

Child Care (I): Page 27

Options for Generating Savings in Child Care Budget

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Policy Area	Current Law	Option for Generating Savings	Range of State Savings	Effect on Families and Providers
Maximum Reimbursement Rates	Currently, the maximum state reimbursement rate for licensed providers is set at the 85th percentile of regional market rates (RMR) based on 2005 data. License-exempt providers get 90 percent of licensed rate. (We recommend basing rates on updated 2009 data, as 2005 data no longer reflect current market rates.)	Could reduce the maximum reimbursement rate for licensed and/or license-exempt providers. Governor proposes to reduce maximum rate for licensed providers to 75th percentile of RMR. Proposes to reduce reimbursement for license-exempt providers to 70 percent of licensed rate.	\$20 million if reduce licensed rate to 75th percentile of RMR. \$80 million if reduce license-exempt rate to 70 percent of licensed rate. (Additional savings if adopt both proposals.)	Providers charging at the current maximum rate could lower their rates, thereby leaving families unaffected. Alternatively, these providers could maintain current rates, with families needing either to pay the difference or find a provider that charges less.
Income Eligibility Ceilings	Currently, families are eligible for subsidized child care if income is less than 75 percent of state median income (SMI).	Could reduce the maximum allowable income level for families eligible for subsidized child care. Governor proposes to limit eligibility to families making less than 60 percent of SMI (with the exception of State Preschool).	\$55 million if reduce to 60 percent of SMI and exempt State Preschool. \$130 million if also apply to State Preschool.	Would reduce number of families/children eligible for subsidized care. If implemented immediately, would terminate service for some families currently receiving subsidized care.

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Policy Area	Current Law	Option for Generating Savings	Range of State Savings	Effect on Families and Providers
Parent Fees	Currently, families must pay a child care fee if their income is at or above 40 percent of SMI, with fee amounts increasing as families' income increases. Family fees range from \$2 to \$19 per day and are capped at 10 percent of total family income.	Could reduce income level at which parents must begin to pay fee and/or increase amount of fee required for families at each existing income level.	Up to \$30 million depending on how fee schedule changed.	Some low-income families might find new or higher fees hard to pay. Failure to pay fees results in loss of child care services.
Reduce and Redirect Quality Improvement Funds	Currently, the federal government requires states to dedicate a portion of child care spending to "quality" activities (roughly \$80 million). California typically spends more than is required on these activities.	Reduce amount spent on quality improvement activities to federal minimum (\$6.2 million in savings), use additional quality funds to offset General Fund costs for community care licensing (\$4.3 million).	\$10.5 million (\$6.2 million Proposition 98, \$4.3 million non-Proposition 98 General Fund).	Would reduce and/or end some current activities that support providers (such as professional development).

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Funding for Administration	Currently, state provides Alternative Payment (AP) agencies with an administrative allotment equal to 19 percent of original contract amount.	Could reduce amount state provides to AP agencies for administration.	\$70 million if reduce to 15 percent. \$160 million if reduce to 10 percent.	Would not affect families. Could reduce some support services that some AP agencies offer to providers.
Provider Reserves	Currently, child care providers who contract with CDE have no limit on the funds they can save.	Could require child care providers to use reserve funds before receiving additional state funds.	\$100 million if funds in excess of 3 percent reserve used to support program.	Would not affect families. Would lessen providers' cash cushion.