



## CHILD CARE LAW CENTER

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### **Child Care is Key to Economic Recovery** **CCLC Initial Response to Governor's Budget Proposals**

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The people of California and America expressed their clear demand for change on Election Day. We support a robust recovery package, budget reform, and a balanced approach to the budget deficit, which focuses on new revenue. A balanced approach cannot include devastating cuts to the most vulnerable families and children. Low-income children and families already sustained deep cuts in the 2008-09 state budget passed just four months ago in September 2008. Many of the governor's proposals have been previously rejected by the Legislature. We oppose using this fiscal crisis as a reason to make permanent reductions and policy changes when the only rationale is financial. We must invest in children and families to turn the economy around in the short term and to build a bright future for the children of California in the long term.

We also understand that California is facing a tremendous fiscal crisis and that solutions to these problems must be found quickly. The Governor and the Legislature must work together to find a solution. But that solution must be one that works for California by revitalizing its economy and solving its ongoing budget problems. CCLC understands and agrees that the time for action on the budget is now, but urges both the Administration and the Legislature to refrain from enacting cuts and eliminating programs that keep children and families from falling into poverty.

Our analysis focuses on early care and education programs. The budget, however, must be taken as a whole. We appreciate that the Governor has included revenue options and not just cuts, but as we will explain below, economic recovery for the state and for individual low-income families could be compromised by the Governor's proposals. The Governor's proposal includes deep cuts to a number of vital social services and health care programs. It includes reductions of 10 percent in CalWORKs cash assistance and constrictions in Medical eligibility guidelines that will prevent hundreds of thousands of low-income Californians from getting health insurance. The proposal also seeks to eliminate programs like the CalWORKs safety net program which provides aid to children whose parents have timed out of cash assistance and the CAPI program which provides cash assistance to legal immigrants with a disability. Many of the proposed cuts are targeted at the lowest income and most vulnerable members of society. It is unconscionable to attempt to solve the budget crisis by reducing or eliminating basic services from children, the elderly, people with disabilities and people in poverty.

Rather than proposing new cuts that will negatively affect vulnerable children and families, the Governor should seek additional sources of revenue. Furthermore, the Governor and Legislature should seek support from the federal government for both targeted and flexible funds to retain the safety net for low-income families, ensure vital services, and stimulate California's economy. The description in the budget document of federal funding possibilities is very narrow.<sup>1</sup> For example, augmentation to the Child Care and Development Block Grant which is already being considered as part of the federal recovery package would enable states to maintain subsidized care for eligible

working parents with affordable fees while ensuring adequate reimbursement rates for center and home-based providers.

### **CCLC's Response to Governor's Child Care Proposals**

These responses are based on information available as of January 2, 2009 and include comments on seven child care specific proposals, which will have adverse impacts on children and families or require further review. The California Budget Project and Western Center on Law and Poverty have released additional materials on the broader cuts proposed in the Governor's budget.

Child Care Law Center's response includes the following issues:

1. Permanent reduction to child care funding
2. Increased family fees for families receiving subsidized child care
3. Reduced reimbursement rates for child care providers
4. Caseload reduction projections for CalWORKs
5. Elimination of the State Children and Families Commission
6. Cost of Living Adjustment elimination for child care programs
7. Community Care Licensing funding

1. **Permanent Reduction to Child Care Funding:** The Governor proposes a permanent decrease in child care funding of \$55 million. This is based on savings in prior years. The Administration posits that this \$55 million cut will not result in a reduction of services to families. However, these are funds that were allocated just a few months ago to allow the Department to maintain -- not grow -- services in the budget year. It has been clearly established that these "savings" in the past were due to administrative barriers to effectively spending all the allocated funds. Last year, CDE made a number of changes to ensure that funds would be spent in a timely manner.

CCLC opposes a permanent reduction to child care funding. We call on the Legislature to determine exactly how these cuts will be allocated across programs in the budget year. There are over 204,000 children statewide who are eligible for child care subsidies, but who are waiting to receive funding. The preschool age group is the fastest growing segment of the population.<sup>ii</sup> With less funding, less children will be served. This decrease in funding will mean that real children will not receive the subsidies for which they are eligible.

