DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: March 27, 2008
POSITION: Oppose
SPONSOR: Davis Street Family Resource Center
BILL NUMBER: SB 1410
AUTHOR: E. Corbett

<u>BILL SUMMARY</u>: Child Care Reimbursement Rates

This bill would authorize higher reimbursement rates for direct service child care contractors under specified conditions. Specifically, it would establish the reimbursement rate as the greater of the Standard Reimbursement Rate (SRR) or the daily regional market rate (RMR) for licensed-exempt care (90 percent of the RMR limit for daily care which is typically the most expensive charging mode). Contractors operating under the previously authorized pilots for high cost counties in San Mateo and San Francisco would be reimbursed at the RMR limit established for the pilot project or the rate established under this bill, whichever is greater. Additionally, programs where the SRR is higher than the RMR limit for license-exempt care within the same county may be considered on a case-by-case basis for rate adjustments due to documented increases in insurance costs.

Finally, programs that qualify for a higher reimbursement rate under the bill would be required to demonstrate a statewide increase in the aggregate number of child days of enrollment by the end of the sixth fiscal year of operation. Also, the bill would prohibit the use of the RMR limit from increasing a child care agency's total annual allocation. Any moneys used to increase the reimbursement rate could not be taken from other child care and development programs.

<u>FISCAL SUMMARY</u>

This bill would allow child development contractors that currently under-earn their contract maximum amount to keep the funds by paying more for services within their contract area. Moreover, by raising rates for these providers, the Department of Finance (Finance) believes that this bill would drive future cost pressures in the high tens of millions of dollars because it could effectively nullify the Department of Education's ability to reallocate chronically under-earning contract funds to other contractors where demand for subsidized services is greater. Thus, greater unmet demand would drive pressure for additional growth funding.

Currently, licensed child care centers that contract directly with the state are reimbursed based upon a standard full time reimbursement rate of $34.38 per day of enrollment (3-5 year olds). Voucher-based licensed care is reimbursed based upon a maximum of the 85^{th} percentile of private pay rates in the county, established by a biennial market rate survey. License-exempt providers may receive 90 percent of these limits. In many counties, these rates far exceed the SRR. For example, in Marin County, the daily RMR limit for license-exempt care for a preschool aged child is currently $51.18, an increase of 49 percent over the SRR.

<u>COMMENTS</u>

Finance is opposed to this bill for the following reasons:

- The maximum number of funded child care slots could be reduced drastically in some counties if reimbursement rates are increased without additional funding.

Analyst/Principal	Date	Program Budget Manager	Date
(0382) S. Swan		Jeannie Oropeza	

Department Deputy Director	Date

Governor's Office:	By:	Date:	Position Approved_______ Position Disapproved

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- It is not prudent nor equitable to increase reimbursement rates, particularly when it could result in excessive increases of 49 percent for certain child care centers (as noted in the fiscal summary), at a time when a structural deficit exists.
- By allowing direct care contractors to receive more for the same care, this bill would have the affect of limiting reallocation of funds from contractors that cannot earn their contract amount to other providers who could serve more children. This outcome will drive pressure for more child care growth funding to meet unmet demand that cannot be filled through reallocations.
- The provision that allows programs where the SRR is above the RMR limit within the same county to receive rate adjustments, due to documented increases in insurance costs, could create additional cost pressures and may be unnecessary because current law allows the State Department of Education to consider such adjustments for programs with costs above the SRR.

Code/Department Agency or Revenue Type	SO LA CO RV	PROP 98	FC	(Fiscal Impact by Fiscal Year) (Dollars in Thousands) 2007-2008	FC	2008-2009	FC	2009-2010	Fund Code
6110/Dept of Educ	LA	Yes		--------------------- See Fiscal Summary ---------------------					0001