

California Cares:  
**Child Care**  
and  
**Development**  
**Services**  
for  
**Children**  
and  
**Families**

**Phase II Final Report**



**PACE**

Policy Analysis for California Education

**Executive**  
**Summary**

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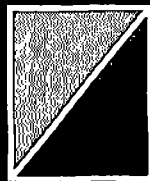
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# **Policy Analysis for California Education**

Policy Analysis for California Education (PACE) is a university-based research center focusing on issues of state education policy and practice. PACE is located in the Schools of Education at the University of California, Berkeley and Stanford University. It is funded by the William and Flora Hewlett Foundation.

## *Staff*

*Project Director*  
Gerald Hayward

*Research Coordinator*  
Linda Petersen Birky

### *PACE Principal Researchers*

Lynn De Lapp  
James Guthrie  
Terry O'Donnell-Johnson

Neal Finkelstein  
Julia Koppich  
Michael Kirst

### *Research Staff*

Rachel Allen  
Jeanne Elliott  
Deana Goldsmith  
Peter Henig  
Diana Kalcic  
John Luczak

Bob Marine  
Todd Segal  
Diane Steinberg  
Lynn Wiley  
Kyo Yamashiro  
Gary Yee

*Editor*  
Jack McCurdy

*Support Staff*  
Robert Dillman      Diana Smith

*Design & Layout*  
Kurt Rahn

PACE  
School of Education  
3653 Tolman Hall  
University of California  
Berkeley, CA 94720-1670

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# EXECUTIVE SUMMARY

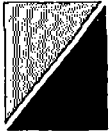
The Phase II Final Report of the California Cares Project undertaken by Policy Analysis for California Education (PACE) for the California Department of Education (CDE), California Department of Social Services (CDSS), and the Office of Child Development and Education, culminates the research and conceptual activities carried out in Phase II of the California Cares Project. In 1992, the California Legislature moved to bring more unity to child care and development services in the state. It enacted AB 2184, which called for an investigation into the feasibility of consolidating all child care and development programs in hopes of streamlining the system. A comprehensive review of the programs was assigned to a joint task force under the direction of the State Superintendent of Public Instruction, the Secretary of Health and Welfare and the Secretary of Child Development and Education.

At the outset, the task force identified the two functions of the present system as the dual goals of an improved system: preparing children for success in school and helping families achieve economic self-sufficiency. Operationally, it defined a new system as “seamless,” one that “promotes continuity of services between programs as families’ incomes and employment status, aid status and other relevant characteristics change.”

In 1993, PACE, a partnership between the Schools of Education at the University of California, Berkeley, and Stanford University, was chosen to conduct the com-

prehensive systems review and analysis under a joint agreement with the three agencies. PACE was asked to identify the issues and options involved in developing a seamless system based on the task force’s definition and principles, with particular emphasis on the relationship among access, quality and funding.

The California Cares Study has been divided into three phases. In Phase I, PACE looked at the historical background of child care and development programs in California, examined changing demographic conditions and the demand for services, described current programs and services, analyzed the task force’s matrix of program characteristics, studied practices in other states and reviewed child care and development literature with a focus on quality, access, cost, and governance. Phase II activities centered on a close examination of California’s existing child care and development system for the purpose of identifying obstacles that impede the delivery of a seamless system of care. As in Phase I, PACE took into consideration four key elements related to services: their governance and administration, their quality, client access to services, and the cost of services. An additional objective was to develop a conceptual model that would assist in future planning and allocation of resources in the system. Phase II culminated in the California Cares Conference, held in April, 1995, attended by 200 invited representatives from child care and development professional organizations, as well as federal, state, and local agency representatives, and



parents. This conference provided the opportunity for PACE to present a series of proposals and gather the reactions of stakeholders. Phase III will refine Phase II recommendations, and work with the three state agencies on implementation.

This report is divided into two parts. Part I, consisting of chapters one, two and three, focuses on analysis of seams in the current system, and presents PACE's findings. Part II, consisting of chapters four through seven, describes a conceptual model for California's child care and development system, and lays out a decision procedure for making critical choices regarding program and funding allocation and governance.

