assistance when a family's income exceeds $2,860 per month. Similarly, in Sacramento – which the Governor's plan classifies among the lower cost counties – the cost of basic monthly expenses for a family of four totals $3,942 while the Governor's plan cuts off child care assistance once a family's income exceeds $2,600 (60 percent of SMI).

The cost of basic living expenses will be reduced for families that receive employer-paid health insurance or other subsidies. However, the substantial gap between the cost of living and the proposed income ceiling for subsidized child care will remain virtually unbridgeable for many low-income families that would lose eligibility for subsidized child care.

The gap between basic family living costs and the Governor's proposed child care cut-off point is especially large in high-income counties. The Governor's proposal appears to recognize differences in regional costs of living, but only by recommending greater or lesser reductions from the current income eligibility cut-off. In many regions of the state, the current income cap is already well *below* the level at which families can reasonably be expected to afford the full cost of quality child care. Moreover, in many of the more populous counties, the federally determined *county* median income for a family of four substantially exceeds the state median income of $52,000 that is used as the basis of the proposed family fee schedule. If policymakers wanted to terminate state child care assistance only when a family could afford the full cost of quality care, the income eligibility ceiling would need to be *increased* in many regions, rather than lowered as the Governor's plan recommends.

Table 2: Governor's Proposed Income Eligibility Ceiling For Subsidized Child Care Compared With Basic Family Expenses In The 25 Most Populous Counties
(Family of Four)

	Current Child Care Income Ceiling (75 Percent of SMI)	Governor's Proposed Child Care Income Ceiling	"Making Ends Meet" Basic Family Budget	Gap Between Proposed Ceiling and Basic Family Budget
Alameda	$39,000	$32,760	$61,593	$28,833
Contra Costa	$39,000	$32,760	$61,593	$28,833
Fresno	$39,000	$31,200	$43,528	$12,328
Kern	$39,000	$31,200	$43,528	$12,328
Los Angeles	$39,000	$32,760	$51,459	$18,699
Marin	$39,000	$34,320	$61,593	$27,273
Monterey	$39,000	$32,760	$48,700	$15,940
Orange	$39,000	$32,760	$50,993	$18,233
Placer	$39,000	$31,200	$47,300	$16,100
Riverside	$39,000	$31,200	$50,993	$19,793
Sacramento	$39,000	$31,200	$47,300	$16,100
San Bernardino	$39,000	$31,200	$50,993	$19,793
San Diego	$39,000	$32,760	$52,633	$19,873
San Francisco	$39,000	$34,320	$61,593	$27,273
San Joaquin	$39,000	$31,200	$43,528	$12,328
San Luis Obispo	$39,000	$32,760	$48,700	$15,940
San Mateo	$39,000	$34,320	$61,593	$27,273
Santa Barbara	$39,000	$32,760	$48,700	$15,940
Santa Clara	$39,000	$34,320	$61,593	$27,273
Santa Cruz	$39,000	$32,760	$61,593	$28,833
Solano	$39,000	$32,760	$61,593	$28,833
Sonoma	$39,000	$32,760	$61,593	$28,833
Stanislaus	$39,000	$31,200	$43,528	$12,328
Tulare	$39,000	$31,200	$43,528	$12,328
Ventura	$39,000	$32,760	$50,993	$18,233

Sources: Governor's Budget Summary 2002-03, Department of Social Services.

The Governor also proposes to change the method by which the state median income is calculated for purposes of child care eligibility determination. Current practice is to utilize annual US Census Bureau survey data for California from which the change in median four-person family income is estimated. The Governor's proposal would base "annual adjustments to income eligibility…on the change in (the) California Consumer Price Index…"[9]

In essence, the proposal would utilize the currently published state median income for a family of four ($52,000) that is used as the basis for child care ceiling determinations, and adjust that figure in subsequent years for inflation. However, the current SMI figure, in effect since September 2000, is an estimate based on data from 1999 and may fail to reflect growth in family incomes between 1999 and 2001.[10] The

Governor's proposal would lock in that estimate as the basis for subsequent subsidized child care eligibility calculations. Moreover, the California Consumer Price Index (CPI) historically has risen more slowly than family income. Between 1979 and 1999, for example, the increase in the median four-person family income exceeded the change in the California CPI by 6.3 percent.[11] Over time, use of a too-low base for the SMI, and substitution of an annual inflation adjustment for an estimate of change in real family income, could substantially limit the proportion of families eligible for subsidized care.

