AGENDA
ASSEMBLY BUDGET SUBCOMMITTEE NO. 1 ON HEALTH AND HUMAN SERVICES AND ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE AND ASSEMBLY HUMAN SERVICES COMMITTEE AND THE LEGISLATIVE WOMEN'S CAUCUS

ASSEMBLYMEMBER JUDY CHU, CHAIR
ASSEMBLYMEMBER JOE SIMITIAN, CHAIR
ASSEMBLYMEMBER LOIS WOLK, CHAIR
ASSEMBLYMEMBER HANNAH-BETH JACKSON, CHAIR

WEDNESDAY, APRIL 30, 2003
STATE CAPITOL, ROOM 4202
1:30 P.M.

ITEMS TO BE HEARD

ITEM 5180 DEPARTMENT OF SOCIAL SERVICES
ITEM 6110 CALIFORNIA DEPARTMENT OF EDUCATION

ISSUE 1: CURRENT YEAR FUNDING FOR CHILD CARE

The Subcommittee will discuss the different child care programs.

BACKGROUND:

The State's child care system contains several programs, each addressing different child care needs. These programs include:

CENTER-BASED PROGRAM:

General Child Care: Provides child care to approximately 139,867 children in 117,907 families through State contracts with licensed child care centers. This funding pays for a fixed number of slots at these licensed centers. Often these slots are only for children in a particular age range. The State has provided General Child Care since 1946. These programs provide an educational program component that is developmentally, culturally, and linguistically appropriate for the children served. They also provide nutrition, parent education, staff development, and referrals for health and social services.

VOUCHER -BASED PROGRAMS:

Alternative Payment Program: Provides child care to approximately 47,556 children in 27,230 families through means-tested child care vouchers. These vouchers provide funding for a specific child to obtain care in either licensed child care centers, licensed family day care, or licensed-exempt care. The family gets to choose the type of care that the child receives with the voucher. To qualify for child care, a child must be less than 13 years in age and reside in a family that earns less than 75 percent of the State Medium Income (SMI). Since not enough funding is provided to fund the State's demand for Alternative Payment (AP) child care, a long waiting list for the program exists. Priority for AP slots are given to children "at risk of abuse," and then is provided to lowest-income applicants available on the waiting list. The California Department of Education contracts directly with Alternative Payment Provide's, which administer the AP program.

CalWORKs Stage 1 Child Care: Provides child care to CalWORKs families before they are "stabilized," as defined by county welfare departments. This program works similarly to the Alternative Payment Program voucher; it can be used to pay for licensed child care centers, licensed family day care, or licensed-exempt care. The family gets to choose the type of care that the child receives through Stage 1 child care. The Department of Social Services and counties' welfare departments administer the Stage 1 child care program. About 60 percent of counties contract with Alternative Payment Providers to administer Stage 1 child care. In 2001-2002, 74,122 children in 39,012 families will receive CalWORKs Stage 1 child care.

CalWORKs Stage 2 Child Care: CalWORKs families are entitled to child care once they are "stabilized" and for two years after leaving cash aid, through CalWORKs Stage 2 child care. Stage 2 continues the care provided in Stage 1 through the same mechanisms discussed above. CalWORKs Stage 2 child care is the only programmatic entitlement in law. The California Department of Education contracts with the Alternative Payment Provides to administer Stage 2 child care. In 2001-2002, 107,733 children in 56,702 families received CalWORKs Stage 2 child care. The California Department of Education contracts directly with Alternative Payment Provides to administer the CalWORKs Stage 2 Child Care.

CalWORKS Stage 3 Child Care: Families that have exhausted their two years of CalWORKs Stage 2 child care enter Stage 3 child care. CalWORKs Stage 3 child care is a discretionary program that continues to provide child care for these families as long as funding is available. Since the CalWORKs program was established, the Legislature has fully-funded CalWORKs Stage 3 Child Care. The California Department of Education contracts directly with Alternative Payment Provides to administer the CalWORKs Stage 3 Child Care. In 2001-2002, 39,468 children in 20,773 families received CalWORKs Stage 3 Child Care.

CalWORKs Stage 1 and Stage 2 Reserve: The budget contains a $57.4 million holdback to fund changes in the CalWORKs Stage 1 and Stage 2 caseloads.

OTHER CHILD CARE PROGRAMS:

Extended Day Care: Also called the "Latchkey" programs, provides a safe environment with developmentally and age-appropriate activities for school-age children during the hours immediately before and after the normal school day. There are 135 Latchkey programs in the State.

Migrant Day Care: Serves children of migrant workers while their parents work. There are 25 Migrant Child Care programs in the State.

CalWORKs Community College Child Care: Provides child care to CalWORKs families in community colleges. The community colleges receive $15 million General Fund to pay for child care in on-campus centers while CalWORKs parents attend classes.

Campus Match: There are 15 current campus match contracts with community college districts for programs that are intended primarily to care for the children of parents enrolled in college. The centers are operated by the colleges and provide the same comprehensive services as General Child Care and Development programs.

