A REPORT ON THE CHILD CARE REIMBURSEMENT SYSTEM

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PREFACE

The Child Care and Development Services Act (Chapter 798, Statutes of 1980) directed the Superintendent of Public Instruction to "implement a plan which establishes reasonable standards and assigned reimbursement rates" for state-subsidized child care programs. The act also established a "standard reimbursement rate" which, in 1980-81, was $15.36 a day (or $3,840 a year) for each child enrolled full-time in subsidized child care.

The reimbursement rate established by the act did not represent the rate at which all state subsidized child care programs were actually funded. Rather, the standard reimbursement rate was intended to serve as a target toward which actual reimbursement rates eventually would converge. In order to both reduce the disparity among child care program reimbursement rates and allow the maximum number of children to be served within the limited amount of state funding available, the act required the Superintendent to implement a plan for reducing costs incurred by those programs that were receiving more than the standard reimbursement rate.

The act also directed the Legislative Analyst to:

> "...develop and report to the Legislature...findings and recommendations on the need to provide reimbursement to agencies above the standard reimbursement rate to reflect the impact of collective bargaining, wage rates necessary to provide adequate income for all caregivers, and differences in regional costs."

This report was prepared in response to the requirements established by Ch 798. It is organized as follows:

- Chapter I presents an overview of the state-subsidized child care funding and the implementation of the standard reimbursement rate system.

- Chapter II analyzes child care program cost data to determine (1) whether child care programs which are subject to collective bargaining agreements have higher costs than other programs and (2) whether urban child care programs are more costly than rural programs.
- Chapter III examines the adequacy of incomes received by caregivers (teachers and aides) in state-subsidized child care programs, and addresses these related questions:
  - -- Do some types of programs pay caregivers higher salaries than other types of programs?
  - -- What are the implications of low caregiver salaries for the quality of child care services provided?
- Chapter IV presents our conclusions and recommendations regarding the state-subsidized child care funding system.

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EXECUTIVE SUMMARY

Existing subsidized child care programs in California provide services to 52,000 children from low-income families per day. These services are delivered through nearly 500 different public and private agencies.

The costs of child care services are reimbursed by the state pursuant to contracts between individual agencies and the State Department of Education (SDE). Each agency has an assigned reimbursement rate, which limits the amount of state funds which the state will provide for each day of services to an eligible child enrolled in the child care program. Parents may be required to fund a portion of the agency's costs if their income exceeds certain levels, although many families pay nothing for child care services.

Disparities Among Child Care Agency Reimbursement Rates

In 1980, the Legislature established a standard reimbursement rate, which was intended to serve as a target toward which the various contract rates would move. Nevertheless, many of the reimbursement rates specified in child care agency contracts continue to depart from the standard rate--often by significant amounts. In 1984-85, the standard reimbursement rate was $17.94 per child-day, while the reimbursement rates called for by contracts with agencies ranged from $8.36 to $24.59 per day. A total of 24 agencies had assigned reimbursement rates above the standard reimbursement rate, while 270 agencies were reimbursed at rates below the standard rate.

The Child Care and Development Services Act of 1980 directed the Superintendent of Public Instruction to develop and implement a plan for reducing disparities among reimbursement rates established for different child care programs. In enacting the measure, the Legislature intended that programs whose assigned reimbursement rates exceed the standard rate reduce per-child costs, either by serving additional children or reducing program expenditures.

Analysis of Child Care Program Costs

We analyzed cost data collected by the SDE from a sample of 87 center-based child care programs in 1981. This data provides the most comprehensive information available on child care program costs. Our ability to generalize from the data, however, is limited because the agencies in the SDE's sample were not representative of all child care programs statewide. The sample included only center-based child care agencies, and high cost programs were overrepresented within the sample. Nevertheless, we believe that the observed differences among centers participating in the study are suggestive of differences that may exist among child care programs throughout the state.

Our analysis of the SDE cost data indicates that:

- Child care programs in urban areas tend to have somewhat higher costs than similar programs in rural areas.
- Child care programs which are covered by collective bargaining agreements tend to have somewhat higher costs than similar programs without collective bargaining agreements.

- Most of the variation in costs among child care centers, however, is <u>not explained</u> by either (1) location or (2) collective bargaining.

The disparities among contract reimbursement rates largely reflect historical factors, rather than differences in the cost of delivering equivalent services to children. The most important of these factors are:

- The <u>type of agency</u> providing the services.
- <u>When</u> the agency began providing child care services.
- The <u>source of funding</u> for these services.

Generally, reimbursement rates are <u>higher</u> for:

- School district programs, which often employ credentialed teachers to provide relatively enriched educational programs.
- Programs established prior to 1976.
- Programs which received federal funds prior to 1981 and were designed to meet both federal standards and state child development requirements.

On the other hand, reimbursement rates tend to be lower for:

- Private child care agencies.
- Programs which have always been fully funded by the state.
- Alternative child care programs which were designed to provide low-cost services while meeting state licensing standards.

Our analysis does <u>not</u> identify the underlying cause of an individual center's higher costs. The higher costs may reflect better services, managerial inefficiencies, or factors over which management has no control.

Incomes of Caregivers Employed by Child Care Centers

Chapter 798 requires us to determine whether high reimbursement rates are necessary if caregivers are to receive an "adequate" income. We can find no objective way to determine if incomes are "adequate;" we can only provide the reader with information that may help him or her draw conclusions regarding the adequacy of caregivers' income.

We reviewed data on the salaries paid to teachers and aides by the 87 child care centers included in SDE's 1981 survey. As a benchmark, we compared child care salaries to the annual income needed to support a family of four at both an intermediate and a lower standard of living, as established by the Bureau of Labor Statistics (BLS) of the U.S. Department of Labor.

In the child care centers covered by the SDE study, we found that:

- Salaries for both teachers and aides were higher in centers which were (1) located in urban areas or (2) covered by collective bargaining agreements. Salaries were highest in urban centers which had collective bargaining contracts.
- Child care teachers in centers subject to collective bargaining received, on average, incomes which were adequate to maintain a family of four at a lower standard of living, but not at an intermediate standard of living.
- Child care teachers in centers not covered by collective bargaining agreements, and aides in all types of child care programs, received, on average, incomes which were not adequate to maintain a family of four at a lower standard of living.

The average salaries reported by those child care centers included in the SDE survey probably are higher than the average salaries paid by child care agencies statewide.

Because personnel costs--salaries and fringe benefits--represent, on average, 80 percent of total budget allocations, the salaries paid by individual centers to child care workers are influenced significantly by the total amount of funding received by the center. Accordingly, higher salaries are usually found in those programs which have higher reimbursement rates.

Our review also indicates that child care programs vary in the share of total program funds spent for caregiver salaries. In child care centers run by school districts, about 51 percent of total program expenditures went for costs directly associated with teaching and child care. In centers run by private agencies, teaching and child care costs averaged 37 percent of total program expenditures. We also found that some private child care centers have allocated an unusually large share of program funds to administrative costs, leaving a relatively small amount of funding for teaching and the direct care of children.

SDE staff indicate that the department does not have either (1) guidelines for allocating state child care funds among various expenditure categories or (2) procedures to link program quality and reimbursement levels.

Conclusions and Recommendations

Chapter 798/80 directed the Legislative Analyst to report his findings and conclusions regarding the need to provide child care agencies reimbursements that exceed the standard reimbursement rate in order to reflect the following three factors:

- the impact of collective bargaining,
- differences in regional costs, and
- wage rates necessary to provide adequate incomes for all caregivers.

