



## CHILD CARE LAW CENTER

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### CCLC Response to the 2006-07 LAO Budget Analysis March 6, 2006

We appreciate the thorough analysis of the entire budget and identification of key issues undertaken by the LAO. We share these initial thoughts in response to the LAO's recommendations, and look forward to extensive discussion of the proposals related to child care.

Our starting point is that the budget proposed by the Governor fails to make key investments in vulnerable children. We believe that the state must develop a comprehensive plan for increasing access to high quality child care and after school services for *all* our children. We look forward to a dialogue with the Legislature, LAO and the Governor to develop this comprehensive plan and to make new investments.

#### **1. Problems with the Current Reimbursement System<sup>1</sup>**

Quality is a complex but definable concept when applied to child care. However, the LAO oversimplifies the concept of quality when making recommendations for changing the current reimbursement system.

We strongly agree that the Title 5 state contracted centers have a well-defined set of quality standards. We have advocated over the years, and again this year, for a significant increase in the Standard Reimbursement Rate (SRR) for these centers. The well-documented gap between the SRR and RMR (Regional Market Rate) in certain counties, and even more importantly between the SRR and the cost of providing quality child care, will undoubtedly lead to the loss of more contracted centers if we do not act this year.

We agree with the LAO recommendation to raise the SRR. However, we are not certain that this should be done only in high cost counties. Comparing the SRR to the RMR is not the only measure of its adequacy, particularly since the RMR has not been updated. We need to assess the true cost of providing child care that meets Title 5 standards, both statewide and, more specifically, in high cost counties.

We would also take a different approach in funding the SRR increases. We should not continue to use the lens of funding to make structural changes; rather, we must focus on the real needs of children. Reform should be designed to accomplish agreed-upon objectives that maintain the best interests of children rather than short-term, budget-based initiatives. Given this perspective, we believe that it is vital that additional state General Revenue funds should be invested in the child care system to raise the SRR.

The LAO, with little comment, proposes redirecting all child care growth money to fund the Title 5 rate increase. Whenever new funds are available, there must always be a balance struck

between using the funding to increase access for families and using it to improve the quality of care. This is a year when TANF Reauthorization will result in an estimated 40,000 to 50,000 additional families (with an estimated 72,000- 90,000 children) needing to participate in approved work activities, and many will need child care. It is also a year in which over 200,000 low-income working families will remain on child care waiting lists. Before making a decision to use growth funds for the SRR, we must do a more thorough analysis of the budget and other potential sources of funding for child care needs.

The LAO's second recommendation for funding the increase in the SRR is to limit license-exempt funding to 90 percent of the Title 5 reimbursement rate in high cost counties. No dollar amount is provided that will result from this change, nor is there any discussion of the impact on families that use license-exempt care. We need to develop a reimbursement system based on policy considerations and, in that context, review license-exempt reimbursement rates to determine their adequacy.

The LAO's third method of paying for an increase in the SRR is to require centers to provide a similar discount to the state as is given to privately paying customers. It is not clear how much money this would generate as it would be complicated to enforce and take funds from the very Title 5 centers we are trying to save. We also oppose requiring Title 22 centers to give this discount, as many of those centers are also having an extremely difficult time surviving. Moreover, we oppose setting up barriers for families. It is important for families to find a high quality center where siblings can attend. It would be unfortunate to set up disincentives for centers to accept subsidized families who want to have their children attend the same child care center, since centers would receive higher reimbursements by serving non-related children.

The LAO's fourth recommendation is to adopt a higher COLA in high cost counties. It is clear that some counties have higher costs, and we are open to considering the differential rate. However, we do not agree that the state knows the cost of care in every county; the state has documented the market rate which can be significantly different than the cost of care.

## **2. Proposition 49**

We concur with many of the concerns raised by the LAO in regard to Proposition 49. In particular, we agree that the Legislature should amend the ASES program to target funding to the areas of greatest need.<sup>2</sup> CCLC has concerns that under-resourced school districts in low-income communities will be unable to take full advantage of the program since it requires districts to provide matching funding. Clarification is needed on this topic.

We also believe special attention must be paid to inclusion of children with disabilities. While the Americans with Disabilities Act guarantees the rights of children with disabilities to participate in this program, genuine access can only be achieved if there is careful planning and use of resources to ensure that all programs are truly inclusive for children with disabilities and special health care needs. This will require funding formulas that reward inclusion, benchmarks at the state and local level, and technical assistance to local districts as they plan for inclusive programs.

We do not share the LAO's opinion that Proposition 49 will necessarily result in child care program savings.<sup>3</sup> First, there will be the obstacles to implementation in low-income neighborhoods if significant changes are not made. Second, since their hours will be limited, it is not clear whether after school programs will operate during the hours in which parents need child care. Last year we helped establish a money-saving compromise that allowed children to participate in both after school programs and in subsidized care. However, it is not clear how many children will actually participate primarily in after school programs with limited hours.

### **3. New RMR Survey<sup>4</sup>**

Our initial review of the significant changes in methodology for establishing the rate ceilings using zip code based market profiles raises more serious concerns than are reflected in the LAO analysis. We do not support any use of county sub-categories based on the current survey. The new methodology groups zip codes of similar socio-economic characteristics and establishes rate ceilings for these "market profiles." This resulted in lower rates for child care centers and family child care homes in the lowest income neighborhoods of a county. Downtown San Francisco was not simply an anomaly; rather, the rates had uniformly disparate impacts in low-income communities and communities of color.

If rates for child care centers and family child care homes are lower in our lowest income communities, this could result in a loss of licensed family child care homes and centers in these communities. California's long commitment to maintaining an early care and education system statewide to provide opportunities for each child and to school readiness could be seriously undermined.

A second ramification could be on participants in our CalWORKs program at a time when need for expanded access is heightened due to increased work participation requirements. CalWORKs families are in greatest need of child care that is easily accessible in their own neighborhoods and that is available during the non-traditional hours and rotating shifts CalWORKs parents are often required to work. If rates are decreased for child care providers in low-income neighborhoods, not only will it affect the already minimal supply of licensed care, it will also impact the extent to which license-exempt care is available. The original intent of CalWORKs child care was to ensure that these families are able to access a variety of options in the same manner as more affluent families. Stable child care arrangements are essential to the success of families as they move to self-sufficiency. If licensed and license-exempt providers in the lowest income zip codes experience reductions in the rate ceilings, this could have a profound effect on the ability of families to find appropriate care arrangements that is so essential to maintaining employment.

We support the county roll-up proposal submitted by the Department of Education to the Department of Finance. Prior to the next survey we can explore new methodology, but until that time comes, the county-wide rollup is the only equitable approach.

#### 4. **Community Care Licensing**<sup>5</sup>

We are all committed to ensuring the basic health and safety of children. We share the LAO's concern that increased visits are only the first step in a more effective system. We are awaiting the results of the Legislative Audit to make recommendations about enforcement. Civil penalties are one tool—but one that requires further analysis to be targeted effectively at increasing compliance with licensing regulations.

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<sup>1</sup> LAO 2006-07 Analysis Education page E-114

<sup>2</sup> Ibid E-107

<sup>3</sup> Ibid E-119

<sup>4</sup> Ibid E-119

<sup>5</sup> LAO 2006-07 Analysis Health and Social Services – Licensing, p. 11