Campus Tax Bailout: The Department of Education disburses these funds based on a schedule provided by the California Community Colleges for those college districts that passed permissive override taxes. The funds are disbursed to 25 community college districts that levied child care permissive override taxes in 1977-78. When Proposition 13 was passed in 1978 and eliminated the override taxes, the tax bailout dollars were meant to compensate the districts for the loss of those funds.

Resource and Referral: The California Department of Education funds at least one Resource and Referral Program in each county to provide services in each county. These programs provide information to parents and the community about the availability of child care, assist potential providers in the licensed process, and provide support services, including training.

Cailfornia Child Care Initiative Project: This initiative, conducted by local resource and referral agencies under contract with California Department of Education (CDE), implements a five-stage child care supply-building process. This process includes: assessing local supply and demand, recruiting potential licensed family child care providers, providing training in providing quality care and how to manage a small business effectively, providing technical assistance on licensing procedures, and providing ongoing support to help providers stay in operation.

Quality Improvement: The Department of Education's Quality Improvement plan includes approximately 50 different projects that were developed to increase the quality of child care services for children from birth to 13 years old. The projects in the plan focus on health and safety, early development and learning, school readiness, success with academic K-12 standards, measurement of outcomes for children and families, family and community support, professional development, program support and development of curriculum/support materials. These various projects are designed to address the specific needs of center-based programs and family child care and license-exempt providers. The two outcomes of these efforts are: 1) to ensure a workforce with the expertise to provide high-quality services; and 2) to improve child care providers' understanding of early care and education issues, their impact on group care of children, and the implementation of best practices and appropriate curriculum. The federal government requires the State to spend a specific amount on quality improvement initiatives as a condition of receiving federal Child Care Development Funds (discussed later in Issue #13).

Local Planning Councils: State law requires that each county maintain a local child care planning council. These local planning councils gather data on supply and demand for child care and help the counties plan their child care system.

HOW MANY PEOPLE ARE IN EACH OF THESE TYPES OF CARE?

The chart below details the estimated caseload for the child care (assuming the current year level of service continues in the budget year):

Child Care Slots	Revised 2001-2002	Revised 2002-2003	Estimated 2003-2004
General Child Care	89,500	89,500	89,500
CalWORKs Stage 1	74,122	79,263	73,603
CalWORKs Stage 2	115,300	104,100	90,800
CalWORKs Stage 3	39,468	50,082	59,873
Alternative Payment	33,400	33,400	33,400
Migrant Day Care	9,000	9,000	9,000
Extended Day Care	6,000	6,000	6,000
Campus Child Care	600	600	600
Severely Handicapped	200	200	200
Total	367,590	372,145	362,976

COMMENTS:

The State allows counties flexibility in determining whether a CalWORKs family has been "stabilized" for purposes of assigning the family to Stage 1 or Stage 2 Child Care. As a result, in some counties families are transitioned to Stage 2 in the first six months of their time on aid. In other counties, families stay in Stage 1 in child care until they leave aid.

ISSUE 2: CHILD CARE CENTERS, LICENSED FAMILY DAY CARE, AND LICENSED-EXEMPT CARE

The Subcommittee will discuss the different types of child care.

BACKGROUND:

The Alternative Payment Program and the CalWORKs child care system provide families with vouchers that can be used to obtain child care. For these vouchered programs, the families can choose between one of four different types of child care:

Licensed Title 22 Child Care Centers: Child care centers provide care to children in a dedicated facility. All child care centers in California are required to be licensed by the Department of Social Services. Title 22 of the California Code of Regulations provides the minimum requirements for the licensing of a child care center. Child care centers with a Title 22 license must meet certain basic health and safety requirements. Title 22 requires certain adult to child ratios for care and certain educational attainment for staff. The regulations also contain specific building and fire code requirements.

Licensed Title 5 Child Care Centers: Child care centers that contract with the Department of Education are required to comply with all of the health and safety requirements of Title 22. In addition, under Title 5 of the California Code of Regulations, these centers must also maintain a lower child to adult staffing ratio designed to meet the developmental needs of the children in their care. Staff at Title 5 centers must also meet higher thresholds of experience and education in order to be employed at the center. The enhanced education, experience, and staff levels in a Title 5 center is designed to ensure a quality level similar to that required in the federal Head Start program. Research has shown that lower child-to-adult staff ratios and higher education levels of administrative and teaching staff are predictors of higher quality programs.

Licensed Family Day Care (also called Licensed Family Child Care Homes): Licensed Family Day Care provides child care in the provider's residence. License Family Day Care must meet Title 22 staffing ratios and health and safety standards.

Licensed-Exempt Care: Families that receive a child care voucher through the Alternative Payment or CalWORKs systems can opt to use a licensed-exempt provider for their care. Child care is exempt from licensure in California if the provider cares for the children of one family other than the provider's own, either in the provider's home or in the children's home. Licensed exempt providers are not required to meet any type of licensing requirement, however non-relative providers must pass a TrustLine background check.

