CALIFORNIA BUDGET PROJECT

June 6, 2014

Five Things You Need to Know About California's Child Care and Development System

With poverty rates and long-term unemployment still high, widening income inequality, and a social safety net severely weakened by years of funding cuts, many Californians are still facing serious economic hardship in the aftermath of the Great Recession. A strong social safety net is a vital tool for reducing hardship and lifting children out of poverty. However, despite increased General Fund revenue, funding for subsidized child care and the California State Preschool Program is well below pre-recession levels.

California's child care and development system provides safe and affordable care for children and helps parents find and keep jobs. Families enrolled in the California Work Opportunity and Responsibility to Kids (CalWORKs) Program as well as lower-income families who are not enrolled in CalWORKs may receive child care assistance if they meet the eligibility requirements. The state preschool program provides full- and part-day preschool for eligible three- and four-year-olds from low- and moderate-income families.

In order to inform the ongoing debate about how public policy can best support children and their families, this CBP analysis provides five key facts about the current state of – and challenges facing – California's child care and development system.

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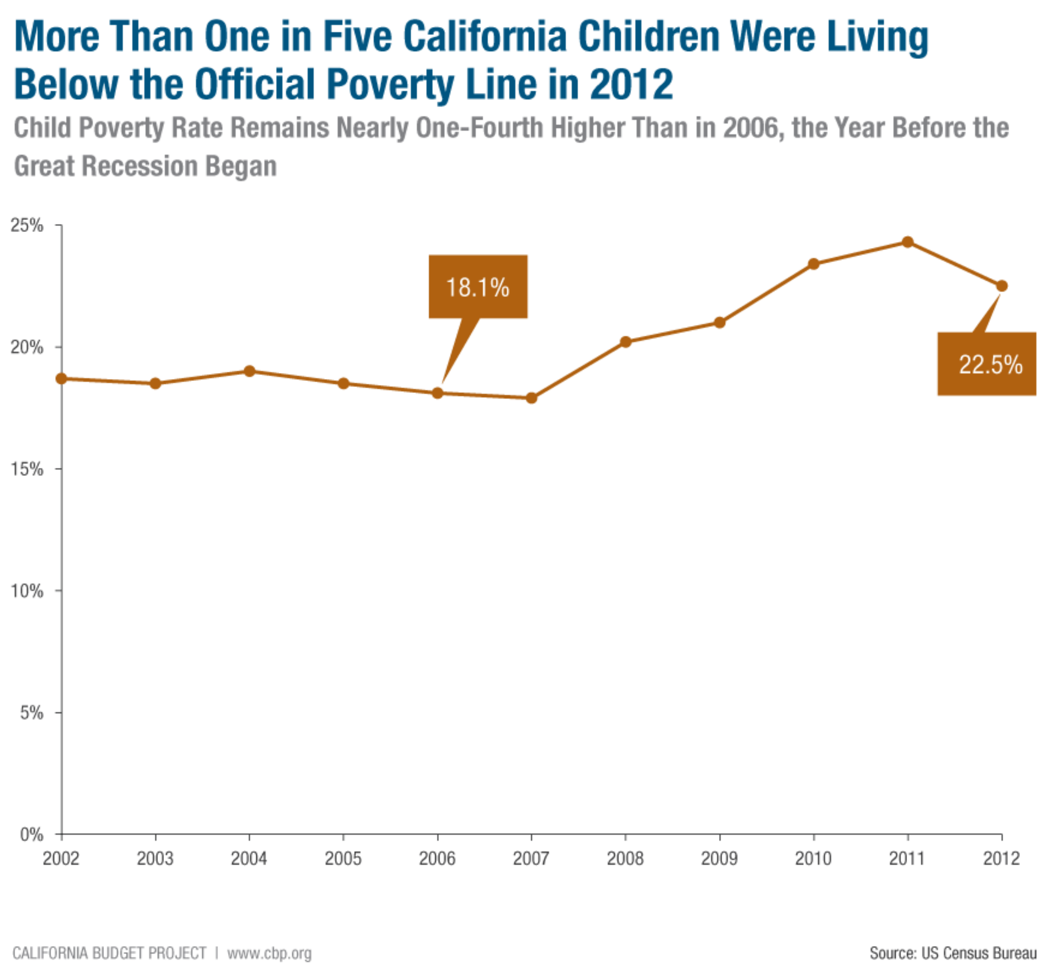
1. Low-Income Children's Access to Quality Child Care and Preschool Helps Mitigate the Harmful Effects of Poverty