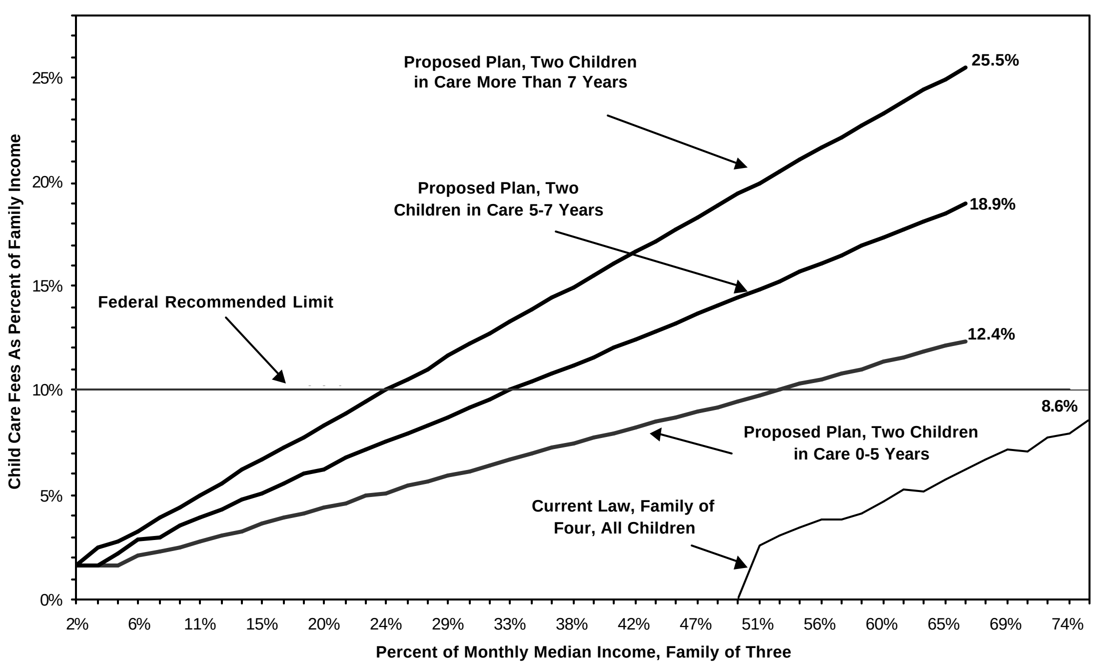
Higher Child Care Fees

The Governor's plan also proposes major changes in fees charged to families enrolled in subsidized child care. Currently, families with children enrolled in care are charged a single fee based on their family income. Families whose incomes fall below 50 percent of the SMI are exempt from any fees. The Governor's proposal would charge different fees to families with the same income depending on the number of children enrolled in subsidized care and the number of years a family has received subsidized care. In addition, all families would be required to pay fees.[12]

Federal regulations governing the federal child care block grant require states to set family fees at affordable levels and recommend that enrolled families be required to pay "no more than ten percent of (their) income…no matter how many children are in care."[13] While the current family fee schedule stays below this recommended threshold, the Governor's plan exceeds it early and often, particularly for families with two or more children in care, and for those that have utilized the program for longer than five years (Figure 1).