COMMENTS:

There are several factors that influence the type of care a family selects for their children:

Child Development: Title 5 centers must meet stricter staffing standards than other centers. Research has shown these lower child-to-adult staff ratios and higher education levels of administrative and teaching staff are predictors of higher quality programs.

Accessibility: In many areas of the State, there are no available slots at a Licensed Child Care Center or Family Day Care Center. As a result, families in these areas must use licensed-exempt care.

Flexibility: Working families may choose child care based upon the family's logistical situation. Some families choose licensed-exempt care because they need care at odd hours, they want all of their children at one location, or they want care to be close to their home or work.

Time frame: Families entering the CalWORKs system are expected to quickly find child care for their children. As a result, these families may not initially have many options for child care. As a result, most families in CalWORKs Stage 1 Child Care use licensed-exempt care for their children and then move their children to a licensed center when care becomes available.

The table below reflects LA County's distribution of care and illustrates how the utilization of care changes over time:

Type of Care	Stage 1	Stage 2	Stage 3	General AP
Licensed Center	18.3%	22.6%	30.2%	33.3%
Licensed Family Day Care	18.1%	31.9%	28.2%	38.1%
Licensed Exempt	63.6%	45.5%	41.6%	28.6%

Age of child: Statewide, there is a shortage of child care slots for infants and toddlers. As a result, families with young children may only be able to locate licensed-exempt care for these children.

Culture: All families want their children cared for in culturally and linguistically appropriate settings. This means that families make decisions based on differing criteria. Some families will want relatives to care for their children, others will use other criteria. All parents will want to be able to communicate easily with their child care provider.

Cost: In general, child care centers cost more than licensed Family Day Care. Licensed-exempt care is the least costly form of care on average.

ISSUE 3: CHILD CARE FUNDING FRAMEWORK

The Subcommittee will discuss current funding level for child care.

BACKGROUND:

Over the last several years, the State has fully funded the CalWORKs child care caseload and has provided cost of living increases to the Alternative Payment Programs and General Child Care programs. The "current year level of service" does not fully fund the State's demand for child care, as the Alternative Payment Program and the General Child Care programs have waiting lists.

The budget does not contain sufficient funding to fully fund the "current year level of service" in the budget year. The funding realigned to counties in the budget does not fund the budget year caseload increase in the programs, it provides no cost of living increase, and it does not continue some one-time funding from the current year.

The chart below compares the prior and current year costs for child care with a January-data estimate for the cost of fully funding the "current year level service" (with no COLA) in the budget year:

	Revised 2001-02 ($ millions)	Revised 2002-03 ($ millions)	Estimated 2003-04 ($ millions)
General Child Care	604.4	616.5	616.5
CalWORKs Stage 1	589.9	524.3	500.1
CalWORKs Stage 2	704.6	661.8	596.8
CalWORKs Stage 3	255.1	348.5	451.4
Alternative Payment	208.2	212.3	212.3
Migrant Day Care	31.9	32.5	32.5
Extended Day Care (Latchkey)	29.4	30	30
CalWORKs Community Colleges	15	15	15
Campus Child Care	3.1	3.2	3.2
Severely Handicapped	1.5	1.6	1.6
Quality Improvement	60.1	65.3	55.5
Resource and referral	16.1	16.4	16.4
Campus Tax Bailout	5.7	5.8	5.8
Local Planning Councils	5.5	5.6	5.6
California Child Care Initiative	0.3	0.3	0.3
Total Costs	**$2530.8**	**$2539.1**	**$2543.0**

The budget assumes that most child care costs are realigned to counties (CalWORKs Stage 1 and the California Community Colleges are excluded from the proposal). The interaction of the realignment proposal with Proposition 98 funding creates different interpretations of the amount of funding needed to fully fund child care in the budget year. There are two ways to describe the same problem.

1. The Governor's budget assumes that counties will receive $1.031 million in realigned revenue for child care, plus $863 million in federal Child Care Development Funds. In addition, $546.1 million of child care is not included in the Realignment proposal. Based upon this level of funding, the State is **$134 million** short of fully funding child care in the budget year.

2. However, the Proposition 98 Guarantee level is **$291 million** short of fully funding child care. As part of Realignment, the Governor's budget assumes that child care costs are no longer part of the Proposition 98 Guarantee and reduces the Proposition 98 level accordingly. If the Subcommittee rejects realign, child care costs would increase the Proposition 98 Guarantee by $879 million, which is $291 million more than the $1.170 million cost to fully fund the realigned programs. The $291 million Proposition 98 gap assumes that the Proposition 98 Minimum Guarantee does not increase as a result of revenue increases.

The State is projected to spend $981.2 million of Proposition 98 funds on child care in the current year. This amount includes $102 million in one-time funds.

COMMENTS:

The data used in the above chart is based upon January data for these expenditures. The California Department of Education's latest data suggests a much smaller increase in CalWORKs Stage 3 costs, resulting in a budget year cost of $394.4 million for CalWORKs Stage 3 Child Care.

