



# Baby Steps:

Recession Cuts, Restoration, and What's  
Next for California's Child Care System

Leila Rock, Sarah Crow, Hong Van Pham

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Next Generation

**A**ccess to affordable child care helps families achieve economic security, offers children stability and the opportunity to thrive, and strengthens California's economy overall. Unfortunately, the programs that provide child care subsidies to low-income Californians were greatly weakened during the Great Recession of 2007. As a result, children and families in greatest need of these resources now face instability and diminished job prospects that will have short- and long-term consequences to their individual well-being, and our state.

As legislators begin a new year of work on legislative proposals, this brief highlights key pieces of research that describe California's child care system, and reviews proposed policy changes to improve it. It provides a synopsis of the current state of child care in California, including cuts made during the recession, restorations to the system made in last year's budget, as well as new federal child care requirements that emphasize quality of care.

## A Growing Need for Quality Child Care

As more and more parents work outside of the home, an already large demand for child care is growing. About three in five children ages zero to five – or roughly 1.8 million children – in California grow up in families where all parents are in the labor force.<sup>1</sup> In FY 2013–14, the California Department of Education received roughly 152,000 requests for child care referrals from parents and caregivers; 40 percent of these were for care of infants and toddlers. The vast majority (93.8 percent) of families requesting child care were seeking full-time arrangements.<sup>2</sup>

While access to affordable child care is important for all families, the quality of these programs matters, too. High-quality child care and development programs provide nurturing, stimulating environments where children can learn the cognitive, linguistic, and social-emotional skills that lay the foundation for a lifetime of success. Studies show that high-quality child care programs can increase a child's lifetime earnings, reduce a child's involvement with the criminal justice system, and lower state expenditures on welfare and remedial education.<sup>3</sup>

## Major Cuts Weaken the Child Care System

Funding cuts have significantly reduced the state's investments in child care programs. Since 2007, California has cut funding for subsidized child care programs by more than \$1 billion, reducing access to services for many of the state's low-income families.<sup>4</sup> The reinvestments made in last year's budget to early learning programs have not brought access back to 2007 levels.

Cuts to child care programs have had significant impacts on California's neediest families and communities in several ways:

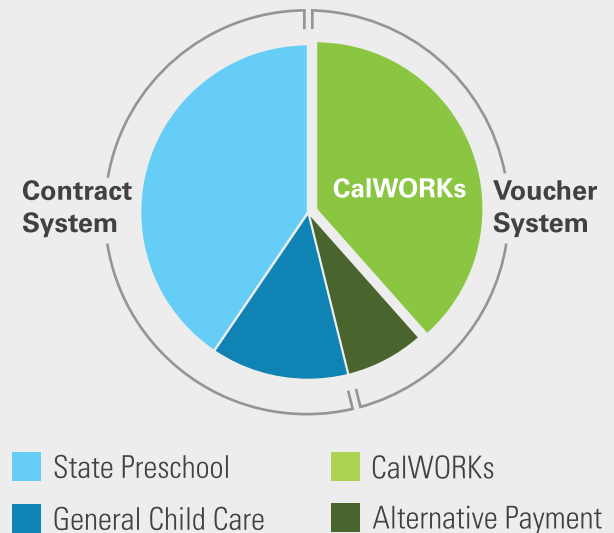
- **Fewer slots are available.** The California Budget and Policy Center estimates that California has reduced subsidized slots by roughly 97,000 – or one fifth – since 2007.<sup>5</sup> A subsidized slot refers to a specific space in a school, center or family child care system. Once a child leaves that program, the slot becomes available for another child. Although the 2014-15 budget restored funding to 13,000 child care and preschool slots, the total number is still more than 20 percent below the number funded in 2007-08.<sup>6</sup>
- **Families must earn less now to qualify for child care assistance than before the recession.** As of 2011, families must earn less than 70 percent of the State Median Income (SMI) to be eligible for child care services, down from 75 percent. Moreover, the state uses data from 2007 to calculate the SMI, further reducing the threshold at which families qualify for child care by not accounting for inflation.<sup>7</sup>
- **Provider reimbursement rates have not been fully updated.** After almost a decade without updating provider reimbursements rates, the state increased the Standard Reimbursement Rate (SRR) by 5 percent and the Regional Market Rate (RMR) by 9 percent last year (see "Snapshot of California's Child Care System" for more information on these rates). However, even the updated rates are still out of date. The new reimbursement rate is set at the 85th percentile of a 2009 regional market survey

