



Santa Cruz County

Individualized Child Care Subsidy Pilot

Local Child Care Policy and Evaluation Plan

April 11, 2018

Prepared by:









235 Montgomery Street, Ste. 1049
San Francisco, CA 94104

SUMMARY

Assembly Bill 300 authorizes an individualized child care subsidy plan (the Pilot Plan) for the County of Santa Cruz to ensure that funding for child care subsidies addresses local needs and priorities. The Pilot Plan tackles four main concerns:

- Children in Santa Cruz are less likely than children in other California counties to qualify for subsidized child care due to family incomes above the statewide entry income threshold.
- Housing costs are higher in the county than the statewide average.
- Reimbursement rates for direct service providers are well below market rates in the county.
- Santa Cruz County contractors typically underutilize state funding.

The Pilot Plan has two main goals. First, the pilot will better meet the early education and child care needs of families in Santa Cruz County through policies that support low-income families and promote stable care. Second, the pilot will expand subsidized care by implementing policies that improve reimbursement rates for contractors (year 2), promote contractor retention, and reduce unearned contract funds. A summary of components is included below.

Pilot Components	
	1. Increase income threshold for initial eligibility for subsidized care for contractors to the exit threshold provided by the California Department of Finance (DOF).
	2. Authorize 24-month eligibility for families entering subsidized care and eligible on the basis of need other than training or seeking employment (12-month eligibility).
	3. Restore the age eligibility for CSPP contracts to children who will have their third birthday on or before December 1 st of the fiscal year AND allow children who turn three after December 1 st of the fiscal year to enroll immediately on their third birthday.
	4. Authorize an exception to the requirement that 50% of the children enrolled at a CSPP program site be four-year-old children.
	5. Incorporate additional changes to meet the needs of low-income families in Santa Cruz County, such as authorizing 6.5 hours of services to families seeking employment or housing.
	6. Establish a family fee schedule to set fees at approximately 10% of family income following any changes in the state family fee schedule and any annual updates to the income threshold.

Santa Cruz County plans to apply for a plan modification in year two (FY19/20) to request increased pilot rates and an associated redistribution of unearned funds once the impact of the state and pilot policy changes can be accurately assessed. At that time, Santa Cruz County’s LPC will provide Early Education and Support Division (EESD) at the California Department of Education with recommended contract terms for participating pilot contractors, including maximum reimbursable amounts, child days of enrollment, and the pilot reimbursement rate.

LOCAL CHILD CARE SUBSIDY PLAN GOALS AND COMPONENTS

Subsidies for quality early education and child care services are important supports for low-income families, helping parents gain and maintain stable employment and promoting healthy development and school readiness for children. This Pilot Plan seeks to address two major breakdowns in the child care subsidy system as currently exists in Santa Cruz County. First, families barely earning enough to meet the high costs of housing in the county are too high income to qualify for child care subsidies under existing regulations and those that do qualify can easily lose subsidies with small increases in their income. Second, difficulties in finding, certifying and recertifying children as eligible for subsidies, combined with very low reimbursement rates, make it difficult for providers to utilize their full allocation of state and federal child care and child development funds. Thus, fewer children are subsidized through these providers, and funding goes unused in the county.

Recognizing these challenges, Pilot Plan components will address two goals:

1. To better meet the early education and child care needs of families in Santa Cruz County through policies that support low-income families and promote stable child care.
2. To expand subsidized care by implementing policies for child care contractors that increase earned child days of enrollment, improve reimbursement rates for contractors, reduce contractor administrative burden, reduce unearned funds, and promote contractor retention.

These policies are incorporated in six components where the local approach will differ from statewide regulations. For each component, we provide a conceptual overview, note whether the component is consistent with pilots in other counties, note relevant California Education and Welfare Code citations, and provide additional notes for background or clarification. Santa Cruz County is not including AP and CalWORKs programs in the Pilot in year 1, but will consider pursuing a Pilot Plan modification for their inclusion in the future.



1. Increase income threshold for initial eligibility for subsidized care for contractors to the exit threshold provided by the California Department of Finance (DOF).

Families will be eligible for subsidized care if their income does not exceed the exit threshold (85% of the state median income (SMI)) as provided by the California DOF. The same pilot income threshold will apply for both entry (initial enrollment) and exit eligibility.