This revised CalWORKs Stage 3 estimate would result in the State being **$76.6 million** short of fully funding the program.

If the Proposition 98 Guarantee level remains unchanged, restoring child care at full funding would over-appropriate Proposition 98. However, there are some options that the State can use in funding CalWORKs Stage 2 Child Care to reduce the amount of Proposition 98 funds needed for CalWORKs.

The agenda uses LAO figures for CalWORKs Stage 2 Child Care costs. The Department of Social Services (DSS) believes that the actual CalWORKs Stage 2 cost will be $671.6 million in the current year and $638.2 million in the budget year. The DSS figures are higher than the LAO numbers by $31.9 million in the budget year.

ISSUE 4: GROWTH IN CALWORKS CHILD CARE COSTS

The Subcommittee will discuss the funding trends for CalWORKs Child Care.

BACKGROUND:

Over the last three years, there has been considerable discussion of the growth in CalWORKs Stage 3 Child Care. A 2001 report (the Results Group Report) suggested that the growth in Stage 3 child care would be unsustainable. The growth in Stage 3 child care has underpinned the Administration's 2002 reform proposal and the December Revise proposal to eliminate Stage 3.

However, while Stage 3 costs have grown, the actual level of growth has been far less than projected in the 2001 Results Group Report:

Fiscal Year	Result Group Projected Cost (millions)	Results Group Projected Caseload	Actual CalWORKs Stage 3 Costs (millions)	Actual Stage 3 Caseload (average)
FY 2001-02	280.5	45,500	239.8	39,468
FY 2002-03	446.0	68,700	348.5	50,082
FY 2003-04	569.5	83,700	394.4 *	59,873*
FY 2004-05	629.0	88,000	N/A	N/A

* CDE Estimate using recent data. DOF/LAO Jan 10 estimate is $451.4 million

The growth of CalWORKs Stage 3 Child Care is driven by the growth of CalWORKs. As the CalWORKs program progresses, more families will move from Stage 1 to Stage 2, then ultimately to Stage 3. However, there have not been major increases in the CalWORKs caseload. Thus, eventually the growth of Stage 3 will stabilize.

Focusing the analysis only on CalWORKs Stage 3 Child Care fails to account for the fact that all of the increase in caseload comes from families currently receiving State-funded child care. Looking at all three CalWORKs Stages together shows that the overall growth in the system has not been as great as the Results Group report would suggest.

CalWORK Child Care Stage	Revised 2001-02 Cost ($millions)	Revised 2002-03 Cost ($millions	Estimated 2003-04 Cost ($millions
CalWORKs Stage 1	589.9	524.3	500.1
CalWORKs Stage 2	719.6	661.8	596.8
CalWORKs Stage 3	255.1	348.5	394*
	1564.6	**1534.6**	**1490.9**

* CDE Estimate using recent data. DOF/LAO Jan 10 estimate is $451.4 million

COMMENTS:

The Governor's budget reduced both CalWORKs Stage 1 and CalWORKs Stage 2 Child Care funding based upon a large number of CalWORKs families reaching their 60-month time limit on aid. Subsequent data has shown that fewer families are reaching their time limit than projected in the budget. Thus, it is likely that the actual CalWORKs Stage 1 and CalWORKs Stage 2 Child Care costs will be higher than the figures presented in the agenda.

The agenda uses LAO figures for CalWORKs Stage 2 Child Care costs. The Department of Social Services believes that the actual CalWORKs Stage 2 cost will be $671.6 million in the current year and $638.2 million in the budget year. The DSS figures are higher than the LAO numbers by $31.9 million in the budget year.

ISSUE 5: IS THERE AN EQUITY ISSUE IN CHILD CARE?

The Administration has argued that funding CalWORKs Stage 3 Child Care is inequitable.

BACKGROUND:

The State has not provided enough funding to fully meet the demand for subsidized child care. One estimate of the unmet need suggested that between 200,000 and 300,000 children are currently on low-income child care waiting lists for General Child Care and the Alternative Payment Program. In general, when a new slot opens in these programs, it is provided to the lowest income family on the waiting list.

CalWORKs provides families that are participating in work activities with child care. Once a county has determined that the family has been stabilized, the family moves from Stage 1 to Stage 2. Families are entitled to two years of Stage 2 child care. After those two years, families transition to CalWORKs Stage 3, if funding is available. Since the beginning of the CalWORKs program, the Legislature has fully funded the Stage 3 child care, which has allowed former CalWORKs families to continue their child care uninterrupted.

In the December Revise, the Administration justified the elimination of CalWORKs Stage 3 Child Care based upon the fact that former welfare families are guaranteed subsidized child care while other working poor families may not receive care. The administration argued that the State is treating families unequally because families entering Stage 3 from Stage 2 have equivalent income levels to other working poor families on the waiting list.