## **PART ONE—ANALYSIS AND FINDINGS**

Chapter One introduces the Phase II study. Chapter Two presents findings from four research activities undertaken in Phase II.

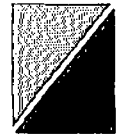
### **FOCUS GROUPS**

The chapter begins with a summary and findings from a series of ten focus groups and individual interviews conducted with mothers receiving CDE or CDSS subsidized services, or on waiting lists for such services. The purpose of the focus groups was to elicit parent opinions on three key dimensions of their child care arrangements: 1) cost and payment; 2) selecting care; and 3) perceptions of child care and development options. The focus groups also solicited parents' perceptions of gaps in services and suggestions for improving subsidized programs.

Four principal findings emerged from the focus groups:

- When it comes to child care, and development services, there are no limits to the lengths to which parents will go to find and maintain an arrangement they believe is in the best interests of their children.
- Parents have clear ideas about what constitutes quality child care: safety; good physical surroundings and competent providers; a developmental approach to care; and reasonable cost.
- Parents view child care and development assistance as a means to an end, not as an end in itself. It is a critical step along the road to a family's eventual stability and self-sufficiency, not a stage in a cycle of dependence. Parents neither want nor expect something for nothing. They appreciate the (financial) support they receive and view it as their responsibility to do the best they can for their children.
- Whether evaluated in terms of process or in terms of the less tangible "attitude," parents do not believe that the state system for providing child care and development assistance frequently enough works as they hope or expect it will.

Focus group participants also made six recommendations for improvements to subsidized child care and development:



1. Make information about child care and development possibilities and options available at a central location.
2. Publicize widely the availability of information.
3. Insure that county welfare department representatives who have contact with parents have information about child care assistance, or at least can direct parents to the sources of such information.
4. Make assistance eligibility standards more easily understandable.
5. Make the fee schedule more rational.
6. If only by word, acknowledge that parents are trying to help themselves.

### **ALTERNATIVES TO THE FAMILY FEE SCHEDULE**

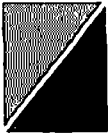
The second area of inquiry summarized in Chapter 2—alternatives to the family fee schedule—explores one method of increasing the number of clients served, given limited funding, without sacrificing the quality of programs. Three alternative models for modifying the current fee schedule were developed. One model based family fees on the percent of the actual cost of care, the second on the percent of family gross income, and the third on the percent of the Standard Reimbursement Rate. All models, as well as California's current fee schedule, were applied to a set of data on actual families currently receiving services. The analysis provided information about

each fee schedule along several dimensions, including their effect on equity, costs, administrative burden, and the increased number of clients who could be served. Based on this single data set, the study found that a model whereby all clients contribute a percent of the Standard Reimbursement Rate, based on their income and number of children, best met the specified criteria. Additional analysis will be required to determine if the same results are found for varying geographic areas and types of care.

### **COUNTY SITE VISITS**

The third section of Chapter Two summarizes site visits to six California counties which were recognized as having made gains in accomplishing a more "seamless" system within the existing child care and development structure. This section explores both the accomplishments and frustrations experienced by local administrators and providers in coping with the current system. Local child care and development program staff and providers outlined key obstacles to seamless program operation for staff, providers and parents:

- The lack of continuity and flexibility among programs and services makes it difficult to determine eligibility, calculate provider reimbursement, and promote continuity of care for children.
- There are few formal ties and little institutionalized coordination among local child care and development agencies. County welfare departments administering California Department of Social Services (CDSS) programs, and the



Resource and Referral, Alternative Payments and other agencies operating California Department of Education (CDE) programs had no formal ties in the six counties visited. Head Start programs also were frequently isolated.

- Parents find the system difficult to understand and use, due to the system's complexity, a lack of centralized waiting lists, and multiple, limited sources of information regarding subsidized child care and development. The system's complexity results in only the most knowledgeable or persevering parents gaining access, while discouraging some even to apply.