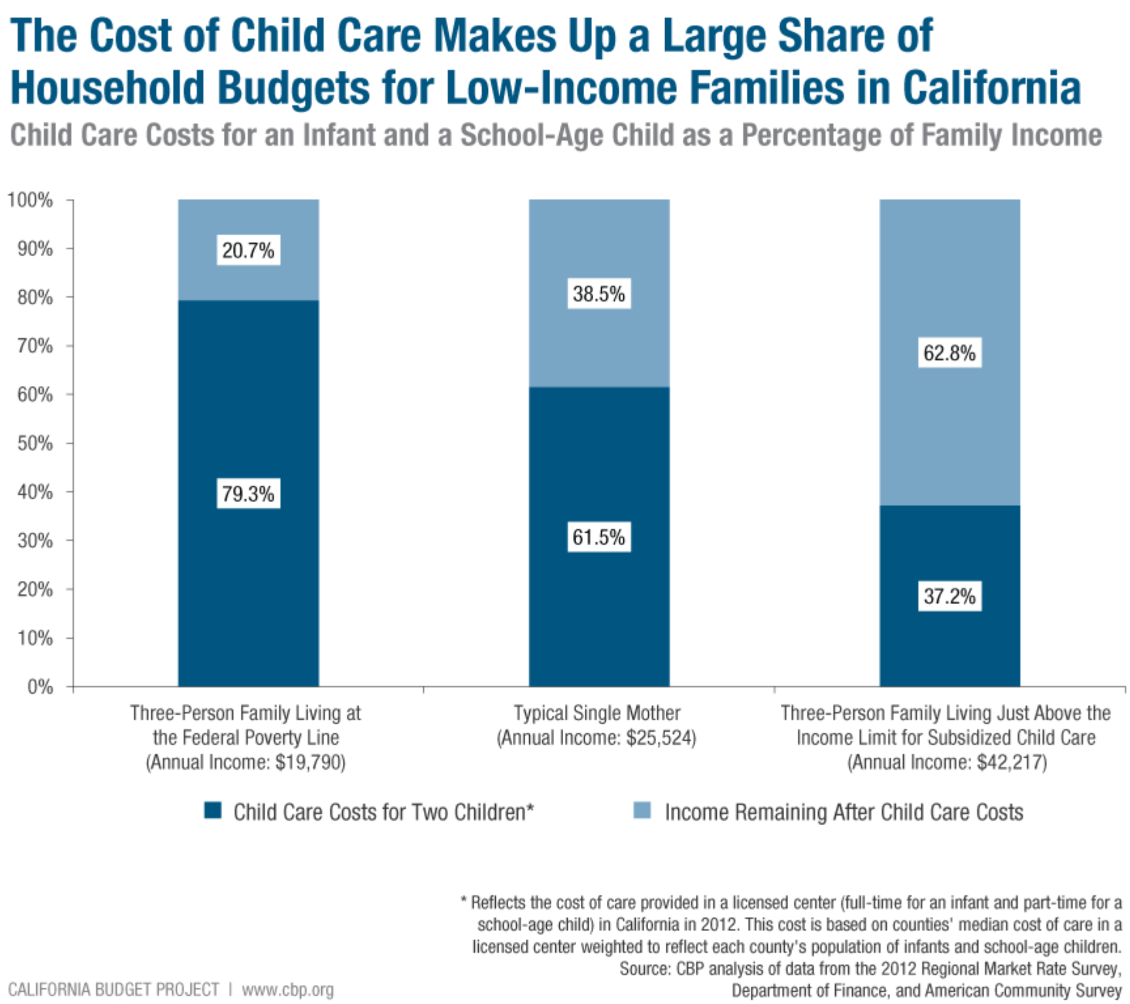
The Great Recession has had a considerable impact on children in California. The number of children living in poverty increased dramatically during the recession, and more than one in five children – 2.2 million – were living in poverty in 2012. Of these, 43 percent were living in deep poverty – meaning their families' incomes were below half of the federal poverty line. A family of three living in deep poverty must survive on less than $10,000 a year. Poverty has an indelible impact on children, affecting their physical and mental health and academic achievement, and the effects of poverty often follow children into adulthood.