However, this argument unfairly compares program eligibility at entry versus eligibility at a later point in the system. The child care system is designed to encourage families to work. Once a family has entered any of these three programs, they are allowed to earn up to 75 percent of the State Median Income without losing eligibility. Thus, a family transitioning to CalWORKs Stage 3 Child Care may earn more than a family on the child care waiting list, but families receiving AP and General Child Care may also earn more than these waiting families. Families entering CalWORKs have much lower incomes than low-income families entering the Alternative Payment or General Child Care programs.

There has also been a concern that families receiving CalWORKs Stage 3 Child Care need the care to continue their employment. One possible consequence of reducing or eliminating CalWORKs Stage 3 Child Care would be that families would re-enter CalWORKs.

In the December Revise, the Department of Finance assumed that none of the almost 30,000 families losing CalWORKs Stage 3 Child Care would return to the CalWORKs program.

It is impossible to tell how many Stage 3 child care families would re-enter the CalWORKs system if Stage 3 was eliminated, but the average cost of care provides some insight into some possible consequences of eliminating Stage 3. The LAO has provided the following information regarding the average cost of care:

Possible situation	Average monthly cost to the State for a family of one adult and two children
Parent working, receiving only Stage 2 Child Care and no grant	$ 767
Parent not working—receiving no child care but getting services and grant	$ 939
Parent working, receiving child care, aid payment, and services	$1,416

Based upon this information, it would take at least 53 percent of Stage 3 families to return to CalWORKs (as working families), for the proposed reduction to yield no net savings to the State.

COMMENTS:

The 2001 Results Group Study found that 36.3 percent of the Stage 3 caseload had low enough income to qualify for cash assistance.

The California Budget Project has analyzed the income and household characteristics of former welfare recipients. They will testify to the Subcommittee.

ISSUE 6: REDUCING INCOME ELIGIBILITY FOR CHILD CARE

The Subcommittee will consider proposals to reduce income eligibility rates for child care.

BACKGROUND:

Under current law, families cannot receive subsidized child care if their income is more than 75 percent of the State Median Income (SMI). For a family of four, that would equal an income of $39,000 per year. A small number of families (2,340 families statewide) that received subsidized child care prior to 1997 are subject to a grandfather clause that allows them to earn up to 100 percent of SMI.

The 2001 Results Group report provided several possible eligibility reductions the State could enact to reduce child care costs. The possible options are:
1. Apply the current 75 percent SMI eligibility ceiling to the grandfathered families for a savings of $24 million.
2. Reduce income eligibility to 70 percent of SMI for savings of $47 million.
3. Reduce income eligibility to 70 percent of SMI in high cost counties and 65 percent in low cost counties for savings of $61 million.
4. Reduce income eligibility to 65 percent of SMI for savings of $95 million.

As part of the 2002 child care reform proposal, the Governor's 2002-2003 budget included a proposal to reduce income eligibility from the 75^{th} percentile of the SMI to the 66^{th} percentile of SMI for high cost counties, 63 percent of SMI for moderate cost counties and 60 percent of SMI for low cost counties.

COMMENTS:

The savings estimated in the 2001 Results Group report is based upon the characteristics of 1999 data and reflect the implementation of these options in the 2001-2002 fiscal year. The actual level of savings that can be achieved with any of these proposals will vary from these numbers. In addition, most of the reductions identified in the agenda interact with one another, so the total savings from a "reform package" would save less than each separate proposal in this package. The savings for grandfathered families should be lower than the Results Group number.

State General Child Care contracts generally pay for a fixed number of slots that match the Title 5 licensing requirements. In order to achieve savings from reducing eligible families, the State would need to reduce the number of slots in each center. However, the fixed-cost nature of these contracts makes marginal reductions, like reductions to family eligibility, difficult to implement without compromising the integrity of these child care contracts.

ISSUE 7: CREATING TIME LIMITS FOR CHILD CARE

The Subcommittee will discuss child care time limits.

BACKGROUND:

Currently, families receiving Alternative Payment or CalWORKs child care can continue to receive care until their family loses eligibility or their child ages out of the system. Families can continue to receive child care in General Child Care as long as their children meet the eligibility for the center.

The 2001 Results Group report provided several possible limits to the amount of time a family could receive aid that the State could enact to reduce child care costs. The possible options are:

1. Eliminate the CalWORKs Stage 3 Child Care guarantee.
2. Limit non-CalWORKs program participants to seven years of assistance for savings of $10 million.
3. Limit all families to seven years of assistance for savings of $14 million.

The 2002 child care reform proposal didn't include a specific time limit for child care but did increase fees for families as they remain on aid.

COMMENTS:

Currently the State has no information system to track how long a family has been receiving child care.

The savings estimated in the 2001 Results Group report is based upon the characteristics of 1999 data and reflects the implementation of these options in the 2001-2002 fiscal year. The actual level of savings that can be achieved with any of these proposals will vary from these numbers. In addition, most of the reductions identified in the agenda interact with one another, so the total savings from a "reform package" would save less than each separate proposal in this package.