## Snapshot of California's Child Care System

California offers a variety of programs through which families can access subsidized child care, broadly categorized into CalWORKs and non-CalWORKs programs. The primary method by which the state delivers funding to these programs is through the contract and voucher systems. Contracts enable families to enroll in a subsidized slot at a specific location, whereas vouchers are issued directly to families who can use them as payment at a range of locations. Voucher system providers are reimbursed at the Regional Market Rate (RMR), which varies by county. Contract system providers receive a Standard Reimbursement Rate (SRR), which is uniform across the state. To receive subsidized child care, families must be:

- Eligible for CalWORKs; **or**
- Participating in work activities **and** earning less than 70 percent of the State Median Income (SMI) as calculated in 2007, or \$42,216 for a family of three.<sup>8,9</sup>

## Subsidized Slots by Program and Payment Method



Source: Legislative Analyst's Office, "The 2014–15 Budget: Child Care and Preschool Programs" (2014).

of child care costs, updated from 2007 data. For many voucher-based providers, this will not translate to a significant increase in actual payment rates.<sup>10</sup> Because the vouchers do not cover the full cost of care, providers must either increase prices and pass those additional costs onto parents, or close. According to the Legislative Analyst's Office, between 2008 and 2013, 3,880 family child care centers (or 10 percent) and 312 licensed centers (2 percent) that accept vouchers closed. In addition, 224 contracted providers (or 16 percent) declined to renew their contracts during the recession, likely due to insufficient funding.<sup>11</sup>

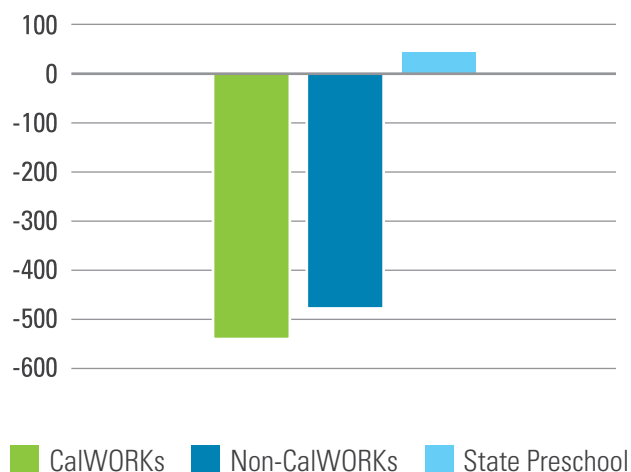
- **Centralized Eligibility Lists have been eliminated.** Between 2005 and 2010, each county maintained a centralized eligibility list (CEL) of families waiting to receive subsidized child care services. CELs served as a centralized sign-up for all available child care programs in a county. In 2011, the state eliminated funding for CELs and, subsequently, only 15 counties opted to operate child care waiting lists, funded with local dollars.<sup>12</sup> The elimination of CELs has made it more difficult for families to find subsidized child care, forcing them to connect directly with providers in order to be placed on their waiting lists.

Moreover, there is no longer a way to quantify statewide need for child care services. Before CELs were eliminated, more than 193,000 California children were on the waiting list for a subsidized child care or state preschool slot, and 63 percent were ages zero to five.<sup>13</sup> Today, it is harder to quantify how many children need subsidized child care, which makes budgeting for future programs more difficult. The Legislative Analyst’s Office estimates that the cost of reinstating CELs would range from \$5 million to \$10 million annually,<sup>14</sup> just 0.4 percent of California’s total child care and development budget.<sup>15</sup>

- **Cuts hit CalWORKs families the hardest.** CalWORKs is California’s welfare-to-work program that provides cash assistance and other services, including child care subsidies through vouchers, to families with very low income. More than one-quarter of families enrolled in CalWORKs have at least one child younger than two years old.<sup>16</sup> **Between 2007 and 2012, CalWORKs child care experienced the largest funding cut, and an enrollment drop of one-third.**<sup>17</sup> Cuts to CalWORKs child care totaled approximately \$535 million, compared to a \$475 million cut to non-CalWORKs child care programs.<sup>18</sup>

## Child Care and Preschool Budget Cuts

FY 2007–2012, Dollars in Millions



Source: Legislative Analyst’s Office, “Analysis of the 2008–09 Budget Bills: Education” (2007); Legislative Analyst’s Office, “The 2014–15 Budget: Child Care and Preschool Programs” (2014).