With respect to the first two factors, our analysis of the 1981-82 cost data compiled by the SDE indicates that child care centers covered by collective bargaining agreements and centers located in urban areas tend to have somewhat higher costs, on average, than their non-unionized or rural counterparts; however, after controlling for other factors, differences in the estimated costs per child in unionized versus non-unionized and urban versus rural centers were not statistically significant at a 95 percent confidence level.

Moreover, a statistical analysis of the factors influencing the costs per child served at child care centers indicates that only 25 percent of the cost variation among centers can be explained by the following five factors: (1) presence or absence of collective bargaining, (2) urban/rural location, (3) percentage of school-aged children enrolled, (4) percentage of infants enrolled, and (5) size of program (total enrollment). Most of the cost variation appears to be due to historical factors, rather than to the influence of collective bargaining or urban/rural location.

Based upon this analysis, therefore, we conclude that there is not sufficient evidence to warrant any adjustment to child care reimbursement rates in order to reflect the influence of collective bargaining or urban/rural location on child care costs. Accordingly, we recommend that the Legislature not provide adjustments to existing child care reimbursement rates on the basis of either (1) the impact of collective bargaining or (2) differences in regional costs.

With respect to the third factor which we were directed to examine--the wage rates necessary to provide adequate incomes for all caregivers--we find that the determination of what constitutes an "adequate" income is, ultimately, a subjective judgment. In determining whether a given salary is adequate, it is important to consider (1) the size of the recipient's household, (2) the number of wage earners in the household, and (3) the household's needs. Because data on these factors is not available for child care workers, we attempted to shed some light on the adequacy of income by comparing child care workers' salaries to the annual incomes needed to support a family of four at a lower or intermediate standard of living, as established by the BLS of the U.S. Department of Labor.

Our analysis indicates that, in 1981-82, teachers and aides employed by child care centers covered by the SDE study did not receive incomes which, on average, were adequate to maintain a family of four at an intermediate standard of living. Because the BLS income standards are, themselves, based on subjective judgments about living standards, we are unable to draw any firm conclusions regarding the adequacy of salaries paid child care workers. Accordingly, we make no recommendation on this issue.

CHAPTER I

AN OVERVIEW OF THE STATE-SUBSIDIZED CHILD CARE FUNDING SYSTEM

For fiscal year 1984-85, the Legislature provided approximately $246 million from the General Fund to fund subsidized child care and development services for low-income families in California. These services are provided through a variety of programs, which have been established at different times over the past 40 years to address specific types of child care needs.

In addition to state funding for child care programs, the 1984-85 budget contained $34 million from the General Fund for state preschool programs, and $2 million in federal funds for migrant child care programs.

This chapter presents an overview of the state-subsidized child care funding system and the implementation of the standard reimbursement rate system.

State-Subsidized Child Care Programs

There are six major types of child care programs supported with state funds. They include:

- general child care programs,
- alternative payment (voucher) programs,
- campus child care programs,
- migrant child care programs,
- school age parenting and infant development programs, and

- resource and referral programs.

(Resource and referral programs provide information to families and child care providers, but do not directly provide care for children.)

Table 1 indicates (1) the number of agencies providing subsidized child care services in each of these program categories, (2) the average number of children served each day, and (3) the amount of state funds allocated to each program in 1984-85.

Table 1

State Subsidized Child Care Services[a]
1984-85

Programs	Number of Agencies	Average Daily Enrollment	Average Annual Days of Service[b]	Estimated General Fund Expenditure (in thousands)
A. General Child Care				
Center Program--Public	108	28,237	246	$130,728
Center Program--Private	190	10,727	250	45,027
Center Program--Title 22[c]	55	2,243	246	9,157
Family Child Care Homes	22	1,049	253	4,297
B. Alternative Payment	40	4,810	252	18,287
C. Campus Child Care	50	2,021	187	5,758
D. State Migrant	22	2,463	148	6,235
E. Federal Migrant	7	354	192	(1,957)[d]
Totals	494	51,904		$219,489

a. This table does not include services provided by state preschool programs, protective services respite child care, special programs for handicapped children, school-age parenting and infant development programs, or resource and referral programs.
b. Averages weighted by number of children served in each program.
c. Title 22 (Alternative Child Care) programs were established in 1979 by AB 3059. These programs are not required to meet state Title 5 (Education) regulations which apply to all other state-funded child development programs. They must, however, meet state licensing standards provided by Title 22.
d. Federal funds.

Scope of the Programs. Table 1 shows that during fiscal year 1984-85, nearly 500 different public and private agencies provided state-subsidized child care services for an average daily enrollment of about 52,000 children from low-income families. About 80 percent of the children receiving state-subsidized child care services were enrolled in child care centers, which are operated by nearly 350 different agencies throughout California. Of those children receiving center-based subsidized child care, about two-thirds were enrolled in child care centers operated by public agencies--primarily school districts. The other one-third were enrolled in centers operated by private agencies--primarily nonprofit organizations.

Funding. Child care services are funded on a reimbursement basis. That is, a child care agency receives funding only for actual and allowable costs incurred. Each child care agency's contract with the SDE specifies a maximum reimbursable amount (MRA), which is the maximum amount of reimbursement that the agency may receive for the year. The contract also specifies a minimum number of child-days of enrollment (CDE), which is the amount of services that the agency must provide during the year in order to receive its full MRA. Any expenditures above the MRA specified in the agency's contract must be supported with funds obtained from sources other than the state.

Each agency receives an assigned reimbursement rate, which is equal to the MRA divided by the CDE. The assigned reimbursement rate represents the maximum amount of state funds that will be provided for each day of service to a child enrolled in the program. Frequently, a child care agency serves more children than the minimum required to earn its full MRA. In these cases, the agency may have chosen to provide additional child care services without increasing expenditures, or it may be using revenues from parent fees or other sources to pay for the extra services.

Thus, the amount of reimbursement which each agency receives is limited in four different ways. First, reimbursements may not exceed the actual and allowable costs incurred by the agency in providing child care services. Second, reimbursements may not exceed the agency's assigned reimbursement rate for each day of service provided to a child who is eligible for subsidized care. Third, the total amount of reimbursements is limited by the agency's maximum reimbursable amount. Finally, the amount is constrained by the requirement that reimbursements paid by the state to agencies serving both subsidized and nonsubsidized families may not exceed the fees paid by the nonsubsidized families which the agency serves.

The Child Care and Development Services Act (Ch 798/80) established a standard reimbursement rate for child care services. The law, however, does not require that the standard rate be used to reimburse child care agencies, and in fact, the assigned reimbursement rates specified in child care agency contracts vary widely.

In 1984-85, the standard reimbursement rate was \$17.94 for each child-day of enrollment, while child care agencies had assigned reimbursement rates which ranged from \$8.36 to \$24.59 per day. Table 2 indicates the number of agencies with reimbursement rates above or below the standard during 1984-85. It shows that 24 agencies had assigned rates above the standard reimbursement rate. Nearly, all of these were <u>public</u> agencies (primarily school districts).

Table 2

Reimbursement Levels for Subsidized Child Care Agencies
1983-84

	Number of Child Care Agencies							
Reimbursement Level	Center-Public	Center-Private	Center-Title 22[a]	Family Child Care	Alternative Payment	Campus	Migrant	Totals
Above standard rate	22	1	0	0	1	0	0	24
At standard rate	57	91	15	6	2	19	10	200
80 to 99 percent of standard rate	26	90	26	16	24	26	17	225
Below 80 percent of standard rate	3	8	14	0	13	5	2	45
Total number of agencies	108	190	55	22	40	50	29	494
Average reimbursement rate as a percentage of standard rate[b]	107.0%	93.3%	85.0%	92.5%	83.4%	92.6%	95.2%	99.4%

a. Alternative child care programs, primarily operated by private, nonprofit organizations.
b. Average of 1983-84 reimbursement rates weighted by the number of child days of enrollment for each agency.