State General Child Care contracts generally pay for a fixed number of slots that match the Title 5 licensing requirements. In order to achieve savings from establishing time limits, the State would need to reduce the number of slots in each center. However, the fixed-cost nature of these contracts make marginal reductions, like time limits, difficult to implement without compromising the integrity of these child care contracts.

ISSUE 8: INCREASING FAMILY FEES

The Subcommittee will discuss increasing the family fee for child care.

BACKGROUND:

Families earning over 50 percent of the SMI are required to pay a family fee for their child care. The fee is assessed on a sliding scale based upon the income of the family and the family size. The fees are capped at 8 percent of the families income.

The 2001 Results Group report provided several possible family fee schedules that the State could enact to reduce child care costs. The possible options are:

1. Charging fees at 30 percent of the SMI, capping fees at 10 percent of income would save $63 million.
2. Charging fees at 20 percent of the SMI, capping fees at 10 percent of income would save $65 million
3. Charging fees at 20 percent of the SMI, capping fees at 12 percent of income would save $76 million
4. Charging fees at 20 percent of the SMI, capping fees at 15 percent of income would save $122 million

As part of the 2002 child care reform proposal, the Governor's 2002-2003 budget included a three step graduated fee schedule that applied to all families. Fees would have increased the longer a family receives child care. The providers would collect the fees in the Governor's proposal.

COMMENTS:

There are several factors that should be considered when increasing family fees:

- At what SMI level should fees start?
- Is the fee per child or per family?
- How much of a family's income should be spent on fees?
- Who collects the fees?

The savings estimated in the 2001 Results Group report is based upon the characteristics of 1999 data and reflects the implementation of these options in the 2001-2002 fiscal year. The actual level of savings that can be achieved with any of these proposals will vary from these numbers. In addition, most of the reductions identified in the agenda interact with one another, so the total savings from a "reform package" would save less than each separate proposal in this package.

ISSUE 9: REDUCING THE MAXIMUM AGE OF CHILDREN RECEIVING SERVICES

The Subcommittee will discuss the reduction of maximum age of children receiving care.

BACKGROUND:

Currently, most children in Alternative Payment, General Child Care, or CalWORKs can receive child care through age 13 (until their 14^{th} birthday).

The 2001 Results Group report estimated that the State could save $7.0 million by ending eligibility for child care through age 12.

As part of the 2002 child care reform proposal, the Governor's 2002-2003 budget eliminated eligibility for 13-year-olds.

COMMENTS:

A child's 13^{th} birthday is often considered the age at which a child is mature enough to be left unattended at home.

State General Child Care contracts generally pay for a fixed number of slots that match the Title 5 licensing requirements. In order to achieve savings from eliminating 13-year-olds, the State would need to reduce the number of slots in each center. However, the fixed-cost nature of these contract make marginal reductions, like the elimination of care to 13-year-olds, difficult to implement without compromising the integrity of these child care contracts.

The savings estimated in the 2001 Results Group report is based upon the characteristics of 1999 data and reflects the implementation of these options in the 2001-2002 fiscal year. The actual level of savings that can be achieved with any of these proposals will vary from these numbers. In addition, most of the reductions identified in the agenda interact with one another, so the total savings from a "reform package" would save less than each separate proposal in this package.

ISSUE 10: REDUCING THE CHILD CARE REGIONAL MARKET RATE

The Subcommittee will discuss the reduction of the child care regional market rate.

BACKGROUND:

The cost of providing child care varies with the age and needs of the children in care. The State has two different reimbursement mechanisms, one for centers and another for voucher care.

CENTER BASED

Center-based programs contracted with the California Department of Education (CDE) are reimbursed for child care services through the Standard Reimbursement Rate. The SRR, established in 1980, reimburses for care per child day of enrollment. The current SRR is $27.59 per child day of enrollment.
Adjustment factors to increase the SRR are allowed for:

- Infant care (1.7)
- Toddler care (1.4)
- Exceptional needs (1.2)
- Limited or non-English proficient (1.1)
- Children at risk of abuse or neglect (1.1)
- Severely handicapped children (1.5)

The SRR is based on 6.5 or more hours per day or 30 or more hours per week and is adjusted to reflect the actual number of hours the child is in care.

VOUCHER PROGRAMS

Since 1989, first under the auspice of the Family Support Act, and later, under the auspice of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (welfare reform), the California Child Care Resource and Referral Network (Network) has conducted the Regional Market Rate (RMR) Survey of California Child Care Providers. The Network has conducted the survey under contract with both the California Department of Social Services (CDSS) and most recently, the CDE.

The RMR Survey collects information on the current market rates of California's child care centers and family child care homes. The State uses this data to calculate the maximum reimbursement ceilings, calculated at 1.5 standard deviations above the mean, for participants in a variety of voucher-based state and federal subsidized child care programs. The California Department of Finance (DOF) has ultimate authority to approve any rates established through the RMR Survey.

Both the SRR and the RMR rates differ for the number of hours children are in care, the age of children served, and the type of child care program.