## 2014–15 Budget Restoration

Governor Brown’s 2014–15 budget included provisions to restore to child care and development programs a proportion of funding lost during the recession. A significant portion of funding goes to expanding access to state preschool programs for low-income four-year-olds – an important first step toward ensuring that all children have access to quality early learning programs.

The 2014–15 budget includes:<sup>19</sup>

- **\$70 million** to provide **11,500 slots** in the California State Preschool Program.<sup>20</sup>
- **\$17 million** to restore **1,500 slots** to non-CalWORKs child care programs.
- **\$68 million** to increase provider reimbursement rates.<sup>21</sup>
- **\$50 million** annual grant for quality improvement activities at the local level.
- **\$25 million** one-time funds for teacher training in early childhood development.
- **\$15 million** to repeal part-day preschool fees.
- **\$10 million** one-time funds to provide loans for preschool facility expansion.

## New Federal Requirements to Meet

California's early care and education system faces challenges in the immediate future stemming from changes to federal legislation. In November 2014, the federal Child Care and Development Block Grant (CCDBG) Reauthorization was signed into law, which renews the Child Care Development Fund (CCDF). CCDF offers federal dollars to fund child care for low-income families, those receiving subsidies, and families transitioning off welfare. CCDF funds made up one-quarter of California's child care and preschool budget for 2014–15.<sup>22</sup> The new reauthorization requires significant changes to the administration of child care subsidies in order to maintain federal funding. In particular, **CCDBG reauthorization emphasizes improving the quality of child care and development programs.**

In order to secure CCDF funding, California must:

- **Increase funding for quality initiatives** from 4 percent to 9 percent by 2020. Beginning in 2017, California must also dedicate an additional 3 percent each year specifically for quality initiatives for infants and toddlers. By 2020, California must spend a total of 12 percent of CCDF funds on improving the quality of child care and development programs.<sup>23</sup>
- **Establish training and professional development requirements** to improve the skills, knowledge, and quality of CCDF providers.
- **Enforce licensing and regulatory requirements.** By November 2016, California must have policies and procedures in place to inspect and monitor all subsidized child care providers, including license-exempt providers. California will have three years to make inspection reports publicly available. Currently the California Department of Social Services is required to inspect child care providers every five years.<sup>24</sup> AB74, authored by Assembly Member Ian Calderon, would require licensed child care programs to be visited annually, beginning in 2018.<sup>25</sup> To date there is no bill that establishes a timeline for license-exempt provider inspections.

- **Implement developmental guidelines**, in line with state standards, to children's milestones from birth through entry into kindergarten. The guidelines will be research-based and cover the essential domains of development, including activities that develop skills in early language and literacy, and early math.
- **Better inform parents** through a state website and hotline on the full range of child care services available, including information on eligibility for financial assistance for child care; the quality of child care providers; research and best practices for meaningful parent and family engagement with children; and, the process for consumer complaints.<sup>26</sup>

## Pending Child Care and Preschool Legislation

Several legislators have introduced promising legislation that would address many of the issues facing the early care and education system.<sup>27</sup> The policy solutions proposed by these bills would both increase access to affordable, high quality child care and preschool for many families, as well as secure the sustainability of quality child care providers for the long term.

These bills include:

- ***Child Care Budget Request – Legislative Women's Caucus***

The Legislative Women's Caucus requests a \$600 million investment in child care to be distributed equally between modernizing reimbursement rates and increasing slots.<sup>28</sup>

- ***State preschool program: report – AB 47 (Assembly Member Kevin McCarty)***

The bill would require the Department of Education to submit a plan by 2016 for expanding state preschool eligibility to all low-income children who do not currently have access. The bill would also require an analysis of need for expanding state preschool facilities.<sup>29</sup>



- ***Child Care Reimbursement Rates for Alternative Payment Providers – AB 188 (Assembly Member Cristina Garcia)***