2. **Increased Family Fees:** The Governor proposes to save \$14.4 million by increasing family fees for families receiving child care subsidies. Fees are charged to families for child care once they reach a particular set monthly income. If a family fails to pay the monthly fee, they can lose their child care subsidy completely. This places a heavy burden on families who need the subsidies, but cannot afford the fee. It also places providers, who must often collect the fees, in a precarious position. They can try to force a low-income family to pay the family fees regardless of their actual ability to pay or they can absorb the lost income themselves which many providers cannot afford to do. This means that children can lose care, parents can endanger their work activities and providers lose income.

Family fees have been steadily increasing, but there have been no reports on the impact this has on low-income children. In 2002, California families who received child care subsidies began to pay a family fee when their incomes reached 50 percent of the SMI. The maximum

fee amount in California then was eight percent of a family's income for a family at 75 percent of the State Median Income (SMI).<sup>iii</sup> The Governor's proposal this year would start charging fees for families whose income is below 40 percent of SMI (approximately \$23,000 for a family of three), and would raise fees by \$2 per day at the lowest end of the scale and increase fees thereafter on a sliding scale up to 10 percent of a family's income. According to the proposal, families will begin paying 10 percent of their income at a lower point in the income eligibility spectrum when compared to the current fee schedule.<sup>iv</sup> These changes will be burdensome on all families required to pay fees. For those at the lowest end of the scale, \$2 per day will effectively double family fees. As one parent said \$5 a week means I can pay for peanut butter for my kid's sandwiches.

Last year, the Legislature passed a budget bill provision that would have exempted families who receive child care subsidies from paying fees if their incomes are less than 40 percent of the SMI, adjusted for family size. In September 2008, the Governor deleted this provision from the final budget. The current proposal requires families to start paying fees at the same income level as in 2006, even though the SMI has increased. This approach has the effect of lowering the family fee floor every time the SMI is adjusted upward.<sup>v</sup> In other words, as the SMI increases, poor families whose incomes are far lower than 40 percent of SMI will be required to pay fees and share in the cost of care.

This fee proposal will also affect families who are closer to the 75 percent SMI ceiling. It is not clear how high these fees will be raised, as we have not had access to the new proposed schedule, but 10 percent of income is a significant increase. The 2008 average nationwide amount spent on child care among families who pay for child care (including those who receive child care assistance and those who do not) is 6.4 percent of income.<sup>vi</sup>

Raising fees will likely harm low-income children by taking money from already scarce family resources. These families must choose between rent, food, child care, and other essential needs. Ultimately, by significantly increasing fees, the State may be forcing families who are eligible for subsidies to forego them. This means at minimum a child will lose access to quality child care and in certain cases may even result in a parent turning to unsafe options like older children watching their younger siblings or children being left home alone without any supervision.

As mentioned above, the Governor believes the state can save \$14.4 million from raising family fees, but we question these projections. Our understanding, based on anecdotal evidence, is that actual income raised for the State by fees is nominal. Those who promote increased family fees often fail to consider the additional administrative burden and financial cost of collecting more fees, particularly small fees from people with very low incomes. Very few families are required to pay the current maximum level because only a small number of families whose incomes are at 75 percent of SMI actually receive child care subsidies.

Placing a greater financial burden on those families whose income is so low that they are eligible for subsidies is a highly questionable method for generating revenue to increase the general fund. The Child Care Law Center takes a strong position that the child care subsidy system is extremely under-resourced, and that funding for the system should not depend on extracting additional fees from low-income families who are barely making ends meet even before the additional burden of family fees is placed upon them.

3. **Reduced Reimbursement Rates:** The Governor again proposes to permanently reduce the reimbursement rate ceiling in voucher based programs from the 85<sup>th</sup> to the 75<sup>th</sup> percentile of the Regional Market Rate (RMR) for a savings of \$19.4 million.<sup>vii</sup> When this was proposed in previous years, providers testified that this could make it very difficult for licensed family child care providers and centers that accept families with subsidies and are reimbursed through the voucher system to stay in business and provide the level of quality care the state has set as a priority. If the RMR cap is permanently lowered, it will lead to reduced access to a wide range of providers for families in the subsidy system, which may significantly reduce the income of many of these small child care business owners and may ultimately affect their ability to stay open.