Following a series of hearings in spring 2000, and after considering the impact on family budgets, the California Department of Education (CDE) recommended against increasing child care fees. Testimony summarized by the CDE indicated that between "one-quarter to one-third of families currently assessed

Figure 1: Governor's Proposed Increase In Child Care Fees



Source: CBP analysis of current and proposed child care fee schedules a fee are on repayment plans because of delinquent payments."[14] This testimony is consistent with the finding that the basic cost of living for families may be higher than the present income cut-off point for subsidized child care. Families for whom this is true may be expected to have difficulty meeting their present child care family fee obligations. The CDE recommended, among other things, that the family-fee exemption threshold be raised from the current 50 percent of SMI to 65 percent of SMI.

The Governor's plan takes a very different course. If the Governor's proposed family fee schedule is adopted, many families that are eligible for subsidized care will be dissuaded from applying, while some families that currently use it may be forced out of their child care programs while they are still eligible. The proposed plan has as one of its primary objectives increasing access to child care subsidies for "low-income working families who are now on waiting lists."[15] Together with reduced income eligibility ceilings, the increased fees appear likely to accomplish this objective by moving some families off the subsidized child care program more rapidly, thereby making their slots available to other families with even lower incomes. However, many families squeezed out of the subsidized system will be unable to afford adequate child care on their own.

Elimination of CalWORKs Stage Three Child Care

CalWORKs Stage Three provides subsidized child care to families that have left cash assistance and have exhausted their two-year, post-CalWORKs child care entitlement.[16] The Legislature has recognized the important role of child care subsidies in helping families that have left cash assistance for work, and state practice since the 1998 implementation of welfare reform has been to fully fund Stage Three. Families receiving child care through CalWORKs have been able to receive child care continuously, as long as they remain income eligible and have the need for child care. In practice, then, the child care experience of former recipients of CalWORKs has not differed markedly from that of other families enrolled in the state's general subsidized child care system.

The Administration maintains, however, that "an inequity in access to child care…encourages families to seek public assistance in order to access child care subsidies."[17] To resolve this purported inequity, the Governor's plan would phase out the Stage Three child care system so that, by April 1, 2003, families that exhaust their two-year post CalWORKs child care entitlement would no longer be guaranteed continuous child care.[18]

However, the Administration mischaracterizes the issue as one in which service to CalWORKs families denies subsidized child care to other families with even lower incomes. Families that qualify for CalWORKs cash aid by definition have exceptionally low incomes. If they were to apply for subsidies in the larger subsidized child care system, they would rise to the top of waiting lists and quickly receive service. Accordingly, families that qualify for CalWORKs are not preventing other families from receiving subsidized care.

Indeed, by requiring former CalWORKs families who are now served in a separately-funded program to compete for other subsidized child care slots, the Governor's proposal will prevent many non-CalWORKs families from securing subsidized child care. Moreover, the Governor's proposal would create an additional, confounding complexity in the subsidized child care system. Some families enrolled in subsidized child care would be able to receive care continuously (as long as they remain eligible and pay graduated family fees), while others would find their child care subsidies terminated after two years. Such families would be required to re-apply and may be placed on waiting lists for child care subsidies. Some of them may be forced to reduce their work hours or return to welfare to secure child care – the very circumstance that the Administration maintains it is trying to prevent.

Conclusion

The Administration argues that the savings that would be realized by its proposals will enable other families to gain access to care they otherwise would not have. But, in combination, the Governor's proposals to reduce income eligibility ceilings, increase fees, and phase out the Stage Three child care program would lead to a substantial disruption in child care for many low-income working families that utilize the subsidized child care system. In turn, many currently served families will need to rearrange their work schedules or limit their work hours while they seek lower-cost child care. Some may even be forced back on welfare. Even worse, disruptions in child care may impede the healthy development of children. The Governor's plan would cause many families who are struggling to make ends meet to lose access to subsidized child care.

Other methods of improving the state's subsidized child care system must be found. The CBP has made a number of recommendations for improving the quality of and access to child care through the state's subsidized system.[19] The CBP's recommendations include creating a well-considered state master plan, restoring the purchasing power of center-based child care contracts, expanding child care funding to the extent state or federal funds permit, piloting a low income child care entitlement program, expanding staff retention efforts, and ensuring programs support school readiness. These recommendations offer a blueprint for reforming California's child care system in a way that supports working families, rather than limiting access to families of limited means.