FIGURE 1

REIMBURSEMENT RATE DISTRIBUTION
CHILD DAYS OF ENROLLMENT BY TYPE

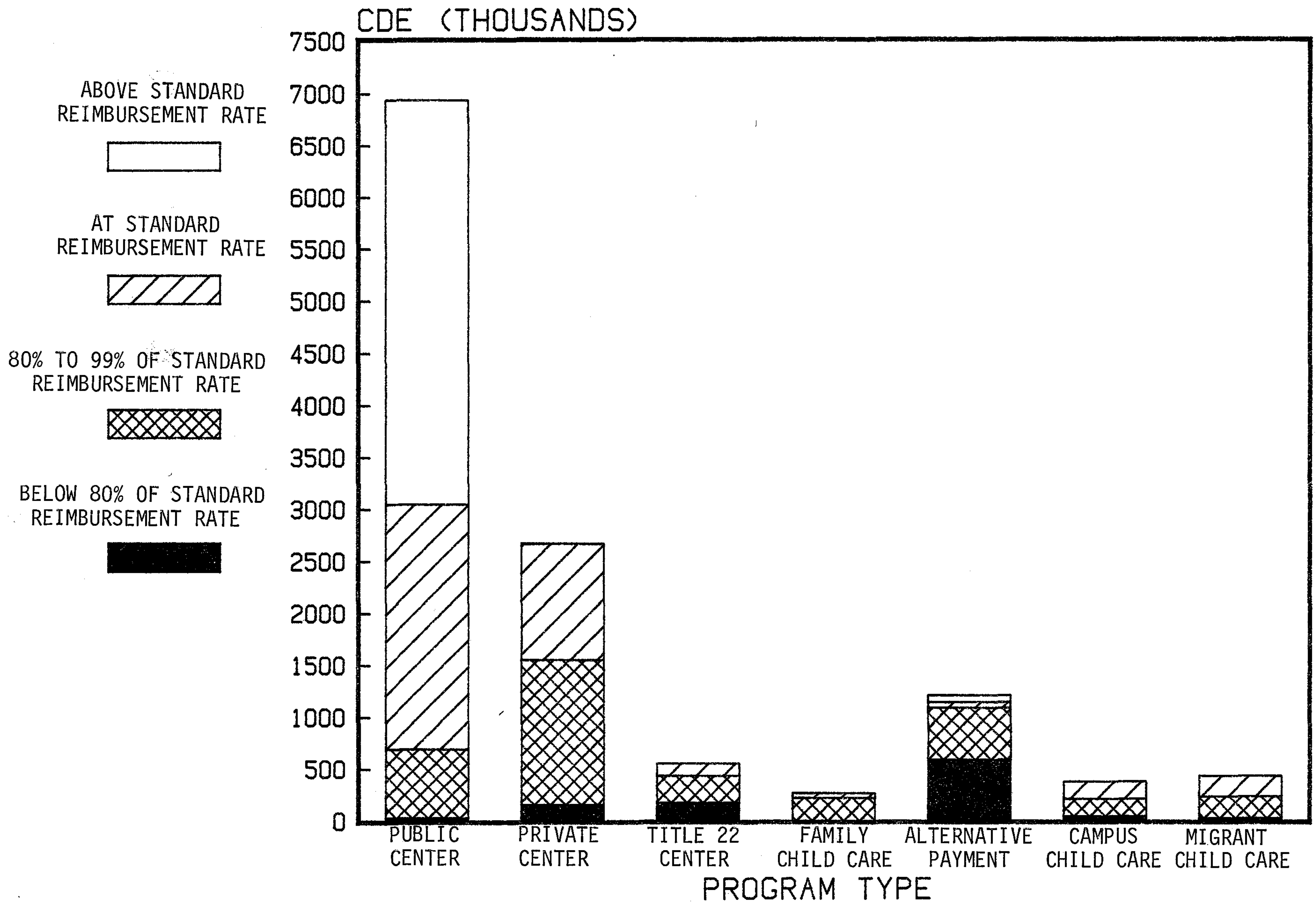


Table 2 also shows that 95 percent of all child care programs are funded at or below the standard reimbursement rate. Those programs receiving the lowest reimbursement rates tend to be operated by private agencies. This, however, is somewhat misleading. Because public agencies with higher reimbursement rates tend to have much larger enrollments than other child care agencies, nearly one-third of all child care services (as measured in child-days of enrollment) are reimbursed above the standard rate. This is illustrated in Figure 1. Another consequence of the fact that public child care agencies have both larger enrollments and higher reimbursement rates is that these agencies, which comprise 22 percent of the total, receive 60 percent of state child care funds.

In order to understand why there are such large disparities in funding rates for different programs, and why some programs continue to receive reimbursements that exceed the standard rate, it is useful to review briefly how the current system for subsidizing child care programs arose.

Evolution of the Current Reimbursement System

Prior to 1976, most subsidized child care in California was provided in child care centers operated by school districts. A number of private, nonprofit organizations, however, also operated child care programs. For the most part, child care programs were supported through a combination of state and federal funds, which in the case of school district child care programs, were often supplemented with revenue from locally enacted "permissive override" property taxes. Some nonprofit child care organizations also received funds from local county governments.

In June 1976, the Legislature enacted Assembly Bill 3059 (Chapter 355, Statutes of 1976) which authorized the funding of Alternative Child Care programs. These programs were intended to meet three objectives:

- provide child care services at a lower cost than what was being incurred by existing subsidized child care centers,
- maximize parental choice in selecting from a variety of types of child care programs, and
- encourage community-level coordination in support of child care programs.

Because Alternative Child Care programs received no federal funding, they were exempted from the stringent--and, in the Legislature's view, unnecessary--federal standards regarding child care staff qualifications and adult-child ratios. These programs were also exempted from similar state requirements which applied to all other subsidized child care and development programs. Instead, Alternative Child Care programs were required to meet only the minimum state licensing standards which apply to all child care programs in California.

Assembly Bill 3059 provided funding to support the establishment of day care centers operated by community organizations and other public or private agencies, as well as for family day care and alternative payment (voucher) programs. Family day care programs offer care for small groups of children in the provider's own home. Alternative payment programs give parents a subsidy or voucher which may be used to purchase child care services in a licensed program of the parent's choice.

While 87 percent of the pre-AB 3059 centers were public school-based programs, 80 percent of child care centers established with AB 3059 funding were administered by private, nonprofit organizations. The AB 3059-supported programs were funded in 1976 at a maximum hourly rate of $1.21 per child over the age of two, while the maximum rate for all other child care programs was $1.28 per hour.

In 1978-79, reimbursement rates for each child care program were recalculated in order to put them on a daily, rather than an hourly basis. Because the daily reimbursement rates were based on the old hourly rates, the state continued to fund AB 3059 centers at a lower rate-per-child than pre-AB 3059 centers.

When the voters approved Proposition 13 on the June 1978 ballot, they reduced local property tax revenues to school districts by more than 50 percent. This measure also eliminated the districts' ability to collect funds for child care programs through local permissive override taxes. Subsequently, the Legislature acted to replace between 85 percent and 92 percent of the child care override tax revenues lost by local school districts in order to minimize the adverse impact of the proposition on subsidized child care programs.