Matched to Other Pilots	Relevant State Regulations	Notes
<input checked="" type="checkbox"/> Alameda <input checked="" type="checkbox"/> San Francisco <input checked="" type="checkbox"/> San Mateo <input checked="" type="checkbox"/> Santa Clara	<p>Education Code (EC) Section 8263.1 (a) states that a family’s adjusted monthly income must be at or below 70% of the SMI.</p> <p>The entry income threshold for the pilot deviates from the entry income threshold established in the EC.</p>	<p>As needed, the County will seek modification of this threshold to ensure that the pilot income eligibility is the maximum allowable under federal guidelines. This component would apply to children in CCTR, CMIG, CCFC, and CSPP programs.</p>



2. Authorize 24-month eligibility for families entering subsidized care and eligible on the basis of need other than training or seeking employment.

The Pilot Plan will establish 24-month redetermination periods for families who meet the income threshold for subsidized care and meet the need criteria for eligibility by contract type. Families in training or seeking employment as the only need are eligible for no more than 12 months within a 24-month period.

Matched to Other Pilots	Relevant State Regulations	Notes
<input checked="" type="checkbox"/> Alameda ¹ <input checked="" type="checkbox"/> San Francisco* <input checked="" type="checkbox"/> San Mateo* <input checked="" type="checkbox"/> Santa Clara*	<p>Eligibility redetermination would be consistent with EESD Management Bulletin 17-14 and existing pilot county contractor handbooks. Eligibility may be based on the previous month’s income² and no more than 12 months preceding initial certification consistent with Title V 18096, with eligibility income calculated pursuant to Title V 18078(q).</p>	<p>The 24-month eligibility would apply to all ages of children in CCTR, CMIG, and CFCC, and to children in CSPP who meet the state age requirements. Due to a shortage of child care slots and unmet child care needs of eligible families, Santa Cruz County prefers a shorter recertification period for families in training or seeking employment.</p>

¹ Alameda, San Francisco, San Mateo, and Santa Clara have variants of 24-month eligibility.

² In the case of unpredictable income, eligibility would be based on average income from at least three consecutive months no more than 12 months preceding initial certification.



3. Restore the age eligibility for CSPP contracts to children who will have their third birthday on or before December 1st of the fiscal year AND allow children who turn three after December 1st of the fiscal year to enroll immediately on their third birthday.

Serving children aged 2.9 to age 5 in CSPP will allow children to receive two years of state preschool before moving into TK. It will also allow contractors to fill CSPP classrooms at the beginning of the school year.

Matched to Other Pilots	Relevant State Regulations	Notes
<input checked="" type="checkbox"/> Alameda ³ <input checked="" type="checkbox"/> San Francisco* <input checked="" type="checkbox"/> San Mateo* <input checked="" type="checkbox"/> Santa Clara*	This would adjust the definition of “three-year-old children” in EC Section 8208 to include children who will have their third birthday on or before December 1 in the fiscal year, providing up to 9 months of early education experiences to children, and children who turn three after December 1 to enroll on their third birthday in the fiscal year.	This change will help Santa Cruz County contractors fill mid-year vacancies in CSPP programs.



4. Authorize an exception to the requirement that 50% of the children enrolled at a CSPP program site be four-year-old children.

This new component will allow CSPP contractors to enroll more children in the 2.9 to 3.9 age range.

Matched to Other Pilots	Relevant State Regulations	Notes
<input type="checkbox"/> Alameda <input type="checkbox"/> San Francisco <input type="checkbox"/> San Mateo <input type="checkbox"/> Santa Clara	This component adjusts the general admissions procedures in EC Section 8236 to allow contractors to have less than 50% of enrolled children be four years of age. This component would NOT adjust EC Section 8235 , which grants first priority to eligible four-year-old children who are not enrolled in a state-funded TK program.	New component authorized to be included in Pilot Plan through AB 108.

³ San Mateo, San Francisco, Alameda, and Santa Clara currently have the 2.9 eligibility provision. Enrollment on the third birthday after December 1 is new to Monterey and Sonoma County Pilot Plans.



5. Authorize families for 6.5 hours of services if their only need is seeking housing or seeking employment.

This additional component will assist in meeting the needs of families in the county and help contractors maximize enrollment.