High-quality child care and preschool programs can help to mitigate the harmful effects of poverty and improve children's life chances. Children from low-income families who receive high-quality child care have stronger reading and math skills in elementary school as well as fewer behavioral issues at the age of 15.[1] Similarly, children who attend high-quality preschools show stronger academic skills through early adulthood, have increased high school graduation rates, are more likely to attend a four-year college, and have lower rates of delinquent behavior than their low-income peers who do not attend such a preschool.[2]

2. Affordable Child Care Helps Families Achieve Economic Security

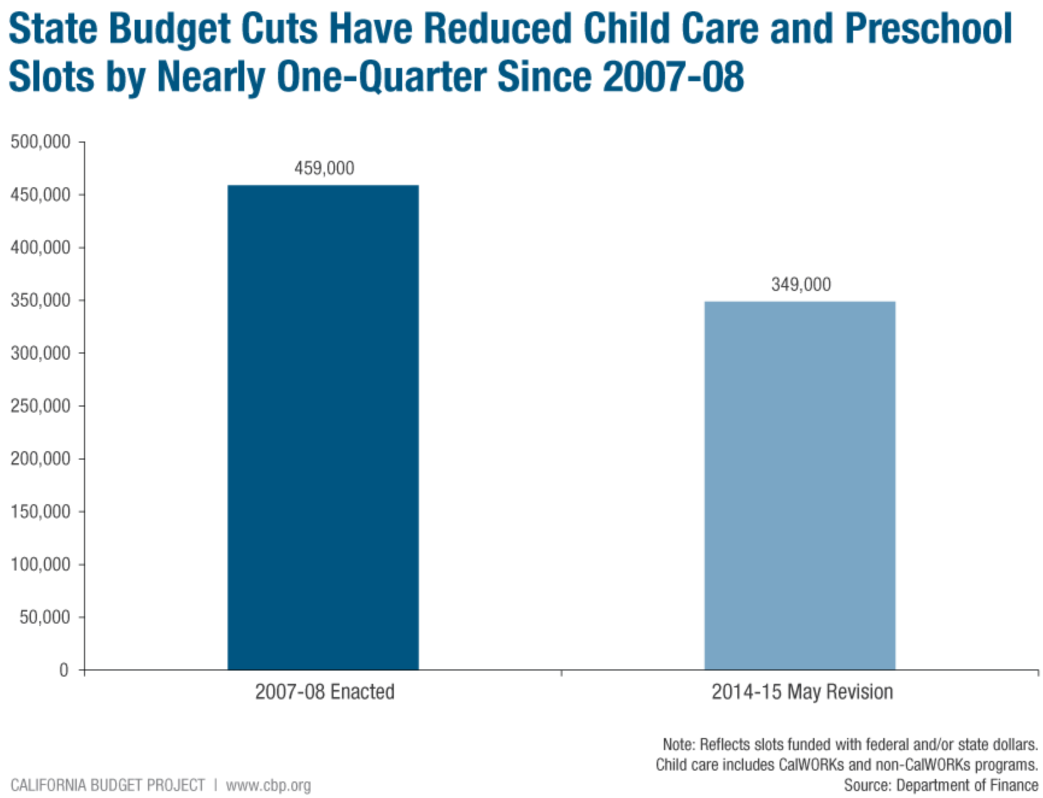
In California, the cost of child care accounts for a large share of household budgets. A single-parent who has two children and is living at the poverty line – $19,790 annually – would spend nearly 80 percent of his or her pretax income on full-time, center-based care for an infant and part-time care for a school-age child. A single mother in California earning a typical – that is, median – income would spend more than 60 percent of her income on center-based care for two children. Finally, a family of three with two children that has an annual income of $42,217 – one dollar above the income eligibility limit for subsidized child care in California – would spend more than one-third of their household budget on child care.