State funding for these programs was increased further in 1981-82, in order to replace all federal support for most subsidized child care. As a result, all state-subsidized child care programs, other than those serving migrants, are now exempt from the more stringent requirements that previously went along with federal funding.

In sum, many of the disparities in the funding levels that prevail for different subsidized child care programs reflect differences in either the design of, or source of funding for, these programs. Generally, different funding levels exist for:

- Child care programs which received federal funds prior to 1981, and hence were designed to meet both federal standards and state child development requirements.
- School district programs, which received local property tax revenues prior to 1978 and often employed credentialed teachers to provide relatively enriched educational programs.
- Alternative Child Care programs, which have always been fully state-funded and were designed to provide low-cost services while meeting state licensing standards.

Legislative Efforts to Reduce Funding Disparities

In 1980, the Child Care and Development Services Act (Ch 798/80) directed the Superintendent of Public Instruction to develop and implement a plan for reducing disparities among the child care reimbursement rates that prevail for different child care programs. The act also established a standard reimbursement rate of $14.09 per CDE, which is increased annually by the cost-of-living adjustment (COLA) provided by the Legislature in the Budget Act.

Chapter 798 further specified how per-child costs in those programs whose assigned reimbursement rates exceeded the standard rate were to be reduced. These programs were directed to (1) increase the number of children enrolled without using additional state funds and/or (2) reduce staffing and program costs in order to lower their per-child reimbursement rate.

In contrast, agencies receiving less than the standard rate could apply for a rate increase, based on specified considerations.

Since 1980, the state has used three different mechanisms in order to bring reimbursement rates toward the standard rate. In 1980-81 and 1981-82, differential COLAs were provided, as called for by the Child Care and Development Services Act. Two years later, in 1983-84, SDE implemented a contract review process which adjusts reimbursement rates on a case-by-case basis. Finally, in 1984, the Legislature augmented funding for "underfunded" programs.

Differential COLAs. The 1980 Budget Act provided funds for a 9 percent cost-of-living adjustment (COLA) for child care programs. Chapter 798 directed SDE to use these funds to achieve partial equalization of reimbursement rates. Accordingly, agencies with reimbursement rates exceeding the standard received funding increases of less than 9 percent, or were allowed to serve additional children at the standard reimbursement rate in order to earn the balance of their COLA amount. Agencies with reimbursement at or below the standard rate received the full 9 percent COLA, and could apply for additional reimbursement rate increases up to the standard rate.

Differential COLAs also were provided to child care contracts for 1981-82. Since then, however, the differential COLA mechanism for achieving equalization has not been used. In 1982-83, no money was provided to fund a COLA for child care programs. In the 1983 Budget Act, the Legislature included language specifying that COLA funds were to be distributed on a pro rata basis to all child care programs. As a result, all programs received the same 6 percent COLA in 1983-84. The Legislature included the same language in the 1984 and 1985 Budget Acts.

Contract Review Process. For fiscal year 1983-84, the Office of Child Development (OCD) in SDE implemented a contract review process designed to address the problem of rate disparities, as well as a number of other fiscal concerns. (One of these other concerns addressed the fact that some child care agencies consistently were unable to earn the full MRA specified in their contracts as a result of either low service levels or low expenditures.)

As a result of this review process, the SDE determined that some programs with high reimbursement rates consistently served more children than the number required by their contracts with the department. Contracts for these programs were adjusted to specify a higher minimum service level, with no change in the level of program funding, thereby reducing these programs' per-child reimbursement rates. Similarly, the contracts covering 98 agencies with very low reimbursement rates were adjusted to decrease the minimum enrollment level, thereby increasing per-child reimbursement rates. The net result of these contract adjustments was a reduction of 2,000, or 4 percent, in the average daily enrollment (ADE) for child care programs statewide in 1983-84, with no reduction in the level of state funding.

The SDE conducted a similar review process prior to letting contracts with child care agencies covering 1984-85. As a result, reimbursement rates for several school districts were reduced.

Funding Augmentations. In 1984, the Legislature enacted Senate Bill 1674 (Ch 1604/84) which provided $3 million to increase the reimbursement rates for "underfunded" child care and development programs, including state preschool programs. Of this amount, about $2.2 million was allocated to increase the reimbursement rates for those child care programs at less than the standard rate--with the largest increases going to those agencies with the lowest rates. (The Budget Act of 1985 continues this higher level of funding for these programs during 1985-86.) At the time SB 1674 was being considered, the SDE indicated that it would require $10 million in 1984-85 in order to increase the reimbursement rates for all child care agencies whose rates were below the standard, without reducing the number of children currently served.

Conclusion

Since 1980, the disparities in funding levels for different subsidized child care programs have been reduced somewhat. The reduction was achieved through a combination of differential COLAs for high- and low-cost child care agencies, a case-by-case review of child care contracts, and funding augmentations provided by the Legislature.

For example, during 1984-85 only 24 child care agencies will receive reimbursements above the standard rate, compared with 38 in 1980-81. Of these programs, 22 are operated by school districts. For the most part, these are districts which, prior to Proposition 13, used local property tax revenues to establish relatively enriched child development programs, with higher staff qualifications, salaries, benefits, and adult-child ratios than other child care programs.

Nonetheless, more than 250 child care agencies currently are funded at rates that are below the standard reimbursement rate. Most of these, including those established by AB 3059 in order to provide lower-cost child care services, are operated by private agencies. A number of these programs, however, are operated by school districts. Agencies which receive less than the standard reimbursement rate may have fewer staff, pay lower salaries, or spend less on facilities and supplies than other child care programs.

In many cases, costs are held to levels that are below the standard for another reason. Because nonsubsidized families must pay fees equal to the state reimbursements provided for care to subsidized children, agencies which provide child care services to both subsidized and nonsubsidized families cannot afford to let their costs get too high. Otherwise, they risk pricing themselves out of the market.

CHAPTER II

ANALYSIS OF CHILD CARE PROGRAM COSTS

Several factors can affect the cost of services provided by child care agencies. Such factors include:

- the type of service provided;
- the quality of the service provided;
- the prices incurred by agencies in providing child care services (for example, wage and rent levels in the community); and
- the efficiency of management.

In practice, it is very difficult to determine whether those child care programs which are reimbursed at higher rates are more costly because they are less efficient, more costly because of the prices they must pay (and over which they have no control), or more costly because they provide better services to children and families. This task is made all the more difficult by the problems encountered just in attempting to measure costs, particularly when resources are shared with other programs such as a school district's K-12 program.

In California, the system used to subsidize child care exerts an independent influence on expenditures. As noted earlier, state funding for subsidized child care is provided on a <u>reimbursement</u> basis, with the total amount of state funds granted to each child care program being determined by a contract with the SDE. At the same time, however, current law provides that state reimbursement for child care services shall not exceed the fees each program charges to nonsubsidized families for equivalent services. In addition, state reimbursements may not exceed a program's actual and allowable expenditures for child care programs.

As a result, state-subsidized child care services tend to "cost" whatever the state has contracted to pay for those services, or whatever nonsubsidized families are willing to pay. Thus, although high cost programs generally (1) pay higher salaries, (2) have fewer children for each staff person, (3) spend more money on toys and instructional materials, and (4) provide more supplemental services to families, the reasons <u>why</u> they do are likely to be many and complex.

The remainder of this chapter consists of an analysis of cost data to determine (1) whether child care programs covered by collective bargaining agreements have higher costs than other programs, and (2) whether urban child care programs are more costly than rural programs.