The Legislature, California Department of Education, and the child care community have long recognized that determining the appropriate reimbursement rates to be paid to licensed child care facilities that serve subsidized families is a complex task that involves balancing significant policy considerations. Changing rates without proper consideration could result in a situation where the highest quality family child care providers and centers will have little incentive to care for subsidized children and those serving low-income neighborhoods will have trouble surviving. A reduction of the cap is a policy issue that should be thoughtfully addressed, not instituted in the heat of a budget crisis.

4. **Projected Caseload Reductions:** The Governor's 2009-2010 budget projects caseload decreases for CalWORKs Stages 2 and 3 child care and accordingly has budgeted \$37.1 million less because of it.<sup>viii</sup> This is in addition to the downward adjustments of \$42 million made in the projections for 2008-09.<sup>ix</sup>

CalWORKs caseloads are rising and unemployment is increasing. According to the California Budget Project, CalWORKs applications have risen rapidly in the past year. The number of families applying for CalWORKs cash assistance increased by 22.4 percent between September 2007 and September 2008 – four times the increase in applications during the prior 12-month period (5.5 percent).<sup>x</sup> The Governor's proposal provides no explanation as to why the number of children receiving child care subsidies would go down as caseloads rise. On the contrary, several factors would indicate caseloads are likely to increase:

- It was well documented in testimony in Budget Hearings last year that families who should have been moved to Stage 2 were held in Stage 1. This was due in part to insufficient funding in Stage 2 because of delays in approval by the Department of Finance to release reserve funds.
- The counties received numerous cuts this year including a cut to their single allocation, which includes funds for Stage 1 child care this budget year. We anticipate that the Department of Social Services who administers Stage 1 will now transfer families more quickly to Stage 2 child care which is administered and funded by CDE.
- There is also concern that if the allocations are cut, some eligible Stage 2 families, especially those who have not been receiving child care services earlier in the budget year, will not receive the benefits to which they are entitled as they return to school or employment.

5. **Elimination of State Children and Families Commission and Reduction of 50 percent of County Disbursements:** The Governor redirects \$275 million by eliminating the California Children and Families Commission and redirecting all current state funds and 50 percent of local funds to support children's programs administered by Department of Social Services (DSS).<sup>xi</sup>

CCLC opposes this proposal. First, the federal recovery package may very well assist with some of the expenditures of DSS. Second, it is shortsighted to dismantle beneficial programs in response to what likely will be transitory fiscal problem. Third, both state and local Prop 10 funds are invested in a wide range of programs that can support families and children in the face of increasing local budget difficulties including: access to health care, quality child care, and early education; supports to families to prevent growth in child welfare and foster care caseloads; screening to improve child health outcomes which allow children to be diagnosed and treated earlier, when treatment is less costly and most effective; and school readiness programs that address the needs of children most likely to fall through the "achievement gap" and require later costly interventions.

Rather than using a hatchet and devastating an entire network of programs aimed at helping children 0-5, we encourage the Administration to collaborate with Legislators and the Commission. Recently, the Commission worked collaboratively with the legislative leadership to provide \$16.7 million to the Managed Risk Medical Insurance Board, the agency that administers Healthy Families. The funds will be used to pay health care premiums for children up to age 5 who are new applicants to Healthy Families through the end of the fiscal year in June. These children would have been placed on waiting lists due to inadequate state funds for new applicants.<sup>xii</sup>

6. **COLA Eliminated:** We accept deferment of the COLA for child care. However, given the fragile nature of many of the programs covered by COLAs, particularly the state contracted centers, it is essential that in subsequent years contracts are not permanently held at the lower rate.<sup>xiii</sup>
7. **Community Care Licensing:** We must further evaluate the level of funding contained in the budget for Community Care Licensing (CCL). The only proposal related to CCL references an augmentation of \$3.5 million to be paid for by increased provider fees. This augmentation appears to be solely directed to a technical assistance fund which provides for investigations of registered sex offenders and of serious crimes. While it is critical that CCL investigate serious crime, this proposal is an insufficient response to the serious underfunding at Community Care Licensing. We believe CCL funding must be sufficient to both conduct visits of every licensed child care facility every year and to support ongoing compliance for child care providers which must include the child care advocate program. We will analyze this proposal in more detail as more information is available.<sup>xiv</sup>