This bill would reimburse alternative payment providers for making eligibility determinations.<sup>30</sup>

- ***Child Care Alternative Payment Programs and Eligibility – AB 233 (Assembly Member Patty Lopez)***

This bill would amend various provisions in the Child Care and Development Services Act related to alternative payment programs and reimbursement rates. It would authorize alternative payment programs to also include an eligibility determination process of not less than once every 12 months.<sup>31</sup>

- ***Online child care job posting services: consumer education – AB 589 (Assembly Member Patty Lopez)***

This bill would require child care job posting services to provide accessible information to parents about the safety standards of providers, including information on criminal background checks, as well as a description of the availability of free child care referrals in every county.<sup>32</sup>

- ***Early childhood education – AB 833 (Assembly Member Rob Bonta)***

This bill would re-establish a statewide centralized eligibility list and implement a statewide quality rating and improve system.<sup>33</sup>

- ***Raising Child Care Quality and Accessibility Act – SB 548 (Senator Kevin de León and Assembly Member Toni Atkins)***

This bill would extend collective bargaining rights to family child care providers, expand child care slots through the voucher system, and support training resources to improve the quality of care offered by licensed and license-exempt providers.<sup>34</sup>

## Conclusion

California can no longer afford incremental and piecemeal restoration of our state's weakened child care system. High-quality child care is vital to ensure that our youngest learners have the skills they need to reach their maximum potential in school and beyond. By creating a stable and comprehensive child care system that offers helpful programs to families and children, we can improve prospects for working families, break the cycle of poverty, and ensure that federal investments in our state's future remain secure.

The policy solutions proposed by California legislators would both increase access to affordable child care and preschool for all families, and secure the sustainability of child care programs for the long term. But more work is needed in the years ahead to both restore the child care system to what it was, and build it into the system it should be. Without substantial and immediate investments in quality, California stands to lose critical Child Care and Development Block Grant federal funding altogether.