For the Alternative Payment Program and the CalWORKs child care voucher system, the State will pay up a RMR ceiling. The ceiling covers the rates that are charged by approximately 93 percent of all providers in the area. However, State law requires each child care provider must charge its publicly funded clients the same amount it charges its private clients. In addition, current law requires that no more than 75 percent of the slots in a center or family day care facility can be filled by subsidized child care.

Licensed-exempt child care reimbursement rates are set through the RMR process. The State will pay up to 90 percent of the Family Day Care Center rate ceiling for a child in licensed exempt care.

Currently the State will pay for child care up to the 93rd percentile of the RMR. This standard in effect means that the State would pay for the full rate of the 93 percent of the child care providers in the community.

The 2001 Results Group report provided the several possible rate reductions the State could enact to reduce child care costs. The possible options are:

1. Reducing the RMR ceiling to the 85th percentile for savings of approximately $58 million.
2. Reducing the RMR ceiling to the 75th percentile for savings of approximately $92 million.

The Results Group noted that in most large states (Texas, New York, Florida, and Illinois), the State reimburses only up to the 75th percentile of the RMR.

As part of the 2002 child care reform proposal, the Governor's 2002-2003 budget reduced the reimbursement limit for approximately 93rd percentile of the RMR to the 75th percentile of the RMR. In theory, this proposal would only affect child care providers that charge more than the 75th percentile of the RMR.

In some geographically larger counties, the RMR does not reflect the market for the entire county. For example, there is one RMR for all of El Dorado County, but the child care rates charged by providers in the City of South Lake Tahoe are above the 75th percentile of the RMR, and providers in Placerville (70 miles away) are below the 75th percentile of the RMR.

COMMENTS:

The United States Bureau of Labor Statistics characterized the child care industry by its high-turnover, low pay, and minimal benefits. In California, this high turnover has challenged the State's effort to maintain stability and improve the quality of child care. The average wage for the industry was reported to be about $11.35 per hour.

As the Subcommittee considers possible reductions to child care, it is important to understand that the reimbursement rate for child care providers is directly correlated to the wages and benefits paid in the industry.

The savings estimated in the 2001 Results Group report is based upon the characteristics of 1999 data and reflect the implementation of these options in the 2001-2002 fiscal year. The actual level of savings that can be achieved with any of these proposals will vary from these numbers. In addition, most of the reductions identified in the agenda interact with one another, so the total savings from a "reform package" would save less than each separate proposal in this package.

ISSUE 11: SIMPLIFYING MARKET RATES

The Subcommittee will discuss a proposal for simplifying market rates.

BACKGROUND:

Provision 4(a) of item 6110-196-0001 of the 2002-03 Budget Act directed the State Department of Education and the State Department of Social Services, in consultation with DOF and the LAO, to develop a new methodology to be used for future market rate surveys. One product that stems from this directive is the development of regulations that will provide guidance to agencies on how to use the rate categories that are established from the market rate survey.

The regulations that will be proposed by the Department of Education and the Department of Social Services would simplify the use of rate categories to more closely correspond to actual uses in the private market and would ensure that provider rates are based on the amounts paid by unsubsidized families. Providers who cannot or who choose not to supply evidence of the rates paid by unsubsidized families would be reimbursed at a lower rate The intended result will be to return the system for reimbursing child care providers to the original market-based system envisioned by the Legislature.

COMMENTS:

The outcome of this proposed simplification could result in significant savings.

Adjusting the reimbursement rate for providers that serve only subsidized children could affect the reimbursement rate for some family day care and all licensed-exempt families.

ISSUE 12: REDUCING THE ADMINISTRATION AND SUPPORT IN THE ALTERNATIVE PAYMENT PROGRAM

The Subcommittee will consider reducing administration and support in the Alternative Payment Program.

BACKGROUND:

Alternative Payment Providers administer the Alternative Payment Program and the CalWORKs Stage 2 and Stage 3 Child Care programs. These providers certify a parent's eligibility for care, assist them in finding care if necessary, pay the child care provider the provider's rate, and collect any fees a parent owes.

To cover the costs of these administrative and supportive services, the AP Provider can keep up 20 percent of the contract amount. Of this amount 15 percent can be used for administrative costs and an additional 5 percent can be used for supportive services.

The Senate Committee on Budget and Fiscal Review's "Overview of the 2003-2004 Budget Act" suggested that the State could save about $35 million in the budget year by limiting the types of supportive services the AP programs could offer. The proposal is intended to be a one-year reduction.

COMMENTS:

The State saves roughly $12 million for every 1 percent of administration reduced.

This would be the second time AP Provider administration was reduced in two years. The current year budget bill reduced the administration reimbursement rate for non CalWORKs child care programs to the CalWORKs level.

ISSUE 13: QUALITY IMPROVEMENT INITIATIVES

The Subcommittee will consider the options for funding quality improvement initiatives.