Despite these obstacles, there are many local efforts aimed at streamlining and improving the child care and development system. Although there were few formal arrangements among local child care and development agencies, informal cooperative relationships abound. Meeting and discussing common problems in various settings, such as child care councils and consortia concerned with all child and family services, has allowed members of these groups to get to know each other, share ideas and develop improvements to the child care and development system. Local agencies have also developed a wide variety of other coordinated activities, including development of joint data systems, centralized computer waiting lists, and, to a limited extent, program consolidation.

### **MATRIX ANALYSIS**

The fourth section of Chapter Two provides a more in-depth examination of

the matrix analysis of child care and development programs that had been constructed by the Task Force during the first phase of the project. This examination was designed to identify similarities and distinctions between program with a view to identifying specific seams in the system that might be eliminated, and consequently, could be addressed in proposals for reform. Specific seams examined in Phase II included program administration, reimbursement rates, health and safety measures, quality measures, fees, program eligibility, priorities for service, and points of entry to the system.

### **SHORT-TERM RECOMMENDATIONS**

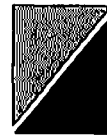
Chapter Three presents short-term recommendations stemming from the research conducted in Phases I and II. This Chapter focuses on the principal "seams" identified in Chapter Two as well as policies and practices which set the stage for the larger, more systemic changes. These recommendations were presented for discussion at the California Cares Conference in April, 1995, and subsequently refined to address concerns raised at the meeting. They are organized into three topics: I. Governance, II. Structure, and III. Data, and are accompanied by next steps for implementation or further research.

#### **I. CHANGING THE GOVERNANCE OF CHILD CARE AND DEVELOPMENT**

1. *Establish interagency agreements on child care governance between the Department of Education and the Department of Social Services.*

Although the AB 2184 task force has created closer more effective working rela-





tionships among CDE and CDSS, cooperation and collaboration could be further enhanced by establishing an interagency agreement between the two agencies. An interagency agreement would improve efficiency of the child care and development delivery system, and monitor and promote actions necessary to implement provisions of the short term proposals.

**2. *Coordinate local administration of child care and development services.***

Administrative and support activities for local child care and development programs are fragmented among as many as seven programs and agencies. This fragmentation could be reduced by clarifying the role of local child care planning councils and establishing formal links between multiple agencies within each service delivery area. One way to formalize relationships is through consolidating R&Rs and AP services. A second way, which can occur immediately is for the Department of Education to begin to address this problem immediately, by requiring that all contracts entered into have interagency agreements between all local agencies, including R&Rs, APPs, CWDs and Head Start.

*Next Steps:* To further explore governance issues, PACE recommends that the Task Force convene a small working group composed of state agency representatives, the "field" (including CDE contractors, County Welfare Directors and Head Start providers) and experts on California child care and development issues, to develop the rationale for a governance policy for child care and development. This group will explore the strengths and weaknesses of the current governance structure, explore alter-

native structures and roles, and make recommendations to the AB 2184 Task Force.

**II. RESTRUCTURING THE CHILD CARE AND DEVELOPMENT SYSTEM**

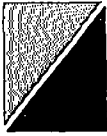
In this section, PACE makes a series of short term recommendations which specifically address the seams identified in Chapter II and improve the efficiency of the current delivery system.

**3. *Reduce the number of separate statutory programs.***

Currently there are nineteen separate categorical programs administered by the agencies, each with its own contracts, eligibility standards, program requirements, reimbursement procedures and reporting rules. PACE recommends that both CDE and CDSS begin working to substantially reduce the number of separate statutory programs within each agency, without decreasing the range of services and target populations currently served.

**4. *Eliminate nonessential regulations and fund monitoring activities.***

A related recommendation is to require CDE and CDSS to participate in an interagency, joint review of regulations and current administrative procedures in order to eliminate nonessential regulations. In addition, resources should be allocated to monitor rules and regulations, if they are to be taken seriously.



**5. Reduce the number of contracts administered by the Department of Education.**

In 1991 – 92 CDE administered almost 1,300 contracts. That number in 1994 – 95 rose to 2049. This number could be significantly reduced, without reducing services, if CDE provided broader contract authorization over multiple programs and/or age groups.