Matched to Other Pilots	Relevant State Regulations	Notes
<input checked="" type="checkbox"/> Alameda <input checked="" type="checkbox"/> San Francisco <input checked="" type="checkbox"/> San Mateo <input checked="" type="checkbox"/> Santa Clara	Services of families seeking employment are outlined in EC Section 8263 . The plan would include 6.5 hours of services for families seeking housing or employment.	This component will apply to CCTR, CMIG, CFCC, and CSPP programs.



6. Establish a family fee schedule to set fees at approximately 10% of family income following any changes in the state family fee schedule and any annual updates to the income threshold.

The family fee scale will match those in the other pilots and will be updated following any changes in the state family fee schedule and when the income threshold is updated annually.

Matched to Other Pilots	Relevant State Regulations	Notes
<input checked="" type="checkbox"/> Alameda <input checked="" type="checkbox"/> San Francisco <input checked="" type="checkbox"/> San Mateo <input checked="" type="checkbox"/> Santa Clara	The EC sections 8273 and 8447(f) requires the State Superintendent of Public Instruction to establish a family fee schedule for families receiving child care services, subject to the approval of the schedule by the California Department of Finance.	This component will not take effect until and unless a modification to the income threshold under component 1 results in a pilot income range that exceeds the state eligibility threshold. This component will apply to CCTR, CMIG, CFCC, and CSPP programs.

The following is the list of contractors who have formally agreed to participate in the pilot.

- | | |
|---------------------------------|--|
| 1. Cabrillo Community College | 6. Live Oak School District |
| 2. Community Bridges | 7. Pacific Elementary |
| 3. Encompass Community Services | 8. Pajaro Valley Unified School District |
| 4. Go Kids, Inc. | 9. Regents of the UC-UCSC |
| 5. YWCA of Watsonville | 10. Walnut Avenue Family Women’s Center |

LOCAL ECONOMIC AND CHILD CARE MARKET CONDITIONS

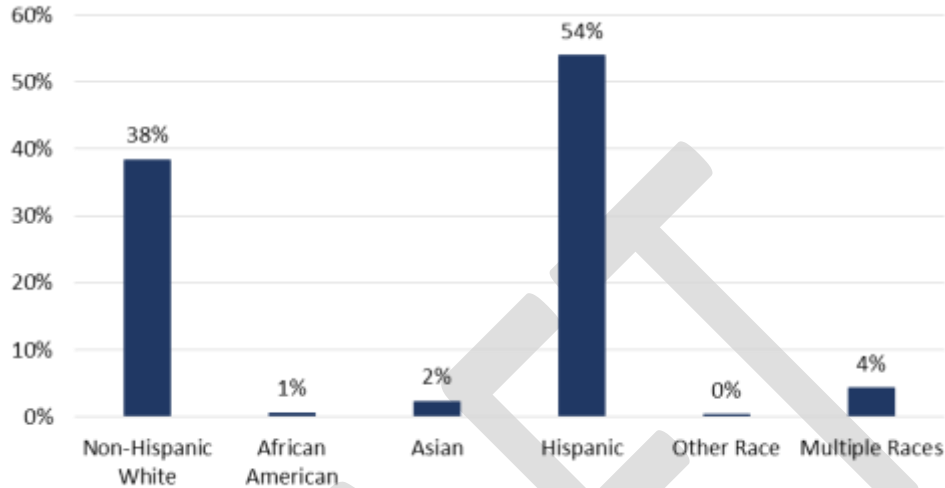
In developing this plan, Santa Cruz County stakeholders assessed the local child care market, economic conditions for working families, and the needs for and costs of child care. This review included consideration of:

- Level of need for various types of subsidized child care services
- General demographics
- Income eligibility levels for subsidized child care and family fees
- Trends in the County's unemployment and housing affordability index
- County's self-sufficiency income level
- Cost of providing child care
- Standard reimbursement rates and regional market rates
- Current supply of available subsidized child care

Santa Cruz County faces higher costs of living and housing than the average statewide, leading to lower income families being considered too high income for subsidized child care. The increase in entry eligibility to 85% of the state median income would allow lower income families access to subsidized child care. Additionally, Santa Cruz County Child Care Planning Council reports a shortage of child care slots in the County, especially among Infant/Toddler programs (CCTR). Increased labor costs as a result of the gradual minimum wage increase may contribute to difficulties in staffing child care programs, thereby restricting the number of child care slots available. The modification of the reimbursement rate through the redistribution of unearned funds can provide financial stability to child care providers, increasing their capacity to hire more teachers and serve more children.