BACKGROUND:

Within the federal Child Care and Development Block Grant regulations (Title 45, Parts 98 and 99) and funding terms there is a requirement to spend a minimum of 4 percent of the aggregate funds expended for child care on quality activities ($43.4 million). The funding terms state, "Not less than 4 percent of the total of all federal funds and the amount of State matching funds must be expended on quality activities. This includes funds transferred from Temporary Assistance for Needy Families (TANF) into CCDF."

In addition to the 4 percent minimum quality spending requirement there are also specific dollar quality earmarks within the grant's discretionary funding stream. They are: a) Child Care Quality Improvement Activities ($20.1 million), b) Infant and Toddler Quality Improvement Activities ($11.7 million), and c) Child Care Resource and Referral and School Aged Child Care Activities ($2.1 million).

For FY 2003-04, California must spend a minimum of $77.2 million on approved quality activities to meet the 4 percent and other required earmark quality expenditure requirements.

The voters of California passed Proposition 10 in 1998, which imposed a 50 cent per-pack surcharge on cigarettes for services for children age zero to five years old. The State will collect between $600 million and $700 million in Proposition 10 funds in the budget year. Of this amount about $65 million is set aside for purposes that are consistent with the Quality Improvement Initiatives.

The Senate Committee on Budget and Fiscal Review's "Overview of the 2003-04 Budget Act" proposed savings of $20 million to $40 million by using Proposition 10 funds in the budget year for activities currently provided by state and federal funds for quality improvement programs.

COMMENTS:

Proposition 10 funds cannot supplant existing expenditures. However, some existing Proposition 10 expenditures may be countable towards the State's Quality Improvement expenditure requirements.

CDE notes that the State could be subject to a fiscal penalty if less than four percent of all expenditures for CCDF are spent on quality improvement. Thus, CDE recommends that the State budget slightly more than the 4 percent threshold to account for any underspending that could occur.

ISSUE 14: PART DAY PRESCHOOL PROGRAMS

The Subcommittee will discuss part day preschool programs.

BACKGROUND:

Both the State and the federal government finance a part-day part-year program for three and four-year-old children from low-income families. The federal program is called Head Start and the State program is called State Preschool.

The federal Head Start program's average per-child reimbursement for preschool children is more than $6,400, while State Preschool reimburses about half of that rate. Head Start's higher reimbursement rate allows it to finance a higher level of services, such as supportive services for children and families.

Since 1996, federal and State welfare policy has added significant pressure on the low-income families to join the workforce. As a result, part-day, part-year programs such as Head Start and State Preschool are less in demand and full-day, full-year programs are in greater demand. There are now many low-income communities in California where part-day preschools are able to fully enroll all three-year-old applicants and some three-year-olds. Three-year-olds make up about 15 percent of the State Preschool caseload.

The Senate Committee on Budget and Fiscal Review's "Overview of the 2003-04 Budget Act" contains a proposal to limit State Preschool for three-year-olds for savings of up to $45 million. The proposal also suggested that the State work with the Head Start program to coordinate the funding of classrooms.

COMMENTS:

Like General Child Care, the preschool classrooms operate on fixed-cost basis that makes marginal reductions, such as the elimination of 3 year olds, difficult to implement.

ISSUE 15: MORATORIUM ON NEW ENROLLMENT IN ALTERNATIVE PAYMENT PROGRAMS

The Subcommittee will discuss a proposal to enact a time-limited moratorium of new enrollment in Alternative Payment Programs.

BACKGROUND:

The Alternative Payment Program provides vouchers for a child to get care. When a child stops receiving care, that voucher is provided to a new family on the waiting list.

The Senate Committee on Budget and Fiscal Review's "Overview of the 2003-04 Budget Act" suggested some potential savings in the AP Program:

- Place a six-month moratorium in replacing new families
- Set a target for savings and suspend enrollment of new families until that level of savings is achieved.

COMMENTS:

A preliminary analysis of the turnover in the Alternative Payment system estimated that about 2 to 3 percent of the slots turn over each year. However, further analysis would be needed to accurately predict the budget year savings from enacting such a reduction.

ITEM 4220 CHILD DEVELOPMENT POLICY ADVISORY COMMITTEE

ISSUE 16: ELIMINATION OF CDPAC

The Subcommittee will discuss the proposed elimination of CDPAC.

BACKGROUND:

The December Revise proposed to eliminate the Child Development Policy Advisory Committee, resulting in a $18,000 General Fund savings in the current year and $619,000 ($367,000 General Fund) in the budget year. This proposal would eliminate all 5.3 positions in CDPAC.

CDPAC provides public policy recommendations to the Governor, the Legislature and relevant State departments on child care and development. The Committee has nine full committee hearings and frequent subcommittee meetings throughout the year. CDPAC was originally established as the Governor's Advisory Committee on Preschool and Educational Program in 1965 by AB 1331 (Unruh).

COMMENTS:

CDPAC is one of over 300 Boards and Commissions contained in the budget. It is the only advisory body in the State that oversees the multi-billion dollar child care and development industry.

The current year cuts package contained in SB X1 19 (Chesbro) included a 5 percent reduction to CDPAC.