The California Budget Project (CBP) was founded in 1994 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. Support for the CBP comes from foundation grants, publications and individual contributions. Dan Galpern prepared this Brief. Please visit the CBP's web site at www.cbp.org.

Endnotes

[1] Department of Finance, Governor's Budget Summary, 2002-03, p. 50, and Department of Social Services, *Restructuring California's Child Care System* (February 5, 2002), p. 2.
[2] Median family income is a mid-point income level at which half of California families earn more and half earn less. The estimate for the state median income utilized for purposes of child care eligibility has not been updated since September 2000. California Department of Education, Child Development Division, Management Bulletin No. 00-14 (September 2000), downloaded from www.cde.ca.gov/cyfsbranch/child_development/familyfeereport.htm on March 1, 2002.
[3] Education Code Section 8263.1 (a). Based on the current eligibility ceiling, 75 percent of the SMI is $2,925 per month for a family of three, and $3,250 for a family of four. Children who had been enrolled in subsidized child care before 1998 and whose family income was between 75 percent and 100 percent of the SMI have been permitted to retain their subsidized care under a "grandfather clause" of the state welfare reform law, as long as their family income does not exceed 100% of the SMI. Education Code Section 8263.1 (b).
[4] Under the Governor's plan, the four highest-cost counties are Marin, San Francisco, San Mateo, and Santa Clara. The 13 counties in the next highest-cost group are Alameda, Contra Costa, Los Angeles, Monterey, Napa, Orange, San Diego, San Luis Obispo, Santa Barbara, Santa Cruz, Solano, Sonoma, and Ventura.
[5] All income eligibility figures cited in this section are for a family of four.
[6] Families rendered ineligible under the new income ceilings would include those grandfathered by the state welfare reform law of 1997. Department of Finance, *Governor's Budget Summary, 2002-03*, p. 50.
[7] Department of Finance, *Governor's Budget Summary, 2002-03*, p. 49, and Department of Social Services, *Restructuring California's Child Care System* (February 5, 2002), p. 1.
[8] California Budget Project, *Making Ends Meet: How Much Does It Cost To Raise A Family In California?* (September 2001), p. 24.
[9] Department of Finance, *Governor's Budget Summary, 2002-03*, p. 50.
[10] State law provides that the estimate of the SMI that is used as the basis for child care income eligibility determination will be adjusted annually. Education Code Section 8263.1(a).
[11] CBP analysis of Census Bureau data on four-person median income by state, and the California CPI for the 1979-2000 period.
[12] Currently, families of children qualifying for subsidized state-funded child care are exempt from fees if they qualified for care via referral from Child Protective Services. Under the Governor's plan, families with CPS referrals would pay fees after one year of subsidized care. California Health and Human Services Agency, Department of Social Services, *Restructuring California's Child Care System* (February 5, 2002), p. 3.
[13] Federal Register, Vol. 63, No. 142 (July 24, 1998). For a discussion of an earlier joint Department of Social Services / California Department of Education proposal on child care fees, see CBP's, *Evaluating the Impact of a Proposed Increase in Child Care Fees on Low Income Families* (February 2000), at www.cbp.org.
[14] California Department of Education, Child Development Division, *Family Fee Schedule For Child Care and Development Programs: Recommendations for Improvements* (November 21, 2000), p. 6.
[15] Department of Finance, *Governor's Budget Summary, 2002-03*, p. 47.
[16] California Budget Project, *Lasting Returns: Strengthening California's Child Care and Development System* (May 2001), p. 19, at www.cbp.org.
[17] Department of Finance, *Governor's Budget Summary, 2002-03*, p.48.
[18] Families already enrolled in Stage Three child care would be shifted to the general child care subsidy program that also serves working families that may never have received CalWORKs.
[19] California Budget Project, *Lasting Returns: Strengthening California's Child Care and Development System* (May 2001), pp. 23-28, at www.cbp.org.