## Endnotes

1. "All parents" refer to both parents in two-parent households working, or the head-of-household in a single-parent family working. Bureau of the Census, 2013 American Community Survey 1-Year Estimates, *Age of own Children Under 18 Years in Families and Subfamilies by Living Arrangements by Employment Status of Parents*, table C23008.
2. "R&R Program Service Data Report Aggregate Summarization Data" available at <http://www.cde.ca.gov/sp/cd/ci/rdatareports.asp> (last accessed March, 2015).
3. The White House, *The Economics of Early Childhood Investments* (2014).
4. "Support for Child Care and Preschool Is \$1.1 Billion Below 2007-08, Even With Recent Funding Increase," available at <http://calbudgetcenter.org/resources/support-for-child-care-and-preschool-is-1-1-billion-below-2007-08-even-with-the-recent-funding-increase/> (last accessed March 2015).
5. "State Budget Cuts Have Reduced Child Care and Preschool Slots By More Than One-Fifth Since 2007-08," available at <http://calbudgetcenter.org/resources/state-budget-cuts-have-reduced-child-care-and-preschool-slots-by-more-than-one-fifth-since-2007-08/> (last accessed March 2015).
6. Kristin Schumacher, "How Did Child Care and Preschool Really Fare in the Budget?" California Budget and Policy Center, July 15, 2015, available at <http://calbudgetcenter.org/blog/how-did-child-care-and-preschool-really-fare-in-the-state-budget/>.
7. California Budget and Policy Center, "The Income Eligibility Limit for the California Child Care and Development System is Outdated" (2015).
8. "Management Bulletin 11-06. Early Education and Support Division," available at <http://www.cde.ca.gov/sp/cd/ci/mb1106.asp> (last accessed March 2015).
9. For more information on California's child care system, refer to Legislative Analyst's Office, "Restructuring California's Child Care and Development System" (2014).
10. Kristin Schumacher, "Looking Ahead State Must Go Much Further in Boosting Payments to Child Care Providers," California Budget and Policy Center, October 31, 2014, available at <http://calbudgetcenter.org/blog/looking-ahead-state-must-go-much-further-in-boosting-payments-to-child-care-providers/>.
11. Legislative Analyst's Office, "Restructuring California's Child Care and Development System" (2014).
12. Counties that have chosen to operate their own local child care waiting lists include Amador, Calaveras, Marin, Napa, Nevada, Placer, Sacramento, San Diego, San Francisco, Santa Clara, Santa Cruz, Sonoma, Stanislaus, and Tulare. For more information on local child care waiting lists, see "Local Child Care Waiting List contact Information," available at <http://www.cde.ca.gov/sp/cd/re/waitinglistcontacts.asp> (last accessed March 2015).
13. Child Development Division Curriculum, Learning, and Accountability Branch, *Report to the Governor, Legislature, and the Legislative Analyst's Office: Status Report on the Implementation of County Centralized Eligibility Lists* (California Department of Education, 2011).
14. Legislative Analyst's Office, "Restructuring California's Child Care and Development System" (2014).
15. Percentage was calculated from 2014-15 proposed budget for child care and preschool. For more information, refer to Legislative Analyst's Office, "2014-15 Budget: Child Care and Preschool Programs" (2014).
16. Caroline Danielson and Daniel Krimm, "California's Welfare Recipients: Family Circumstances, Income, and Time on Aid Among CalWORKs Families" (San Francisco: Public Policy Institute of California, 2012).
17. California Budget and Policy Center, "Starting Strong: Why Investing in Child Care and Development Programs is Critical for Families and California's Economic Future" (2013).
18. Represents funding cuts made between FY 2007-08 and FY 2012-13. Legislative Analyst's Office, "Analysis of the 2008-09 Budget Bill: Education: Child Care and Development" (2008). See also, Legislative Analyst's Office, "The 2014-15 Budget: Child Care and Preschool Programs" (2014).
19. Department of Finance, *California State Budget 2014-15: Enacted Budget Summary* (2014).
20. Child Care Law Center, "Analysis of Child Care Provisions in the Enacted California State Budget for FY 2014-15" (2014).
21. For State contracted (increases SSR by 5%) and voucher-based (increases RMR by 9%) providers. For more information, refer to Legislative Analyst's Office, "Overview of California's Child Care and Development System" (2015).
22. Calculated from 2014-15 proposed budget for child care and preschool. For more information, refer to Legislative Analyst's Office, "2014-15 Budget: Child Care and Preschool Programs" (2014).
23. Quality initiatives can be chosen by states from a range of allowable activities, including developing tiered quality rating systems and supporting statewide resource and referral services.
24. Early Learning Policy Group, "Key Provisions Within the Bicameral, Bipartisan CCDBG Bill (S. 1086) vs. Current Law" (2014) available at <https://earlylearningpolicygroup.files.wordpress.com/2014/09/ccdbg-agreement-vs-current-law-sept-20-2014.pdf>. See also, Child Care Aware of America, "HHS Proposed Rule vs The Child Care and Development Block Grant (CCDBG) Reauthorization Bill (S.1086): Major Highlights"(2014) available at <http://www.njaccrra.org/documents/index/ATT00131.pdf>.
25. For more information on AB74, see [http://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill\\_id=201520160AB74](http://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201520160AB74).
26. Early Learning Policy Group, "Key Provisions Within the Bicameral, Bipartisan CCDBG Bill (S. 1086) vs. Current Law" (2014). See also, Child Care Aware of America, "HHS Proposed Rule vs The Child Care and Development Block Grant (CCDBG) Reauthorization Bill (S.1086): Major Highlights"(2014).
27. "A Stronger California: Legislative Agenda," available at <https://astrongerca.wordpress.com/2015/03/21/full-list-of-bills/> (last accessed March 2015).
28. "A Stronger California: Legislative Agenda," available at <https://astrongerca.wordpress.com/2015/03/21/full-list-of-bills/> (last accessed March 2015).
29. For more information on AB 47, see [http://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill\\_id=201520160AB47](http://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201520160AB47).
30. For more information on AB 188, see [http://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill\\_id=201520160AB188](http://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201520160AB188).
31. For more information on AB 233, see [http://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill\\_id=201520160AB233](http://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201520160AB233).
32. For more information on AB 589, see [http://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill\\_id=201520160AB589](http://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201520160AB589).
33. For more information on AB 833, see [http://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill\\_id=201520160AB833](http://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201520160AB833).
34. For more information on SB 548, see [http://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill\\_id=201520160SB548](http://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201520160SB548).