Recommended Revisions to California Department of Education (CDE) Child Development Fund Allocation and Utilization for Los Angeles County

BACKGROUND

On August 22, 2006 the Board of Supervisors approved a motion by Supervisor Knabe that charged the Child Care Planning Committee (Planning Committee) to review the utilization of funding for part-day State Preschool in the County of Los Angeles. In January of 2007 the Office of Child Care, on behalf of the Planning Committee, submitted an extensive report on the allocation and utilization of State Preschool funds throughout the County.

In summary, the report indicated that there had been a history of under-utilization of the more than $90,000,000 allocated for half-day State Preschool annually. In 2006-07, there had been contract reductions amounting to approximately $2.7 million due to inability to fully utilize funds. The report recommended further review of all CDE-contracted program types to determine if there was a pattern of under-utilization of funds and the reasons for this. The Office of Child Care committed to providing an annual report on the status of CDE funding allocated to Los Angeles county contractors and the use of those funds.

In January 2008, a report, “Allocation and Use of State Child Care and Development Funds in Los Angeles County” was submitted as an attachment to a Board memo. This report was developed based on a review of CDE Finance Division reports from three years: 2003 through 2006. The report is summarized in the next section.

REPORT: FORUM ON CDE FUNDING

The Forum was held on April 23, 2008 at the Department of Public Works. The discussion was organized around four issue categories: contracting, regulations, demographic changes, and the Centralized Eligibility List (CEL). The discussion highlighted the complexity of the current system of subsidized child care and development, and the inflexibility to meet child and family needs. The myriad rules and regulations often create a constant turnover of eligible families because of misunderstood or unevenly applied rules, and encourage deliberate subterfuge to secure care. The result is a system that attempts to provide the highest quality early care and education but often spits children out before they have had time to benefit from the quality services. It creates an internal tension for child development contractors between working the rules to ‘earn” your contract and attempting to provide some long term consistency of care and education for the children.

Contracting

Problem 1: Authorization of new, expansion, growth, or COLA funds is received too late in the year to fully use the allocation that has been authorized. This makes it appear that the contractor is under-earning its contracts and ensures that even though funds are allocated, very few more children will actually receive services in the year the funds are first authorized.

Problem 2: The budget process in Sacramento makes it very difficult for CDE to release annual contracts in a timely way, let alone any increases the legislature may have allocated.

Problem 3: The Child Development Division staff in CDE is inadequate to ensure timely release of authorized of funding.

Problem 4: The Standard Reimbursement Rate (SRR) is too low for center-based programs for children of all ages. Some agencies must fundraise as much as $100,000 per year in order to provide the level of service required by CDE. A few school districts have recently relinquished, or are considering relinquishing, their child development contracts because of this. The current budget cuts to public education will exacerbate this as more and more districts will be unwilling or unable to provide general funds to cover the difference between the SRR and the actual program costs.

Regulations

Problem 1: Programs earn their contracts based on units of service: child days of enrollment. Contracts are calculated based on providing a certain number of these units. If a contractor fails to have enough children enrolled and attending for a minimum number of days/hours, the contractor will not earn the full contract amount.

Problem 2: Center based programs must provide service to families only when they "need" it. So if a parent only works three days per week, the child can only attend three days per week. Likewise if a family only "needs" care six hours a day, the child can only attend six hours per day. The other days or hours are not reimbursed by the CDE (see Problem 1 above); nor does the child have the benefit of attending the program. It is not possible for a program to fill in the remaining hours/days easily. For programs that serve campus populations, the problem is compounded when semester breaks, vacations, etc. occur. The child cannot be in attendance and so misses the educational opportunities of the program; the program cannot claim reimbursement for weeks at a time if they leave the space open to accommodate the returning student-parent; if the program terminates the parent's service in order to enroll another family, the original parent is seriously inconvenienced because they no longer have care when he/she returns to school.

Problem 3: Parent fees are required in order to have a way for parents to invest in the child development services. The fees do not directly benefit the program. There is administrative effort to determine the fees, bill for them, collect and process the fees. Unless a program provides extra service in order to "earn" the fees, the amount of the fees is deducted from the Maximum Reimbursable Amount (MRA) of the contract. A program that provided all the service necessary to fully earn the contract would be reimbursed for the full contract amount minus the fees collected. If the agency was able to serve more children (had space, staff, etc.), they could earn the parent fees in addition to the full contract amount. Most agencies attempt to build the amount of the parent fees into their operating budgets so that the number of child days of service is calculated based on both the contract amount and the expected fees. However, for new programs, or programs with very diverse populations, it is not easy to project what the total fees might be. If one year all the families had incomes below 50% of State Median Income (SMI), then no one would pay fees. If a program has been serving very low income families and begins to pick up families whose incomes are above 50% SMI, they may have fees that were not anticipated.