Access to subsidized child care and development programs can be vital to the economic security of low- and moderate-income Californians. Without access to child care assistance, many families face difficult choices about where to leave their children as well as how to balance the cost of care with other necessities, such as housing and health care. Furthermore, access to subsidized child care has been shown to increase parents' employment and earnings, while reducing the chance that parents miss work or cut back on their hours due to child care responsibilities.[3]

3. Budget Cuts and Policy Changes Have Decreased Access to Subsidized Child Care and Preschool

In an effort to help close budget gaps, policymakers made deep cuts to the state's child care and development system in recent years. Annual funding for child care and preschool has been reduced by roughly 40 percent – after adjusting for inflation – as compared to funding levels in 2007-08. This has resulted in the loss of approximately 110,000 child care and preschool "slots" for California's children – a decline of nearly one-quarter. The state also introduced fees for part-day preschool in 2012-13. Within the first six months of implementation, about 5 percent of children withdrew from the program and an additional 2,800 children did not enroll after parents learned of the fee.[4]



Budget cuts and policy changes have weakened the state's child care and development system and decreased access to care. However, it is not possible to know precisely how many families are waiting for care, because in 2011 the state eliminated funding for the Centralized Eligibility List (CEL). The CEL tracked the number of children on counties' waiting lists, and before the CEL was eliminated more than 193,000 children statewide were on the waiting list for a subsidized child care or state preschool slot. It is likely that the number of children waiting for a slot has increased since 2011.

4. The Income Eligibility Limit Is Outdated, Causing Moderate-Income Families to Lose Eligibility for Assistance

The income eligibility limit is the highest income at which a family qualifies for subsidized child care and preschool. In 2011, state policymakers lowered the income limit from 75 percent of the state median income (SMI) to 70 percent of the SMI.[5] In addition, the income limit is currently calculated using the 2005 SMI, meaning that policymakers have not adjusted the limit to reflect recent data on income levels in California. In fact, the current income limit is *just 62 percent* of the 2012 SMI, which means that families lose eligibility at a lower income than they would if the income limit were updated to reflect the most recent SMI for which data are available. If adjusted according to the 2012 SMI, the income limit would increase by 12 percent – a difference of $425 dollars every month for a family of three – allowing families with slightly higher incomes to remain eligible for subsidized care.

The Income Limit Would Increase by More Than 10 Percent if Based on the Most Recent State Median Income

Current Income Limit for a Family of Three (70% of 2005 State Median Income)		Estimated Income Limit in 2014-15 if Updated to Reflect Increase in State Median Income (70% of 2012 State Median Income)		Dollar Difference		Percent Difference		Current Income Limit as a Percentage of 2012 State Median Income ($67,596)
Monthly	Annual	Monthly	Annual	Monthly	Annual	Monthly	Annual	
$3,518	$42,216	$3,943	$47,320	$425	$5,104	12%	12%	62%