**6. Establish a single child care and development application.**

Currently, parents must fill out different, duplicative application/intake forms for each program for which they wish to enroll their children. This duplication of effort is time-consuming and substantially increases the paperwork required of providers and local program administrators. PACE recommends that the departments devise a joint application.

*Next Steps:* In addition to these short term steps, key decisions must be made regarding the optimal balance of resource allocations by program delivery mode, type of care, purpose of care, and target populations. PACE recommends that the Task Force convene a working group composed of agency staff and representatives of the child care and development community to obtain input on simplified program structure and funding allocations. Based on committee input, PACE will recommend specific changes in statutes, contracts, regulations, and policies. PACE will also explore the impact of proposed federal social services block grants related to child care and development programs, should they be enacted.

**7. Lower the maximum income eligibility level for program entry**

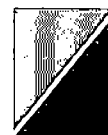
A grave concern for parents interviewed during Phase II was the length of time spent on waiting lists prior to receiving child care and development services. And indeed, because priority for care goes to families with the lowest income, many eligible parents with higher incomes never receive services. PACE recommends that the entry income eligibility level be lowered to reduce time spent on waiting lists. To determine the appropriate income levels, however, additional research is needed.

*Next Steps:* PACE will gather recent intake data on income levels of parents from a representative sample of California counties. Analysis of income levels by region will be conducted to determine the income distribution. PACE will recommend changes, if indicated, in the maximum income level used to determine initial program eligibility.

**8. Centralize Waiting Lists**

Currently, each provider and AP maintain their own waiting lists. PACE recommends that the agencies develop locally centralized, computerized waiting lists with multiple points of access. Only through locally centralized computerized waiting lists with multiple points of access can it be assured that all individuals with the same economic circumstance will be treated fairly.

*Next Steps:* PACE will facilitate a state/local work group charged with developing waiting lists in California. PACE will provide information on centralized waiting



lists already developed in parts of California, and in other states. PACE will also prepare a report on the policy issues surrounding the centralization of waiting lists.

### ***9. Reform the provider reimbursement rate structure***

Under current program rules, a child care center administrator could be reimbursed at three different rates for exactly the same services. PACE recommends that the current inequitable, complicated and labor-intensive reimbursement rate structure be simplified.

*Next Steps:* PACE will evaluate reimbursement rates for all types of providers to determine: (1) the distribution of rates within regions and over time; and (2) the feasibility of linking reimbursement rates to quality indicators. In addition PACE will explore the applicability and feasibility of adopting reimbursement mechanisms based on other industry practices (e.g., health care, foster care, K – 12 education etc.). PACE will work with a working group on these activities.

### ***10. Reform the Fee Schedule***

Compared to other states, California's family fee schedule generates relatively low revenue to fund additional services. PACE recommends that the current family fee schedule be replaced by a new fee schedule which generates additional revenue, is income sensitive, and takes into account the parents' resources, family size, and number of children enrolled in subsidized care.

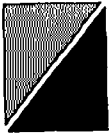
*Next Steps:* While it is possible to make some conclusions about the policy implications of alternative fee collection strategies from the work to date, further investigation is necessary. PACE will apply the alternative family fee schedules model developed in Phase II to across socio-economic groups, various types of care and across regions of the state. Based on the results of the modeling, PACE will make recommendations regarding changes in the existing Family Fee Schedule.

## **III. DATA SYSTEM DESIGN FOR POLICY PLANNING AND DEVELOPMENT**

### ***11. Identify and collect data needed to plan for, operate, and evaluate child care and development services.***

Currently, there are no consistent data on who uses child care and development services, how much it costs, or how many parents are on waiting lists. We cannot identify trends in funding, reimbursement, eligibility, supply, or demand. This dearth of information makes it virtually impossible to assess the state's and local communities' need for care, or to develop policy and coordinate services at the state and local levels. A unified or integrated data system for child care and development services must be created. Such a system must be well designed, flexible, and "user-friendly".

