

Child Care— Reimbursement Rates

LEGISLATIVE ANALYST'S OFFICE

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Governor's Tiered Reimbursement Proposal: Centers and FCCHs

Governor's Tiered Reimbursement Proposal For Licensed Providers			
Star Rating	Maximum Rate	Additional Requirements	
		FCCHs^a	Centers
*	75 percent of the 85 th percentile RMR. ^b	None.	None.
**	85 percent of the 85 th percentile RMR. ^b	Environmental rating scale average of 4 or associate teacher permit.	Environmental rating scale average of 4 or all teachers have teacher permit.
***	85 th percentile RMR. ^b	Environmental rating scale average of 5.5, teacher permit, associates degree, or accreditation.	Environmental rating scale average of 5.5, all teachers have bachelor's degree, or accreditation.

^a Family child care homes.
^b Regional Market Rate (RMR) survey of providers in the area offering the same type of child care.
The RMR will vary by care type.

The Governor proposes to implement a tiered reimbursement rate structure for the voucher child care programs to encourage higher quality among child care providers.

Changes to family child care home (FCCH) and center providers' ceilings:

- A three-star system based on education and training, independent quality ratings, and accreditation.
- Would not take effect until 2007-08.



Governor's Tiered Reimbursement Proposal: License-Exempt

Governor's Tiered Reimbursement Proposal For License-Exempt Providers		
	Percent of FCCH^a Maximum	Additional Requirements
License-exempt	55 percent	None.
License-exempt plus	60 percent	License-exempt training, assistant teacher permit, or health and safety training.

^a Family child care homes.

- License-exempt care rates would be reduced from 90 percent of the 85th percentile of regional market rates (RMR) to 60 percent of the 85th percentile on July 1, 2005.
 - Providers would then have 180 days to obtain the required training before their rates are further cut to 55 percent of the 85th percentile.



Proposal Would Generate \$140 Million in Savings

Monthly Child Care Maximum Reimbursement Rates						
<i>License-Exempt Providers</i>						
Percent of FCCH ^a Maximum	Sacramento	San Francisco	Los Angeles	Contra Costa	Fresno	Shasta
90 percent ^b	\$526	\$780	\$585	\$624	\$488	\$468
60 percent ^c	351	520	390	416	325	312
55 percent ^d	321	476	357	381	298	286
Potential Reduction	-\$205	-\$303	-\$227	-\$242	-\$190	-\$182

^a Family child care homes.
^b Current license-exempt rate limits are based on 90 percent of the FCCH rate maximum (85th percentile) for full-time monthly care for a child age two through five.
^c Reflects the maximum reimbursement rates if exempts are limited to 60 percent of the 85th percentile of the FCCH rate maximum.
^d Reflects the maximum reimbursement rates if exempts are limited to 55 percent of the 85th percentile of the FCCH rate maximum.

- As structured, the proposal would generate \$140 million in savings through budget year cuts to license-exempt care providers' rates.

- A comparison of current rates to proposed rates in select counties suggests that rates could be cut between \$182 and \$303 per child per month.



Problems With the Current Voucher System

Proportion of Children Served in Each Care Type by Program					
Care Type	CalWORKs ^a Stage 1	CalWORKs Stage 2	CalWORKs Stage 3	Alternative Payment	Totals
License-exempt	60%	50%	47%	28%	48%
FCCHs ^b]—40 ^c	29	27	39]—52% ^c
Centers		21	26	33	
Totals	100%	100%	100%	100%	100%

^a California Work Opportunity and Responsibility to Kids.
^b Family child care homes.
^c The Stage 1 distribution between centers and FCCHs was not available from the Department of Social Services.



Research suggests that center-based programs offer a higher quality of care relative to FCCHs and license-exempt care.

- “Quality” refers to independent ratings that show desirable, observable qualities of the child care provision, education/ knowledge of staff, and children’s learning outcomes.



Yet, as shown in the figure above, the current distribution of slots in the voucher program is weighted toward the lowest quality care.

- While the percentages of children enrolled in license-exempt care are highest in Stage 1 (60 percent), the percentages in license exempt care remain close to 50 percent through Stages 2 and 3.



LAO Recommendation: Consider Proposal in Two Parts

- We recommend the Legislature consider the Governor's proposal in two parts:
 - First, determining if tiered reimbursement makes sense.
 - Next, determining appropriate rates for the tiers.

- We support the policy objective of the proposal because it:
 - Attempts to encourage what research suggests are the characteristics of higher quality care.
 - Better reflects the costs of providing care than the current rate structure.
 - Creates a rating system that is transparent to stakeholders.

- We suggest the Legislature consider an approach to rate changes that meets its fiscal objectives while considering policy concerns related to:
 - Promoting quality and child development.
 - Preserving families' ability to choose from a variety of child care options.



LAO Recommendation: Transition Title 5 Providers to the RMR System

Regional Reimbursement Rates for Voucher and Title 5 Providers				
<i>Dollars Per Month for Full Day Care</i>				
	Vouchers			Title 5 Providers
	License-Exempt Rate	Family Care Maximum Rate	Center Maximum Rate	
High-cost county	\$780	\$866	\$988	\$586
Low-cost county	384	427	355	586
Average statewide	505	561	556	586

In addition, we note that the Governor's proposal omits any plan to address the funding inequities between Title 5 providers contracted with the State Department of Education (SDE) and voucher providers.

- As shown in the figure above, Title 5 centers which have the highest standards of care can be reimbursed at lower rates than the ceilings for voucher providers.
- These rate differentials are particularly prevalent some of the most populous regions in the state, thus affecting a disproportionately large number of the children served.

We suggest the Legislature take action to transition the Title 5 provider reimbursements to the RMR reimbursement system.



Governor's Equitable Provider Rates Proposal

- The Governor proposed implementing the "Pick Five" regulations which provide a mechanism for determining market rates when providers serve no private pay customers.
 - The regulations will take effect as of July 1, 2005 if the Legislature takes no action.
 - The Governor estimates \$8.2 million in savings from this proposal.

- We recommend the Legislature support this proposal because the regulations will address two primary problems with the current system:
 - Now there are perverse incentives for providers to serve only subsidized children.
 - Providers without any private pay clients are generally paid more than their counterparts who have private pay customers.

- By implementing a method for estimating market rates for providers without private pay customers, the Pick Five regulations should address these problems.
 - We note that the new RMR methodology, if implemented, may provide an alternative means to address the problems identified.



New RMR Methodology

- The SDE has contracted with an independent research firm for a new RMR survey methodology.
 - The new methodology involves a sophisticated new method of grouping providers based on demographic variables.
 - Implementation of the new methodology is scheduled for 2005-06.

- Available information suggests this methodology may offer distinct advantages over the previous survey approach, however, further review is required.