Study Methodology

In order to comply with the requirements of Ch 798/80 that we estimate (1) the impact of collective bargaining and urban location on program costs and (2) the adequacy of salaries paid to caregivers in child care programs, we analyzed cost data (the only data available) collected by the SDE. This data came from a questionnaire sent to 87 center-based child care programs whose financial operations were reviewed by the department, asking them to report their estimated costs, revenues, and enrollments for 1981-82. The sample included all 37 programs which were funded above the standard reimbursement rate in 1981-82 and 50 programs funded at or below the standard rate. The SDE study covered only center-based child care programs; it did not include data from family day care, alternative payment, or other types of programs. Center-based programs, however, provide services to about 80 percent of all children enrolled in state-subsidized child care.

In reviewing the data collected by SDE, we used two different statistical techniques to analyze the relationships between various factors and the cost of providing subsidized child care services. First, we compared the average costs of (1) urban and rural programs, and (2) programs with and without collective bargaining agreements. Second, because several factors may simultaneously affect the cost of child care services, we analyzed the SDE data using multiple linear regression analysis. This procedure attempts to measure the effects of each factor individually, holding all other factors constant. For example, it can be used to determine what the difference between costs of urban and rural programs would be if all other important factors--including program size, types of children served, and collective bargaining agreements--were the same for both groups.

Our analysis indicated that the following factors influence the cost of providing child care services:

- Program Size. Larger programs tend to have lower costs per child enrolled.
- Infants as a Percent of Total Enrollment. Because of the higher staff-to-child ratios required, programs with more infants tend to have higher costs.

- School-Aged Children as a Percent of Total Enrollment. Because these children are only at the child care center during nonschool hours, programs serving larger proportions of these children tend to have lower costs.

Finally, we examined differences between child care programs operated by school districts and programs operated by private agencies.

Data Limitations. It is important to emphasize that the child care centers covered by the SDE study are not representative of child care programs statewide, for two reasons. First, the sample included only center-based child care programs. (As noted earlier, 80 percent of the children receiving state-subsidized child care services are enrolled in child care centers.) Second, the study--by design--covered all 37 of the child care agencies that were funded above the standard reimbursement rate in 1981-82, while covering only about 12 percent of the agencies that were funded at or below the standard rate (50 out of approximately 400 agencies). As a result, high-cost programs are overrepresented in the sample, causing the study's findings of expenditure levels to be higher than the true average for all child care centers statewide.

It was not possible for us to determine from the data provided by SDE whether other types of centers (for example, urban centers or agencies with collective bargaining agreements) were over- or underrepresented.

Because the centers in the SDE sample are not necessarily representative of child care programs statewide, it is not possible to generalize from the study findings and reach conclusions that apply to all child care programs in the state. Nevertheless, we believe that observed differences among the centers participating in the study are suggestive of differences that may exist among child care programs throughout the state.

The SDE data are subject to the following, additional limitations:

- The data were derived from reports of estimated costs for the 1981-82 fiscal year, submitted by participating centers, and are not based on actual, audited expenditure data.
- Observed differences in per-child costs may have been reduced since 1981-82. This is because many "high cost" centers have increased their enrollments, while some "low-cost" centers have received increases in their reimbursement rates.
- Data on personnel costs were based on job titles, rather than on job descriptions. As a result, "teacher salaries" would include the salary paid to a "head teacher" who performs largely administrative duties, but not the salary paid a director who actually spends much of the day as a classroom teacher.

Findings

Our analysis of the data collected from the 87 child care centers indicates that:

- Child care programs in urban areas tend to have somewhat higher costs than similar programs in rural areas.
- Child care programs with collective bargaining agreements tend to have somewhat higher costs than similar programs without collective bargaining agreements.

- Less than one-fourth of the variation in costs among child care centers is explained by (1) the centers' location (urban or rural) and (2) the presence or absence of collective bargaining agreements. Most of the variation is due to other factors.
- Child care programs operated by school districts tend to have higher costs than programs operated by private agencies.

Our analysis does not identify the underlying cause of a center's higher costs. To reiterate a point made at the outset of this chapter, the higher costs may reflect better services, managerial inefficiencies, or factors over which management has no control.

Higher Costs Associated With Urban Programs. The total daily costs reported by urban day care centers in the sample averaged $16.89 per child, while the daily costs in rural programs averaged $16.25 per child--a difference of 64 cents, or about 4 percent. Interestingly, the per-child costs within each group of centers (urban or rural) varied widely, and some urban programs were actually less costly than some rural programs.

The 4 percent difference in per-child costs between the two groups of centers was not statistically significant. That is, it could have been due to chance, rather than differences brought about by differences in location.

Table 3 shows the distribution of the 87 centers covered by the SDE sample, according to the daily cost of their child care programs. As can easily be seen, the link between cost and urban location is negligible.

Table 3

Range of Daily Cost Per Child in 87 Urban and Rural Child Care Programs 1981-82

	Urban	Rural
Less than $14.00	21.0% (12)	29.6% (8)
$14.01 to $16.00	26.7 (16)	25.9 (7)
$16.01 to $18.00	25.0 (15)	7.4 (2)
Over $18.00	28.3 (17)	37.0 (10)
Totals	100.0% (60)	100.0% (27)
Average Cost	$16.89	$16.25

When we adjusted for other factors that can influence program costs, using multiple regression techniques, we found that the cost differences between urban and rural programs were greater. Specifically, we found the daily cost of caring for a child in an urban center to be approximately $1.30, or 8 percent, higher than it was in rural centers--when all other factors are equal. Because of the great variation in costs among centers, however, we still cannot rule out the possibility that this apparent cost difference is due merely to chance. (In statistical terms, the estimated coefficient on the urban location variable is not significantly different from zero at a 90 percent confidence level. For the complete regression equation, please see the Appendix.)

The cost difference shown by Table 3 is narrower than the amount indicated by the regression analysis because urban child care centers tend to have (1) larger enrollments, (2) fewer infants, and (3) more school-age children--all of which are associated with lower program costs.

Higher Costs Associated With Collective Bargaining. The costs per child for centers with collective bargaining agreements averaged $16.82 per day, while costs in centers without collective bargaining agreements averaged $16.40--a difference of 2 percent. Table 4 shows the distribution of child care programs with and without collective bargaining agreements, according to the daily costs of each. The distribution is indicative of a modest link between daily costs and collective bargaining. Here again, however, the relationship is not statistically significant.

Table 4

Daily Cost Per Child in Child Care Programs
With and Without Collective Bargaining
1981-82

	Collective Bargaining	No Collective Bargaining
Less than $14.00	18.4% (11)	29.6% (9)
$14.01 to $16.00	28.3 (17)	22.2 (6)
$16.01 to $18.00	21.7 (13)	14.8 (4)
Over $18.00	31.7 (19)	29.6 (8)
Totals	100.0% (60)	100.0% (27)
Average Cost	$16.82	$16.40

When all other factors are controlled for, however, a different picture emerges. Holding everything else equal, the daily cost in centers _with_ collective bargaining is found to be $1.82, or about 11 percent, higher than the cost in centers _without_ collective bargaining. (The estimated coefficient on the collective bargaining variable is statistically significant at a 90 percent confidence level, but is not significant at a 95 percent confidence level.)

The higher cost incurred by centers with collective bargaining is not so evident in Table 4 because these centers also tend to have (1) larger enrollments, (2) fewer infants, and (3) more school-age children in those centers, which tend to hold down costs. (The similarity between this and the previous finding is not surprising, since 47 out of the 61 centers in the study sample with collective bargaining were also located in urban areas.)

Higher Costs Associated With School District Programs. Finally, we found that, on average, the daily cost per child of child care centers operated by school districts was $16.55, while the average cost per child for programs operated by private agencies was $15.68--a difference of 87 cents, or about 5 percent. This differential should not be surprising, given that (1) school district programs are more likely than private child care centers to have collective bargaining agreements and (2) school district programs have a history of higher levels of funding, as discussed in Chapter I.