## **Conclusion: An Alternate View of Economic Recovery and Investment in Children and Families**

On December 12, 2008, CCLC convened the child care work group for its seventh annual meeting to establish broad consensus on budget priorities for 2009. Over 70 parents, teachers, family child care providers, resource and referral staff, local planning council coordinators and other child care advocates gathered and established consensus on investments and system change.<sup>xv</sup> Collectively, we recognized the need to close the budget deficit, but not at the expense of our lowest income children and families. Among our highest priorities were working toward broad reform of California's budget process, protecting current funding for child care, advocating for child care investment as a key element of economic recovery and increasing investment for early care and education at the federal level.

We should be making investment proposals to turn the state's economic problems around and ensure that we are protecting the safety and future of our lowest income and most vulnerable children. Over 204,000 children eligible for child care subsidies are on waiting lists. We could immediately put more teachers and child care providers to work by expanding space in contracted centers and licensed family child care homes while simultaneously increasing the number of subsidies to parents so they can purchase child care. This action would also support parent's ability to find and retain jobs.

California's fiscal situation is precarious, but we will not improve the State by driving already struggling low-income families deeper into poverty. The Legislature and the Governor must find balanced solutions including increasing revenues and seeking more support from the federal government so that California can weather this fiscal storm without harming vulnerable children and families.

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<sup>i</sup> 2009-10 Governor's Budget page 6 accessed at [www.dof.ca.gov](http://www.dof.ca.gov) December 31,2008

<sup>ii</sup> 2009-10 Governor's Budget page 55 accessed at [www.dof.ca.gov](http://www.dof.ca.gov) December 31,2008

<sup>iii</sup> California Department of Education Management Bulletin 00-14, September 2000, available at [http://www.cde.ca.gov/cyfsbranch/child\\_development/downloads/mb0014.pdf](http://www.cde.ca.gov/cyfsbranch/child_development/downloads/mb0014.pdf).

<sup>iv</sup> Ibid page 40

<sup>v</sup> CDE is responsible to update the eligibility and fee levels based on new State Median Income Figures, except in years when the SMI is frozen. When the fee schedule is updated and if SMI rises, this moves families who are currently at the 40 percent SMI to a lower SMI (e.g., 38 percent), and thus not incur family fees. However, the Administration proposes to impose family fees at the same dollar income levels as specified in the current family fee schedule thus imposing a fee on families who are below the 40 percent SMI and who never previously paid such fees. Using this method, the floor will be lowered each time the fee schedule is adjusted.

<sup>vi</sup> State Child Care Assistance Policies 2008, National Women's Law Center Karen Schulman and Helen Blank page 6 available at [www.nwlc.org](http://www.nwlc.org)

<sup>vii</sup> 2009-10 Governor's Budget page 40 accessed at [www.dof.ca.gov](http://www.dof.ca.gov) December 31,2008

<sup>viii</sup> Ibid page 38

<sup>ix</sup> Ibid page 35

<sup>x</sup> California Budget - Project Proposed Budget Cuts page 11 accessed at [www.cbp.org](http://www.cbp.org)

<sup>xi</sup> 2009-10 Governor's Budget page 23 accessed at [www.dof.ca.gov](http://www.dof.ca.gov) December 31,2008

<sup>xii</sup> Press Release December 17, 2008 accessed at [www.ccfc.ca.gov](http://www.ccfc.ca.gov) January 1, 2009

<sup>xiii</sup> 2009-10 Governor's Budget page 40 accessed at [www.dof.ca.gov](http://www.dof.ca.gov) December 31,2008

<sup>xiv</sup> Ibid page 27

<sup>xv</sup> The Work Group is convened by the Child Care Law Center and co-sponsored by the California Resource and Referral Network, the California Child Development Coalition, the California Child Development Corps, Parent Voices, and the California Child Care Coordinators Association. The full report will be released January 13, 2009.