Figure 1: Race/Ethnicity of Santa Cruz County Children, 2016

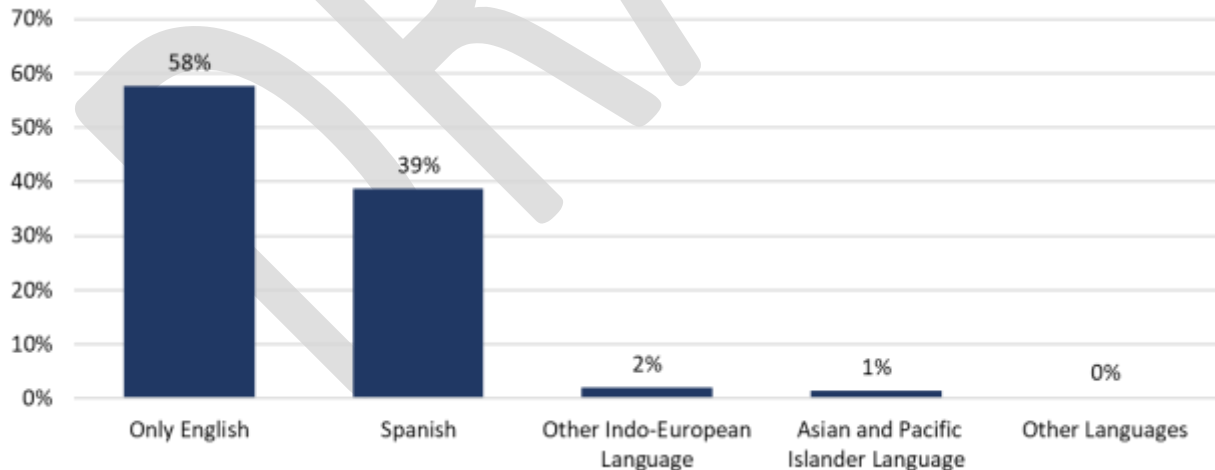
Hispanic/Latino children represent the largest share of children in Santa Cruz County, with Non-Hispanic White children representing the next highest share.



Source: Kidsdata.org from California Dept. of Finance, Race/Ethnic Population with Age and Sex Detail, 1990-1999, 2000-2010, 2010-2016; U.S. Census Bureau, Current Population Estimates, Vintage 2015 (Jun. 2016)

Figure 2: Language Spoken at Home of Santa Cruz County Children, 2016

About 58% of children in Santa Cruz County speak only English, with more than 40% speaking another language. English Language Learners comprise 28.2% of public school students in the County – a share



nearly 30% higher than the state average (22%).⁴

Source: 2016 American Community Survey Data (Table B16007)

⁴ English Learners in Public Schools (2014), <http://www.kidsdata.org>

Table 1: Santa Cruz County Children with Working Parents, 2016 Estimates

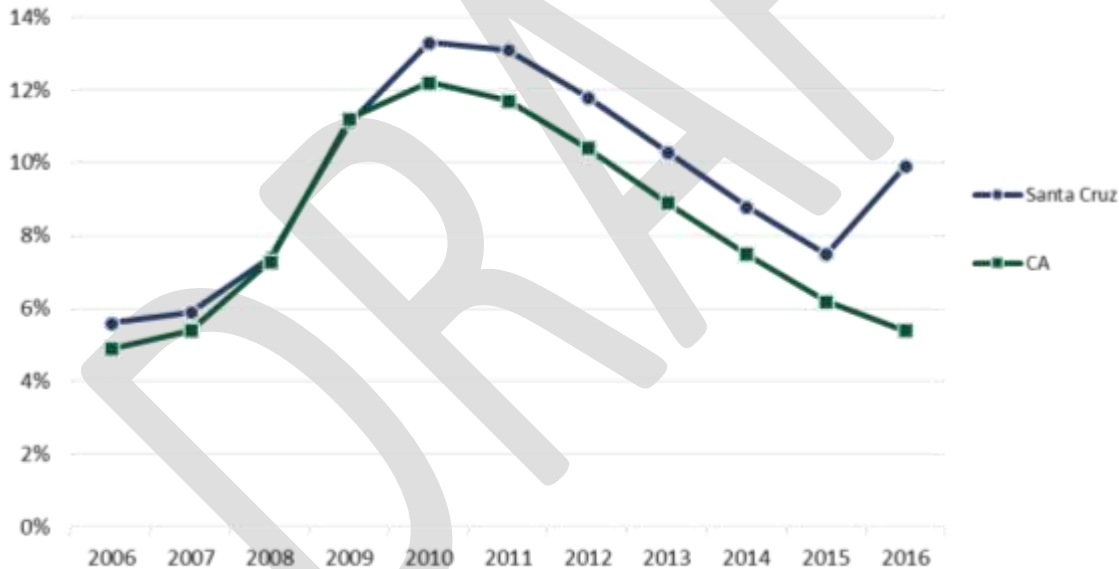
Over 16,300 children in Santa Cruz County are under the age of 6, with a majority of children in this age group - and overall - in households where all parents work.