The distribution of school and nonschool programs according to their costs per child is shown in Table 5. (It would have been desirable to estimate the effects of various factors, such as urban location and collective bargaining, separately for each type of child care agency. Because of the limited number of agencies included in the SDE sample, however, we were unable to do so.)

Table 5

Daily Cost Per Child in
Child Care Programs Operated by School Districts
And Private Agencies
1981-82

	School District	Private
Less than $14.00	19.2% (9)	42.9% (9)
$14.01 to $16.00	32.9 (15)	23.8 (5)
$16.01 to $18.00	25.2 (12)	4.8 (1)
Over $18.00	23.4 (11)	29.6 (6)
Totals	100.0% (47)	100.0% (21)
Average Cost	$16.55	$15.68

Conclusion. We found that expenditures per child varied widely among the 87 child care centers in the SDE sample. Nearly one-fourth of the centers reported costs of less than $12 a day per child, while nearly one in three centers spent more than $18 a day. After adjusting for several factors which influence program costs, we found relatively small differences between the average costs incurred by (1) urban and rural programs, (2) programs with and without collective bargaining, and (3) programs administered by school districts and private agencies.

In sum, only about one-fourth of the total variation in costs among child care centers can be explained by the following factors: (1) location (urban/rural), (2) presence or absence of collective bargaining, (3) program size, (4) proportion of infants, and (5) proportion of school-aged children. Other factors, such as the proportion of enrollment with special needs (handicapped, protective services, or limited English speaking), did not help explain the remaining differences among programs.

The remaining three-fourths of the variation in cost is associated with factors which we were unable to identify statistically. Therefore, we conclude that differences among child care centers in terms of program expenditures are more likely to reflect historical factors related to the evolution of the funding system for subsidized child care in California. These factors are more significant than either urban/rural location or the presence/absence of collective bargaining.

CHAPTER III

INCOMES OF CAREGIVERS IN CHILD CARE CENTERS

In mandating this report, Ch 798 requires us to analyze whether high reimbursement rates are needed to support wage rates capable of providing caregivers with an "adequate" income. This chapter examines the adequacy of incomes received by caregivers in state-subsidized child care programs, and addresses the relationship between salary levels, program type, and program quality.

Because there is no objective way to determine if incomes are "adequate," we cannot give a definitive answer to the question posed by Ch 798. Instead, we can only provide the reader with a basis for reaching his or her own conclusions regarding this question.

Adequacy of Incomes

To provide a basis for the Legislature to use in judging whether caregivers in subsidized child care programs receive "adequate" incomes, we reviewed the data on employee salaries reported by the 87 child care centers in the 1981 SDE sample. Our analysis focused on salaries paid in 1981-82 to those employees who directly care for children--teachers and aides.

In judging whether a given salary is "adequate," it is important to consider (1) the size of the recipient's household, (2) the number of wage earners in that household, and (3) household needs. Unfortunately, data on these factors is not available for child care workers. Nevertheless, by comparing child care workers' salaries to the annual income needed to support a family of four at a lower or intermediate standard of living, as established by the Bureau of Labor Statistics (BLS) of the U.S. Department of Labor, we can shed some light on the question of adequacy. In 1981, the BLS determined that an urban family of four needed an annual income of $15,323 to maintain a lower standard of living, and an income of $25,407 to maintain an intermediate standard of living.

In drawing conclusions from this comparison, however, the reader should keep in mind that the BLS incomes are, themselves, based on subjective judgments about living standards. Many would find the BLS income levels too low or too high, given what they are intended to represent.

We found that, among those child care centers covered by the SDE study:

- Teachers in centers where there was a collective bargaining agreement received, on average, incomes which were adequate to maintain a family of four at a <u>lower</u> standard of living, but not adequate to maintain such a family at an <u>intermediate</u> standard of living.
- Teachers in centers not covered by collective bargaining agreements--and aides in all types of child care programs--received, on average, incomes which were <u>not</u> adequate to maintain a family of four at a <u>lower</u> standard of living.

- About 51 percent of total program expenditures by school district-operated centers were for costs directly associated with teaching and child care, while centers administered by private agencies devoted about 37 percent of their budget to these costs. (As reported by SDE, this expenditure category included salaries and fringe benefits for teachers and aides, and some operating costs directly associated with the care of children. Not included were expenditures for administration, nutrition, health and social services, and building occupancy.)

In evaluating these findings, however, it is important to remember that the child care employees covered by the SDE sample are not representative of child care employees statewide. Specifically, the average salaries reported by child care centers in the SDE sample probably are <u>higher</u> than the average salaries for all child care employees in the state, for two reasons. First, as explained in Chapter II, child care centers with higher reimbursement rates are overrepresented in the study sample. Second, staff in child care centers generally receive higher salaries than caregivers in family day care programs.

Among <u>teachers</u> employed by child care centers included in the SDE sample, annual salaries and benefits in 1981-82 ranged from $7,291 to $31,255. Among the <u>aides</u>, annual salaries and benefits ranged from $5,743 to $18,854. In both cases, salaries were higher in centers (1) located in urban areas or (2) covered by collective bargaining agreements. Salaries were highest in those urban centers with collective bargaining contracts.

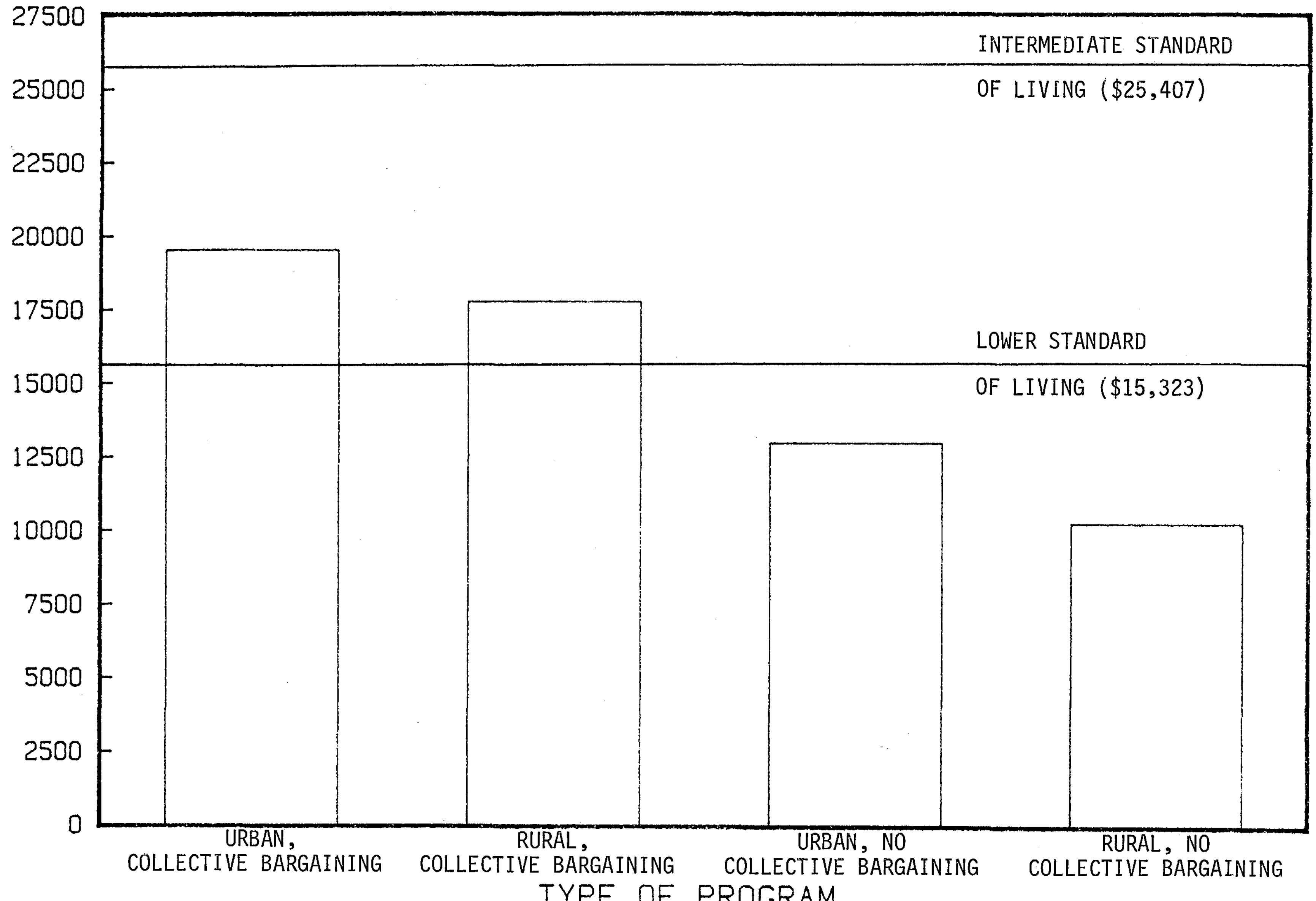
Child care teachers in centers covered by collective bargaining agreements were the only caregivers who, on average, received salaries adequate to support a family of four at a lower standard of living. Data are not sufficient to determine whether the higher salaries result from the impact of collective bargaining or from other factors such as historical levels of funding.