*Next Steps:* PACE recommends that a working group of state and local administrators, planners and providers from both CDE and CDSS child care and development programs be established to identify



data elements needed by state policymakers, local Child Care Planning Councils, and providers. This work will be conducted with consideration of the strategic planning under way by the CDE in the development of FACES and PARIS, and the CDSS with the development of SAWS.

## **PART TWO—CONCEPTUAL STRATEGIES FOR LONG TERM POLICY DESIGN**

Part II of the Phase II Final Report describes a conceptual model for California's child care and development system, and lays out a decision procedure for making choices regarding program and funding allocation and governance.

### **KEY POLICY ELEMENTS**

Chapter Four defines four key elements critical to making policy decisions and assessing trade-offs for child care and development services: access, cost, quality and governance.

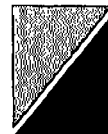
In this analysis, access is defined as the number of children receiving subsidized care system in a fiscal year. (Currently, we do not know this number, as data is not uniformly collected throughout all child care and development programs.) Access to programs can vary as program funding increases or decreases, by cost savings due to administrative efficiencies, or by policy changes which could impact the quality of care. (i.e. if the staff-to-child ratio were changed to allow more children per worker, the cost of care per child would be reduced and the number of children that could be subsidized would increase.) Access is also affected by the availability of information about the programs, the ease of obtaining

care in specific geographic area, and policies setting specific target or priority groups for care.

The second element, cost, is defined as the total number of public dollars spent for direct services for child care and development in a fiscal year. Our knowledge of cost is limited. Although we know that in 1994 - 95, approximately \$1.1 billion was allocated for child care, we have information on provider costs only for child development centers contracting with CDE, and none for centers, family child care homes and exempt providers providing care through the Alternative Payments Program or many of the CDSS programs. Costs of care are affected either by policy changes, such as increasing access to care or raising quality, or by finding efficiencies in components of the current system.

Although there is no universally accepted definition of quality in child care and development quality, PACE defines quality as care which ought substantially to contribute to children's age-appropriate social, emotional, physical and intellectual development and maturation. Three types of indicators are used to measure quality—process indicators, structural indicators, and adult work environment indicators. Existing quality review and accreditation rating processes can be used as a proxy for quality. Quality is affected by cost and access. For example, lowering group size or hiring better trained staff would mean higher personnel costs. Either program funding would have to increase, or other savings found. Unfortunately, "other budget savings" might well mean reducing the number children in the program, thus reducing access to care.

Governance, is defined as the institutions, mechanisms and processes that deter-



mine or influence the control of child care and development policy, funding, implementation and accountability. A governing body sets policy; determines funding allocations; sets eligibility standards; devises accountability measures; and determines the extent of linkages with other programs. Two indicators of governance are locus of decision-making (where key decisions are made), and extent of regulation. Unlike the cost, access and quality spines, movement on the governance spine from centralized, heavily regulated to de-centralized, de-regulated may or may not cause movement on the other three. A centralized, highly regulated system does not necessarily cost more or less than a de-centralized, minimally regulated system; it depends on how resources are deployed, and to what ends. Similarly, quality and access do not depend on one or another level of government; any governing body could effect changes in quality or access to care.

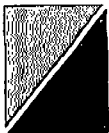
### **PORTFOLIO OF CHILD CARE AND DEVELOPMENT SERVICES**

Chapter Five's Portfolio of Child Care and Development Services explores two fundamental questions of the California Cares project: what are the priorities of child care and development policy in California and how should the state's resources be allocated to serve those priorities? Throughout this study, it has become increasingly clear that many dimensions of the current, highly diverse delivery system have merit, including the flexibility of the delivery system (e.g. contracts and vouchers); parental choice of child care and development arrangement; services for children with special needs; multiple purposes of care (child development, school readiness, and support for families moving

toward self-sufficiency); and quality assurance.

The development of a long-term child care and development policy rationale requires explicit decision making as to which of these components are most critical. Any service delivery system can be implemented only with the level of fiscal resources that are available. The state needs to make significant tradeoffs between the services that are provided and the extent to which children and families are served. The challenge for California is how to be tough about making sacrifices in certain current program areas as a way of optimizing services consistent with a long term view of policy ten or twenty years into the future. What should be the appropriate mix of these competing attributes?