Age Category	Number of Children in Santa Cruz County	Number with All Resident Parents in Workforce	Share with All Parents Working ⁵
Under 6 years	16,384	10,898	67%
6 to 17 years	34,553	24,022	70%
Total	50,937	34,920	69%

Source: 2016 American Community Survey 1-Year Estimates (Table C23008)

Figure 3: Average Annual Unemployment Rate in Santa Cruz County, 2006-2016

Since 2010, the average unemployment rate in Santa Cruz County has been slightly above the statewide rate. The rate jumped considerably between 2015 and 2016, and is now 83% higher than the state rate, at 9.9% compared to 5.4%.



Source: Bureau of Labor Statistics; Labor force data by County, 2006-2016 annual averages <http://www.bls.gov/lau/#tables>

⁵ Includes children of working single parents and children in two-parent families where both parents work.

Table 2: Income Distribution of Santa Cruz County Families with Children Under 18, 2016

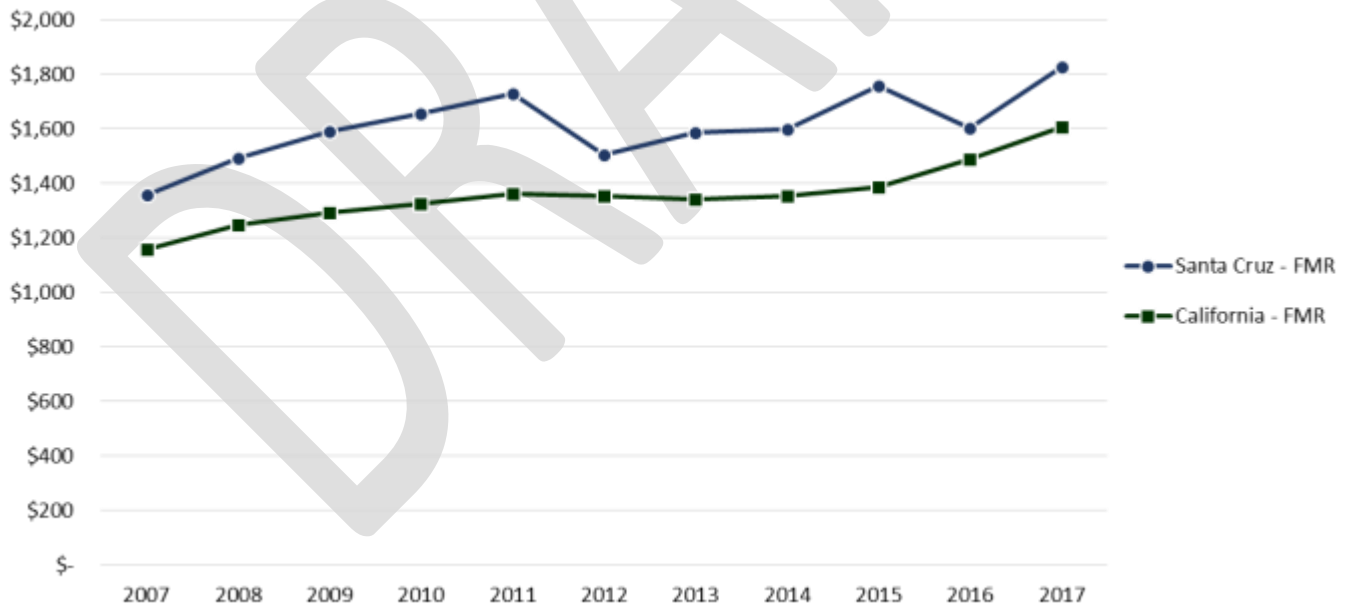
About 35% of families with children under 18 in Santa Cruz County qualify for state-subsidized child care with the entry threshold at \$58,524 per year.