Obviously, the total amount of funding received by a center exerts a major influence on the salaries paid to child care workers. Because personnel costs (salaries and fringe benefits for all employees, including administrators) represent, on average, 80 percent of total expenditures by child care centers included in the SDE study, higher salaries go hand-in-hand with higher reimbursement rates. A 1979 study by Abt Associates of child care programs established by AB 3059 (Alternative Child Care programs) found that at least 38 percent of the lower costs in those programs was the result of lower salaries paid to employees.

FIGURE 2

CHILD CARE TEACHER SALARIES*

(1981-1982 DOLLARS)

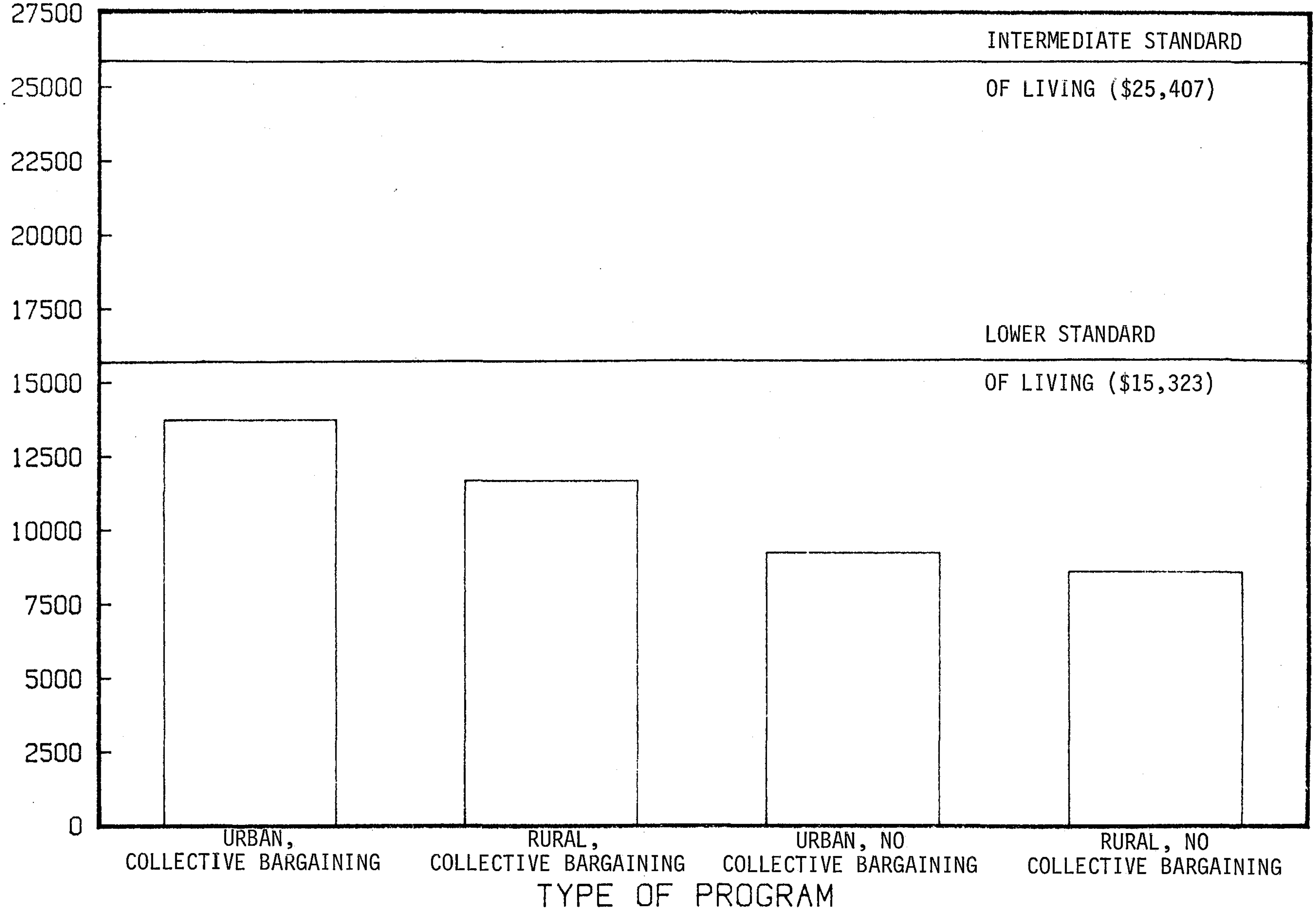


* INCLUDES FRINGE BENEFITS

FIGURE 3

CHILD CARE AIDE SALARIES*

(1981-1982 DOLLARS)



* INCLUDES FRINGE BENEFITS

Child care programs also allocate varying proportions of their available funds to caregiver salaries. Programs allocating a high proportion of funding for administration, facilities, or equipment and supplies obviously will spend a smaller portion of their budgets on salaries for child care teachers and aides.

We found that school districts, regardless of whether they were funded at rates above or below the standard reimbursement rate, tend to allocate a larger share of program funds for caregiver salaries than do private child care programs. As shown in Table 6, there is a very strong relationship between the type of agency administering a child care program (private or school district) and the percentage of the program's total budget which is allocated to teaching and child care. Costs directly associated with teaching and child care (primarily personnel costs for teachers and aides) averaged 51 percent of total expenditures for school district-operated child care programs and 37 percent for private programs. In 71 percent of private child care programs, less than 40 percent of program funds was used for teaching and child care expenditures. This was true for only 8 percent of school district programs.