Note: The estimated income limit for 2014-15 is based on the state median income for a four-person family in 2012, adjusted to reflect a three-person family using the methodology applied by the California Department of Education as part of the last update to the income limit in 2007-08.
Source: CBP analysis of California Department of Education and American Community Survey data

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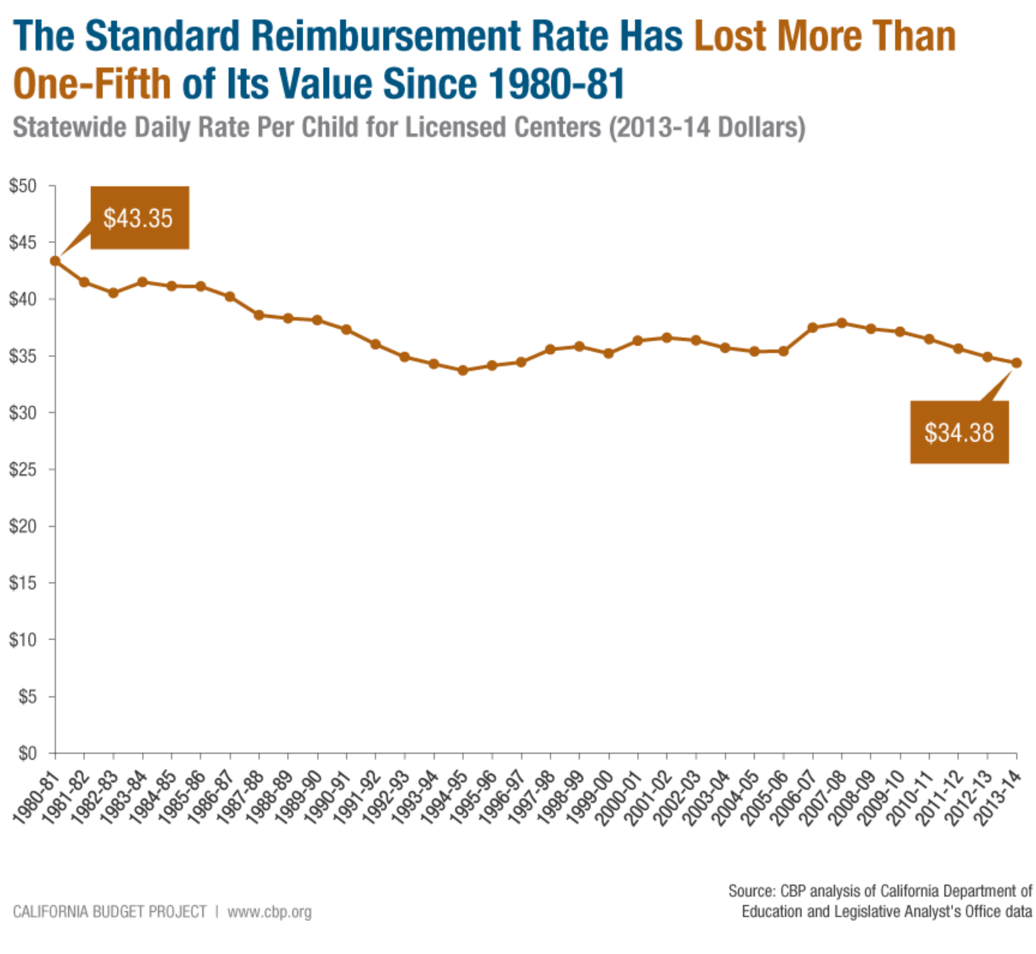
5. Outdated Payment Rates Limit Low-Income Families' Access to Subsidized Child Care and Preschool