Income Category	Santa Cruz County
Up to \$20,000	11%
\$20,000 to \$40,000	11%
\$40,000 to \$60,000	13%
\$60,000 to \$100,000	20%
\$100,000 to \$150,000	18%
\$150,000 to \$200,000	11%

Source: 2016 American Community Survey 1-Year Estimates (Table B19131)

Figure 4: Fair Market Rents (FMR) for 2 Bedroom Apartments, 2007-2017

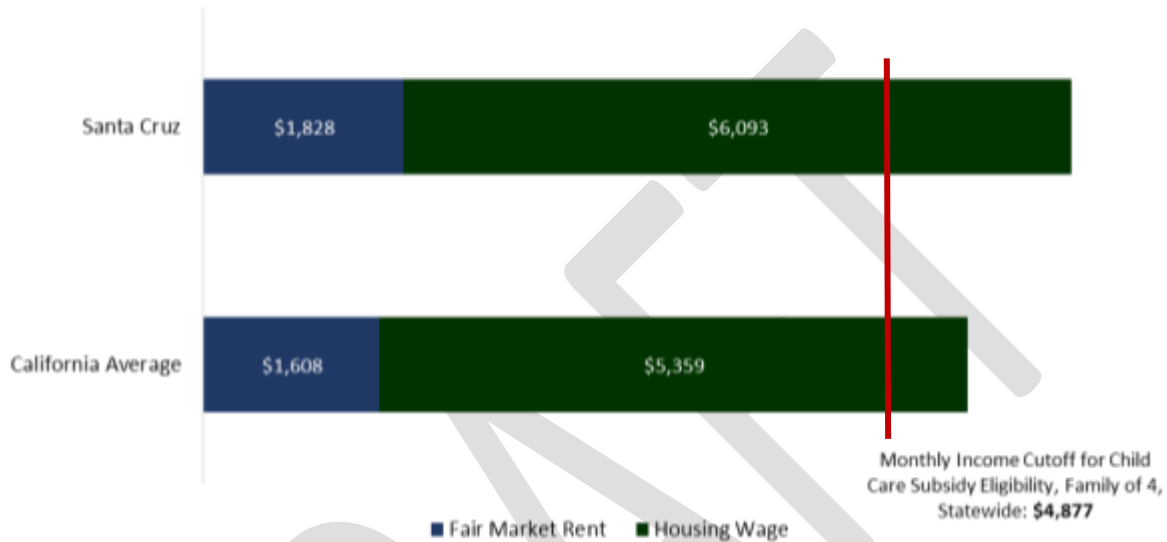
Since 2007, Santa Cruz County’s fair market rent (FMR) for a 2-bedroom apartment has been above the state average. In 2017, it was 14% above the state average.



Source: Fair Market Rents (FMRs), huduser.gov

Figure 5: FMR, “Housing Wage” Income, and the Statewide Child Care Subsidy Eligibility Cutoff for Santa Cruz County, 2017

The National Low Income Housing Coalition (NLIHC) uses the FMR to calculate a “housing wage,” the wage income required to pay no more than 30% of income to afford rent at the FMR. The housing wage in Santa Cruz County is \$6,093, nearly \$700.00 higher than the California housing wage and 25% higher than the statewide entry eligibility cutoff. Families earning the housing wage would not qualify for subsidized care.



Source: 2017 Fair Market Rents (FMRs), huduser.gov

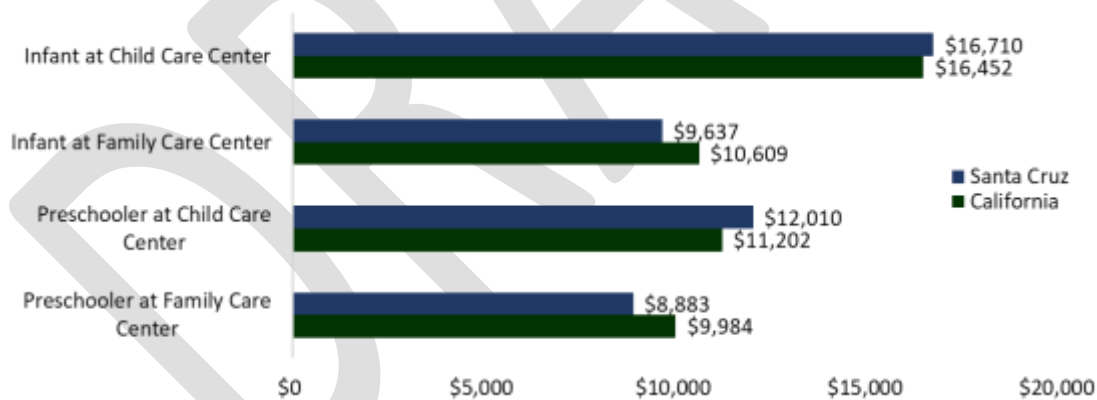
Table 3: Self-Sufficiency Standards for Santa Cruz County