Problem 4: Certification of eligibility usually occurs annually as well as each time there is a change in the family's circumstances that would affect eligibility. For instance, a parent receives a raise at work, or loses his/her job, or a new person becomes part of the household. Any of these events would trigger a 'recertification" which may result in the parent(s) no longer being eligible and therefore, the children cannot be served. This creates undo hardship to: 1) the child who cannot continue his/her early care and education experience; 2) the parent who no longer has the child care that enabled them to work; and 3) the program which must quickly fill an unanticipated space. This can greatly affect a program's ability to earn its MRA and is antithetical to the notion of continuity and consistency of care.

In addition, parents learn to withhold information for fear that they will lose their care or that the parent fees will increase. Should the program discover that a family did not inform the program of changes in a timely manner (five-15 days usually), the family's care would be terminated. This may occur even though the family is still eligible; they have forfeited the care because they did not report within the stated time period.

Problem 5: Contracts stipulate the ages to be served and in some cases are very specific; i.e. " …up to the child's third birthday". This means that when a child turns a certain age, no matter the ongoing need of the family or the needs of the child, the program must terminate services.

<u>Demographic Changes</u>

Problem 1: There have been shifts in the population in certain parts of Los Angeles County that have resulted in fewer eligible families in certain communities. Birth trends have resulted in fewer three to five year olds for preschool programs. Some communities have become immigrant neighborhoods and many of these families are

reluctant to use government funded programs even if they are eligible. Currently there is no flexibility in the funding to account for these changes. Programs that offer half-day State Preschool cannot convert the program to full-day even if the community needs it. Conversely, if the population is now comprised of two parent families with stay-at-home mothers, the full-day program cannot serve the children unless there is a “need”. To compound this is the fact that when a contract is relinquished, CDE reissues a request for proposal for exactly the same service in exactly the same area, regardless of the changing needs.

Problem 2; When contracts are relinquished, there is insufficient staffing at CDE to quickly process a Request for Proposal (RFP). CDE may appoint an “interim” contractor to provide service, but without a formal RFP process the interim contractor can carry on indefinitely. This puts the interim contractor in a kind of contract limbo; and, if the interim contractor is not the best choice, it can mean a less than quality service is offered in that community.

CEL

Problem 1: Currently the emphasis is on identifying and enrolling the lowest income families (rank 1). However, these families are the most difficult to contact, most likely not to follow through, and most transient. Many families report their incomes inaccurately, which places them in rank 1 only to be re-ranked when they present documentation that indicates their actual income. There is only a $45 dollar per month difference between each rank. Yet, for many contractors, they have to wade through hundreds of rank 1 families before any other families can be offered care. It takes longer to find a legitimate rank 1 family who will keep the enrollment appointments and follow through to get the child into care. The delay means that spaces are left open and that means under-earned contracts.

Problem 2: There is generally under-reporting of actual income by families registering on the CEL. Many families claim they have little or no income to get on the waiting list at a low rank (rank 1). When in actuality, they are eligible but at a higher rank which means there is a reduced chance of the family being called to enroll. There is currently no requirement for a family to document income to get on the CEL; nor is any contractor or the CEL administrator required to verify income at the point of CEL registration.

RECOMMENDATIONS IN RESPONSE TO THE IDENTIFIED PROBLEMS

The following ideas were presented and to some extent discussed. They are under-pinned by the unifying value of the core mission of a system of high quality early care and education services: ***meeting the developmental needs of the child and providing support to families so they may achieve economic self-sufficiency.*** Inherent in this core mission is the value of continuity and consistency of care. Rules for providing the CDE-contracted child care and development services should always keep in mind the idea of continuity of care in the broadest sense. Regardless of families’ changing circumstances, children benefit from ongoing, consistent, and high quality child care and development services.

The following changes are recommended as possible solutions to the problems identified in the first half of this document. Most of the recommendations are applicable to center-based programs or for Family Child Care Home Education Networks (FCCHENs). Some are more applicable to Alternative Payment programs.

<u>Contracting</u>

Recommendation 1: Change to a grant-based method of contracting instead of the Maximum Reimbursable Amount (MRA) tied to child/days of enrollment. This is the type of contracting done by Head Start. Head Start agencies contract to serve a number of children at a rate per child per year. The agency is obliged to enroll that number of children, or to come very close to the agreed enrollment. If agencies fail to meet the enrollment number over a period of time, the contract is reduced or rescinded.