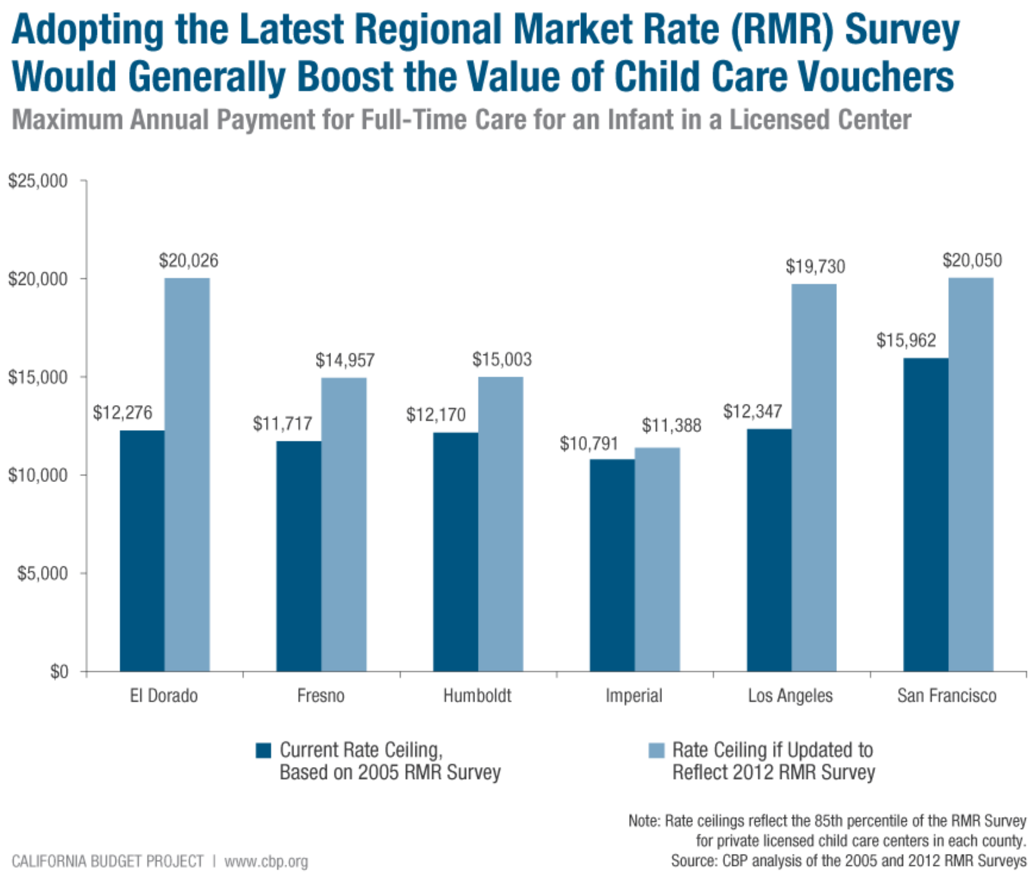
In addition to making significant budget cuts and program changes, policymakers have failed to update child care providers' payment rates in recent years. Families access child care and preschool programs via licensed child care providers that contract directly with the state or by using vouchers to select the child care provider (licensed or license-exempt) of their choice. Providers that contract directly with the state are reimbursed at a level known as the Standard Reimbursement Rate (SRR). The SRR is a statewide rate that is adjusted for specific criteria such as the age of the child or the presence of physical disabilities. The current SRR – $34.38 per child per day – has not been updated since 2007, one of several periods since the early 1980s in which state policymakers failed to provide an increase. After adjusting for inflation, the current SRR (2013-14) is 21 percent *lower* than the SRR from 1980-81 – the first fiscal year the SRR was used. Because the value of the SRR has fallen, the quality of the care that providers offer may be diminished and/or fewer providers may be able to offer services to families who need subsidized care.[6]



Similarly, California's current provider payment policies may constrain access to quality care for families who utilize vouchers in order to obtain child care from the provider of their choice. Vouchers' values are based on the Regional Market Rate (RMR) Survey, which provides "rate ceilings" for all 58 counties by type of care and age of the child.[7] This rate ceiling is the highest payment a provider can receive from the state, and it is set at the 85th percentile of the

RMR survey. [8] This means that families would have access to 85 percent of the providers in their county if policymakers adopted the most recent RMR Survey.