The monthly income for basic needs for a family of four is higher in Santa Cruz County than California overall. Additionally, California Self-Sufficiency Standards put the monthly income to cover child care in Santa Cruz County at \$7,649, more than \$2,700 dollars over the subsidy eligibility cutoff.

Monthly Income for “Basic Needs” for a Family of Four with One Infant and One Preschooler	Santa Cruz County	California
Income Cutoff for Child Care Subsidy (2017)	\$4,877	\$4,877
NLIHC Housing Wage (2017) ⁶	\$6,093	\$5,359
CBP Monthly Family Budget (December 2017) ⁷		
Without Child Care	\$5,500	\$5,029
With Child Care	\$6,801	\$6,329
California Self-Sufficiency Standards (2014) ⁸		
Without Child Care	\$5,182	N/A
With Child Care	\$7,649	N/A

Figure 6: Average Annual Rate for Child Care in Santa Cruz County, 2016

Market prices for child care for children at child care centers are higher in Santa Cruz County than in the state overall.



Source: California Child Care Resource & Referral Network, California Child Care Portfolio (Nov. 2016); Cost data are from the Child Care Regional Market Rate Survey, 2016.

⁶ Out of Reach 2017: California from National Low Income Housing Coalition. <http://nlihc.org/oor/california#>

⁷ Estimated family budget (for a 4-person family, both parents working) from the California Budget Project (CBP), Making Ends Meet: How Much Does It Cost to Raise a Family in California (December 2017).

⁸ Insight Center for Community Economic Development: Self-Sufficiency Standard Tool for California for a 4-person family with one infant and one preschooler. <http://www.insightccd.org/tools-metrics/self-sufficiency-standard-tool-for-california/>

Table 4: Estimated Costs and Reimbursement Rates for Child Care Centers in Santa Cruz County, 2017

Reimbursement rates for direct service providers are well below market rates in Santa Cruz County, even though Title 5 regulations make care more expensive to provide.

Age Category	Daily RMR ceiling	Standard Reimbursement Rate (SRR)	% Maximum RMR Exceeds SRR
Full-time Infant (Age 12 months)	\$100.30	\$77.25	30%
Full-time Preschooler (Age 3 years)	\$71.72	\$45.73	57%
Full-time School Age (Age 7 years)	\$61.49	\$45.44	35%

Source: Reimbursement Ceilings for Subsidized Child Care 2017, Fiscal Year 2017-18 Child Care and Development Contract Changes

Minimum wage boosts increase labor costs for child care providers in Santa Cruz County. It will be increasingly difficult to provide child care at the SRR as labor costs rise in Santa Cruz County. Labor costs are the largest budget item for child care centers; one recent study estimates labor to account for 64 percent of operating costs.⁹ This may stagnate enrollment due to the increased cost of hiring more teachers. By redistributing unearned funds to modify the SRR in year two – effectively creating a Pilot Reimbursement Rate – child care providers can potentially accommodate the cost of hiring more teachers, increasing their capacity to serve more children in Santa Cruz County.

⁹ Welsh-Loveman, J. (2015). The Impact of Minimum Wage Regulations on the Early Care and Education Industry in California. Oakland, CA: Alameda County Early Care and Education Planning Council. https://www.acgov.org/ece/documents/Welsh-Loveman_APA_5202015.pdf

Table 5: Number of Eligible Children in Low-Income, Working Families Enrolled in Child Care, 2014-2015

Of the 3,644 children ages 0-5 in working families with income lower than the entry threshold for state-subsidized child care, 46% were not enrolled in full time subsidized care in 2014-2015, suggesting that there is a shortage of child care slots available in Santa Cruz County.