Table 6

Percent of Total Budget Allocated to Teaching and Child Care:
Private Programs Versus School District Programs
1981-82

	Private	School District
Less than 30 percent	19% (4)	2% (1)
30 percent to 40 percent	52 (11)	6 (3)
40 percent to 50 percent	19 (4)	40 (19)
Over 50 percent	10 (2)	52 (24)
Totals	100.0% (21)	100.0% (47)
Average	37%	51%

There are several possible explanations for the fact that school districts devote a larger percentage of their child care budget to costs directly associated with teaching and child care. First, it may be that some nonteaching costs, such as the cost of health and social services, administrative support, facilities, or janitorial services, are paid for out of the school district's K-12 budget, rather than with child care funds. Were this the case, a larger share of available child care funds can be used for salaries and fringe benefits. Second, collective bargaining may be effective in pushing up salaries and benefits. Unfortunately, we cannot confirm this because all school district programs included in the study had collective bargaining agreements with employees, while only one of the 21 private centers had such an agreement.

Our review also indicates that some private child care centers have allocated an unusually large share of program funds to administrative costs, leaving a relatively small percentage for employees engaged in teaching and the direct care of children. Nearly one-third of the private child care centers in the SDE sample reported that they spent 25 percent or more of program funds for administrative costs, while fewer than one in 10 school district programs reported doing so.

In some cases, the large percentage of funds allocated to administrative costs raises questions about the quality of the center's program. For example, we examined one private child care program which reported that its administrative expenditures accounted for approximately 30 percent of total program costs. Although this program was one of only two private child care centers that received reimbursements exceeding the standard rate in 1981-82 (it is now funded at the standard rate), the salaries it paid to teachers and aides were well below the average salaries paid by other programs in the SDE study sample.

During 1984-85, this agency received approximately $500,000 in state funds to provide child care services to 117 children (average daily enrollment). The agency expects to spend 23 percent of these funds for administrative salaries, 35 percent for salaries paid to teachers and aides, and less than 1 percent for instructional supplies. (The remaining funds will be used for building occupancy, travel, and other program expenses.)

We find that salaries paid by this agency to teachers and aides in 1984-85 continued to be less than the average for all child care programs in the SDE study three years ago. Moreover, a review conducted by SDE in March 1984 raised serious concerns regarding the quality of the child development program provided by the agency. Nevertheless, the center's application for funding in 1984-85 was approved. Apparently, this is because SDE has failed to adopt procedures to link program quality and reimbursement levels.

In an effort to achieve greater funding for child care services per se, Senate Bill 813 (Ch 498/83) requires school districts which receive state child development funds to spend at least 85 percent of those funds at school sites for direct services to children (Education Code Section 63000). The SDE has indicated that in the future it may apply this policy to all state-funded child care programs--public and private. The effect of doing so probably would be an increase in the share of child care program budgets allocated to (1) salaries for teachers and aides and (2) instructional materials.

In supplemental language to the Budget Act of 1985, the Legislature directed the SDE to adopt budget guidelines for the expenditure of funds by child care agencies. These guidelines must specify minimum expenditures for direct services.

Implications for Program Quality

There is very little data available documenting the relationship between caregiver salaries and the quality of child care programs.

Moreover, the experience of child care program administrators does not shed very much light on this matter. Some administrators experience considerable difficulty attracting and retaining qualified staff, while others have been able to retain qualified staff at salaries that are near the minimum wage.

Several studies have indicated that high rates of staff turnover in child care programs are associated with low salaries. This is a cause for concern because frequent personnel changes may disrupt the continuity of developmental programs and prevent very young children from establishing trusting relationships with a stable group of caregivers.

The state specifies minimum educational requirements for credentialing as a child care teacher or aide. Consequently, while not necessarily reducing the quality of child care staff, low salaries do restrict the pool of qualified applicants available for employment as child care teachers or aides.

CHAPTER IV

CONCLUSIONS AND RECOMMENDATIONS

In the introduction to this report, we noted that Ch 798/80 directed the Legislative Analyst to report findings and conclusions on the need to provide child care agencies reimbursements above the standard reimbursement rate in order to reflect the following three factors:

- the impact of collective bargaining,
- differences in regional costs, and
- wage rates necessary to provide adequate incomes for all caregivers.

With respect to the first two factors, our analysis of the 1981-82 cost data compiled by the SDE indicates that child care centers covered by collective bargaining agreements and centers located in urban areas tend to have somewhat higher costs, on average, than their non-unionized or rural counterparts; however, differences in the estimated costs per child in unionized versus non-unionized and urban versus rural centers (after controlling for other factors) were not statistically significant at a 95 percent confidence level (that is, we cannot rule out the possibility that these differences may have been due to chance).

Moreover, a statistical analysis of the factors influencing costs per child indicates that only 25 percent of the cost variation among centers can be explained by the following five factors: (1) presence or absence of collective bargaining, (2) urban/rural location, (3) percentage of school-aged children enrolled, (4) percentage of infants enrolled, and (5) size of program (total enrollment). Most of the cost variation appears to be due to historical factors, rather than to the influence of collective bargaining or urban/rural location.

Based upon this analysis, therefore, we conclude that there is not sufficient evidence indicating that collective bargaining or an urban location leads to higher child care costs to warrant any adjustment to child care reimbursement rates on account of these factors. Accordingly, we recommend that the Legislature not provide adjustments to existing child care reimbursement rates on the basis of either (1) the impact of collective bargaining or (2) differences in regional costs.

With respect to the third factor which we were charged with examining--wage rates necessary to provide adequate incomes for all caregivers--we find that the determination of what constitutes an "adequate" income is, ultimately, a subjective judgment. In determining whether a given salary is adequate, it is important to consider (1) the size of the recipient's household, (2) the number of wage earners in the household, and (3) the household's needs. Because data on these issues is not available for child care workers, we attempted to shed some light on the question of adequacy by comparing child care workers' salaries to the annual incomes needed to support a family of four at a lower or intermediate standard of living, as established by the BLS of the U.S. Department of Labor.

Our analysis indicates that, in 1981-82, among child care centers covered by the SDE study:

- Teachers in centers covered by collective bargaining agreements received, on average, incomes which were adequate to maintain a family of four at a lower standard of living, but not at an intermediate standard of living;
- Teachers in centers not covered by collective bargaining agreements--and aides in all centers--received, on average, incomes which were not adequate to maintain a family of four at a lower standard of living.

Because the BLS income standards are, themselves, based on subjective judgments about living standards, we are unable to draw any firm conclusions regarding the adequacy of salaries paid to child care workers. Accordingly, we make no recommendation on this issue.

APPENDIX

The multiple regression equation we used to analyze child care program costs was as follows: (t - statistics in parenthesis):

$$\text{COST} = 14.47 + \underset{(1.43)}{1.303}\,[\text{URBAN}] + \underset{(1.91)}{1.817^{*}}\,[\text{COLLBARG}] +$$

$$\underset{(3.82)}{.055^{**}}\,[\%\ \text{INFANT}] - \underset{(-1.07)}{.017}\,[\%\ \text{EXTENDED DAY}] - \underset{(-1.11)}{.011}\,[\text{ADE}]$$

* Coefficient significantly different from zero at 90 percent confidence level (two-tail test)

** Coefficient significantly different from zero at 95 percent confidence level (two-tail test)

$R^2 = .2504$

F with (6, 81) d.f. = 5.412

Significance = .0002

<u>Definition of Variables</u>

COST:	Total daily cost per child
URBAN:	Dummy variable indicating urban location (1 = yes, 0 = no)
COLLBARG:	Dummy variable indicating presence of collective bargaining (1 = yes, 0 = no)
% INFANT:	Percent of total enrollment under age three (except in Title 22 programs--under age two)
% EXTENDED DAY:	Percent of total enrollment school-age children
ADE:	Average daily enrollment

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