If California were to retain a highly diversified array of program offerings, how might policymakers make the allocation decisions that are needed? We use as an analogy an investment portfolio with diversified holdings in stocks, bonds, and other securities. This diversification balances the risk of the total holdings. Along the same lines, there is support for maintaining an array—a portfolio—of services to meet a broad set of children and family circumstances. With the array of services as a precondition, the portfolio needs to be invested. How many dollars should be allocated into what types of services? Further, which strategies are likely to show the greatest return on the investment? Chapter Five presents three portfolios, showing the different ways current programs can be grouped, by statutory name, by lead governing agency, and by program purpose. It then provides an example of how portfolios can be layered to determine funding allocation.



tions. Finally, Chapter Five discusses how resources are “rationed” through eligibility criteria.

## RESOURCE ALLOCATION

Chapter Six builds on the portfolio analysis concept and delimits a series of steps that could be considered in making rational policy decisions. These steps include:

1. *Commit to a policy rationale for allocating funds.* Which critical policy objectives should drive funding allocations, and in which order? Many are possible: families in similar circumstances are treated equitably; children in various age groups receive the same (or different) types of service; families with the lowest incomes, or on public assistance, are served first; families should have the highest degree of choice and flexibility of care; there should be multiple service delivery modes or types of care; and others. One criteria must be selected however, as the preeminent policy to drive resource allocation.
2. *Consider Additional Allocation Criteria and the Dependence of Policy Criteria.* If step 1 provides the preeminent criterion for allocating resources, step 2 allows for including additional policy objectives in the allocation formula. The distribution of resources based on a new objective is dependent, however, on the first objective. Graphically, the idea of layers of policy can be seen by imagining the portfolios stacked upon each other.
3. *Examine the Resulting Fiscal Allocation of the Portfolio.* The “layering” of these policy criteria results in precise fiscal allocations. For every level of decision that is made about the allocation of resources, we can describe the population that will receive a particular portion of the portfolio.
4. *Determine Priorities for Who Gets Served.* Although a portfolio has now been established, nothing has been said about reserving slots for certain categories of children. At this point, we must define these categories.
5. *Assess Governance Considerations.* In the context of allocation decisions, governance structures needs to be made explicit. At which level of government should certain allocation priorities be put in place?
6. *Assess Seams that Have been Introduced into the Portfolio.* The last step is to evaluate the seams that have been created in the allocation decisions, from the perspectives of parents, providers and the state. Since the portfolio is always divided, there will always be seams, because resources are limited. Some people will always be excluded. It is essential, therefore, that we try to minimize seams by limiting the number of “cuts” in the portfolio.

Chapter Six presents two examples of portfolios that allocate available funds in the child care and development system. They show how allocation systems supported by distinct policy rationales could work. The long-term design of any child care and



development system will have to ration care, making difficult decisions about who to include and exclude in the provision of services. The current system does not have a consistent and deliberate set of policy rationales.

PACE's review of publicly-subsidized child care and development in California reveals numerous discontinuities but also substantial strengths. The AB 2184 Task Force was established to create a child care and development system with fewer seams among programs. The new unified system, which should emerge from these efforts, if implemented, will meet that goal by creating a unified or coordinated governance system; consistent eligibility standards and guidelines for service priorities and funding; better collection and use of data; more efficient communication; and a clearer, more consistent accountability system. Efforts to create a better family fee policy, and to create a consistent provider reimbursement

system, will further reduce seams. Seams will not disappear completely, however. As long as resources are limited, some children and families in need will receive services and others will not.

As we proceed we must remain mindful of imminent external challenges. If the federal government enacts block grants for AFDC, there will be a huge increase in the demand for child care and development services as the percentage of working AFDC recipients rises sharply—with little or no additional funding. California's subsidized child care and development system must be prepared to deal with these changes. The challenge in Phase III of PACE's California Cares project will be to work with the departments, parents, and the child care and development community to develop a more efficient system that can meet increased demand, without sacrificing quality of care for children and families.