	Total
Number of Children Ages 0-5 in Working Families with Income < 70% SMI	3,644
Number of Children Ages 0-5 in Working Families with Income < 70% SMI Enrolled in Full Time, Subsidized Care	1,975
Number of Children Ages 0-5 in Working Families with Income < 70% SMI and Not Enrolled in Full Time, Subsidized Care	1,669 (46%)

Source: Santa Cruz County Needs Assessment, June 2016-2021

Table 6: Child Care Capacity for Working Families Under Age 6, 2014-2015

There is a 30% shortage of child care slots available in Santa Cruz County for children in working families.

	Total
Number of Children in Working Families	9,963
Number of Part Time or Full Time Spaces in Licensed Child Care Centers or Family Child Care Homes	6,977
Shortfall in Capacity	2,986 (30%)

Source: Santa Cruz County Needs Assessment, June 2016-2021

The shortage of child care slots contributes to the unmet child care needs of working families with income lower than the entry threshold in Santa Cruz County. A shorter recertification period of 12 months for families whose need is training or seeking employment allows contractors to ensure child care slots can be made available periodically to eligible families.

MEASURING OUTCOMES

Each year Santa Cruz County will prepare an annual report on the pilot project for submission to EESD. Each annual report will be submitted in November and will reflect on the previous fiscal year. The first evaluation report will be submitted by November 30st, 2019 and will cover fiscal year 2018/2019. These annual reports will track outcomes on selected measures described below. In addition, each annual report will profile the children and families served under the pilot, including the demographic characteristics of the children. The reports will also describe any major issues that arose in implementation or special challenges affecting specific contractors. Finally, they will identify any modifications in the pilot plan based on the previous year's experiences.

The annual report will draw on the following data sources:

- **801A Data:** A census report of children in services in April of the evaluation year. This report includes date services began, family income, family size, child's date of birth, CalWORKs receipt, and other demographic and care information.
- **Attendance and Fiscal Reports:** Contractor-submitted Attendance and Fiscal Reports (8501 and 9500 Forms) provide information on earned child days of enrollment and family fees.
- **Provider Satisfaction Surveys:** Annual online survey developed by the County to gauge contractor experiences, both positive and negative, and perceptions of the impact on families of the pilot project.
- **Additional Data from EESD:** Data provided by EESD on the number of contractors and the unearned contract funds.

The measures calculated from the data sources above are structured around the two major goals of the pilot: better meeting the needs of families and expanding the supply of subsidized care. See table below for details.

Measure	Source	Purpose	Details
Goal 1: Better meeting the needs of families			
Number and share of children in subsidized care with family income above the state entry income threshold.	April 801A	Examine the effect of a higher income threshold.	Number and share of children from families with initial income eligibility between state entry threshold and exit threshold (85% of the state median income).
Time in services and year-to-year retention for children in subsidized care by contract type.	April 801A	Examine the effect of the longer recertification period.	Days since date child began receiving services and share of children observed each year that were included in prior year's data.
Goal 2: Expanding the supply of subsidized care			
Number of active direct services child care contractors in the county.	EESD	Examine effect of pilot on stability/retention of providers.	Number of child care providers offering subsidized care as of June 30 th of each fiscal year.
The aggregate adjusted child days of enrollment among pilot contractors.	4 th Qtr. Attendance and Fiscal Forms	Examine effect of pilot on child days of enrollment.	Total earned child days of enrollment in the fiscal year (with adjustment factors applied) compared to the baseline year (FY17/18). Legislation requires an increase from the baseline child days of enrollment. ¹⁰
Value and share of unearned direct service contract funds returned to CDE-EESD.	4 th Qtr. Attendance and Fiscal Forms	Examine effect of pilot on supply of care and utilization of contract funds.	Total contract allocations during a fiscal year that go unearned (not spent). This is the difference between total contract allocations and total dollars earned by participating contractors.

¹⁰ The baseline, the earned child days of enrollment in the fiscal year prior to Pilot implementation, is a formula rather than a static number. If contract funds are reduced in a year of the pilot to 85% of the baseline contract funds, the baseline goal for that year would be calculated at 85% of the baseline child days of enrollment. This strategy is used in San Mateo, San Francisco, Alameda, and Santa Clara Counties. It was proposed by EESD staff to offset increases or decreases in funding provided to contractors.