However, while RMR surveys must be updated at least every two years, states are *not required* to use the most recent survey when calculating rate ceilings. In fact, the rate ceilings in California have not been updated in recent years and are based upon the *2005 survey*. Adopting the most recent survey would increase the value of subsidized child care vouchers in 52 of 58 counties. For example, the annual RMR for an infant in a licensed child care center would increase by 63 percent in El Dorado County – from $12,276 to $20,026 annually.[9]



As vouchers lose purchasing power, low- and moderate-income families who rely on these subsidies have access to fewer child care providers. In fact, if the value of the subsidy is not high enough to purchase quality child care, parents may opt to purchase lower-quality care at a reduced price.[10]

ENDNOTES

[1]See Eric Dearing, Kathleen McCartney, and Beck A. Taylor, "Does Higher Quality Early Child Care Promote Low-Income Children's Math and Reading Achievement in Middle Childhood?," *Child Development* 80 (2009) and Deborah Lowe Vandell, et al., "Do Effects of Early Child Care Extend to Age 15 Years? Results from the NICHD Study of Early Child Care and Youth Development," *Child Development* 81 (2010).
[2] See Frances A. Campbell, et al., "Early Childhood Education: Young Adult Outcomes From the Abecedarian Project," *Applied Developmental Science* 6 (2002) and Arthur J. Reynolds, et al., "Long-Term Effects of an Early Childhood Intervention on Educational Achievement and Juvenile Arrest: A 15-Year Follow-Up of Low-Income Children in Public Schools," *The Journal of the American Medical Association* 285 (2001).
[3] See Heather Boushey, *Work Supports and Job Quality Vital to Employment Tenure and Wage Growth* (Economic Policy Institute: June 1, 2002), Sandra K. Danziger, Elizabeth Oltmans Ananat, and Kimberly G. Browning, *Childcare Subsidies and the Transition From Welfare to Work* (National Poverty Center: November 2003), and Julie E. Press, Jay Fagan, and Lynda Laughlin, "Taking Pressure Off Families: Child-Care Subsidies Lessen Mothers' Work-Hour Problems," *Journal of Marriage and Family* 68 (2006).
[4] Assembly Budget Committee, Subcommittee No. 1 on Health and Human Services, agenda for May 23, 2014 hearing.
[5] Families generally must meet the same income guidelines applicable to child care to qualify for state preschool. State law, however, allows up to 10 percent of families in the state preschool program to have incomes up to 15 percent above the income eligibility limit.
[6] See, for example, Gina Adams, Kathleen Snyder, and Kathryn Tout, *Essential But Often Ignored: Child Care Providers in the Subsidy System* (Urban Institute: February 2003) and Susan Muenchow, *California's Birth Through 3: Program Purpose and Design* (American Institutes for Research: February 2014).
[7] For example, rate ceilings are calculated for infants, preschool, and school-age children receiving care in a licensed child care center, licensed family child care home, or from a license-exempt provider.
[8] License-exempt providers are reimbursed at 60 percent of the 85th percentile. This rate was reduced in 2011-12 as part of the budget agreement. See California Child Care Resource & Referral Network, *State Subsidized Child Care Payment Rates* (February 2013), p. 3.
[9] Six counties – Kings, Modoc, Sierra, Siskyou, Tehama, and Trinity – would see a decrease in payment rates ranging from 2.3 percent to 9.7 percent.
[10] Anna D. Johnson, Rebecca M. Ryan, and Jeanne Brooks-Gunn, "Child-Care Subsidies: Do They Impact the Quality of Care Children Experience?," *Child Development* 83 (2012).

Kristin Schumacher prepared this report. The CBP was established in 1995 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. General operating support for the CBP is provided by foundation grants, subscriptions, and individual contributions.