Eliminating the necessity of calculating child days of enrollment with its 4, 6.5, 10, and 10+ hour/days would eliminate an onerous administrative task. It would eliminate the need to refuse service to a child when the parent is on school-break or not scheduled to work. The child continues to benefit from the program and the program has more reliable enrollment. Enrollment can easily be documented with the 801A forms submitted monthly. This solution may not be appropriate for Alternative Payment programs.

Required: Legislation

Recommendation 2: When new or expansion funds are allocated, they should be prorated per contractor based on how much of the fiscal year is left in which to utilize the funds. If a contractor is starting up a new center, the commitment for stable funding is important, but the agency may use only a small percentage in the first contract year due to start up activities. The first year contract should be a reduced percentage negotiated by the contractor with CDE. This would eliminate the problem of “unearned” funds during a start up or expansion period.

Required: Internal CDE policy change

Recommendation 3: CDE needs to increase its contracting staff in order to process contracts and COLAS in a timely way. If programs know that funding would be approved in the first quarter, they would be better able to plan for appropriate expenditures and service numbers.

Required: Budget change

Recommendation 4: Increase the SRR for all age groups. This would eliminate the problem of having to fundraise to have enough funds to meet the cost of providing all the units of service required to earn the MRA. It would also allow more contractors to retain their contracts and not turn them back to CDE (particularly school districts). This should be looked at in conjunction with the implementation of a Quality Rating and Improvement System (QRIS) and the establishment of a tiered reimbursement system to support it.

Required: Legislation and Budget change

Recommendation 5: Allow contractors to carry-over most of the unused funds (or a reasonable portion of unused funds) into the next fiscal year. This would help with fluctuations in enrollment and provide some stability in program operation when the timeline for approving the state budget is extended.

Required: Legislation and or regulation change

Recommendation 6: Multi-year (two to three years) contracting. This was attempted as a pilot a few years ago and many participating agencies found it very helpful. If combined with grant-based funding, there may have to be some qualifiers met before an agency was eligible to take advantage of this; for example, 95% enrollment in previous two years. Alternative Payment programs in particular may benefit from this since they would have a longer period to manage the ebb and flow of enrollment that occurs in voucher type programs.

Required: Legislation and/or regulation change

<u>Regulations</u>

Recommendation 1: Change the definition of “need” to include what is in the best interest of the child in terms of continuity and consistency of care. This would mean not limiting a child’s attendance based only on the days when a parent is working or going to school. The idea is that if a child is enrolled in a five day a week program he may attend all five days. Or if the parent is off for two weeks due to a semester break, the child can still attend the program and benefit from the early care and education environment more consistently.

Required: Legislation and regulations

Recommendation 2: Allow an annual certification to be the only certification for a year regardless of changes in family income or circumstances. Again, this follows the Head Start model where children are certified eligible at the beginning of each year and the eligibility is not reviewed again. If this were the practice, parents would not be tempted to hide changes for fear of losing the care or paying higher fees. Children would experience a full year of high quality early care and education without interruption.

Programs and families would have time to plan for change. This would also help limit the administrative costs in having multiple re-certifications during the year.

Required: Legislation and regulation change.

Recommendation 3: Eliminate arbitrary age categories from most contracts so that agencies can determine the best time to transition a child from toddler care to preschool or from a FCCHEN provider to a center-based program for older children.

Required: CDE policy change; revision of original contract language

Recommendation 4: Allow agencies to keep parent fees (or a portion of the parent fees) above the MRA. This money could be designated for quality improvements and staff incentives within the program.

Demographic Changes

Recommendation 1: When a contract is rescinded or relinquished, allow the Local Planning Council to advise on which areas within the County should be considered for redistribution of the funds. This will reduce the possibilities that no one will respond to a RFP or that funds will be reallocated where they are no longer needed.

Required: CDE policy change.

Recommendation 2: Increase CDE staff who can develop, issue, and process the RFP process for new and relinquished funds. *(See Recommendation 3 under Contracting above).*

Required: Budget change

CEL

Recommendation 1: Collapse the ranks to reduce the number of ranks and increase the number of families that would fall into rank 1. It is suggested that ranks 1 through 10 become a new rank 1. This will discourage parents from under-reporting income to be assured of rank 1 status and will broaden the pool of most eligible families so that contractors should be able to identify families and enroll them more easily.

Required: Legislation directing Department of Finance to alter the ranking system

Recommendation 2: Require a review of income documentation before a family record is created in the CEL. This would make the data in the CEL much more accurate and ensure families were ranked appropriately.

Required: Regulation and budget change.