AGENDA
SUBCOMMITTEE NO. 2
ON EDUCATION FINANCE

ASSEMBLYMEMBER JULIA BROWNLEY, CHAIR

TUESDAY, APRIL 8, 2008
STATE CAPITOL, ROOM 444
9:00 A.M.

6110 CALIFORNIA DEPARTMENT OF EDUCATION

ISSUE 1: COLA: PROPOSED CHANGE TO INDEX

The issue for the Subcommittee to consider is the Governor's proposed change to the COLA index and the LAO alternative COLA proposal.

BACKGROUND:

Each year, the budget provides most Proposition 98 programs with a cost-of-living adjustment (COLA), or an increase in funding to reflect the higher costs schools experience due to inflation. For K-12 education, some programs (including revenue limits, or general purpose funds) are statutorily required to receive this adjustment, whereas others receive the adjustment at the Legislature's discretion.

School districts generally use a portion of this new funding to provide annual increases to employee salaries through "step and column" salary schedules and raises. Depending on local collective bargaining agreements, the rate of the employee adjustment may be more or less than the COLA rate the state is providing. In addition to salary adjustments, COLA funding also goes to address cost increases for local operating expenses including employee benefits, utilities, materials, and supplies.

Both LAO and Administration have concerns with existing COLA index. Both the Administration and the LAO have concerns with the existing index used to calculate the K-12 COLA because it is heavily influenced by cost increases in areas that do not significantly affect schools.

Under current law, the K-12 COLA rate is based on the gross domestic product price deflator for purchases of goods and services by state and local governments (GDPSL). This index, calculated by the federal government, is designed to reflect changes in costs experienced by state and local governments around the country. To reflect the multiple categories in which state and local governments spend money, the GDPSL has several components including employee compensation, services (e.g. utilities), structures/gross investment, nondurable goods, and durable goods. In recent years, costs for structures and nondurable goods have experienced rapid growth due to national and international factors such as the hurricanes of 2005, instability in the Persian Gulf and growing demand for steel on the international market. The recent increases in these two categories have contributed to a higher overall GDPSL and K-12 COLA.

According to the LAO, the cost factors that school districts actually face are somewhat different from those reflected in the GDPSL. Although the GDPSL measures the costs of state and local government agencies, schools typically have different expenditure patterns than many other government entities. For example, a typical school spends about 85% of its annual General Fund budget on employee salaries and benefits. In contrast, employee compensation makes up only around 56% of the GDPSL. Conversely, the overall GDPSL is significantly more affected by cost increases in energy and construction than are typical K-14 General Fund budgets.

Governor's proposal to change COLA index to Consumer Price Index for Wage Earners and Clerical Workers (CA CPI-W). In an effort to better align the COLA with the cost pressures schools actually face, the Governor proposes to change the index used to calculate the K-12 COLA from the GDPSL to a modified version of the CA CPI-W. The proposed change would take effect beginning in the budget year. The proposed change would lower the rate from 5.43 % (GDPSL) to 4.40 % (CA CPI-W).

The United States Consumer Price Index (CPI) measures changes in the prices consumers in urban areas pay for a fixed "market basket" of goods and services. The CPI-W is a subset of the CPI based on the spending patterns of urban consumers who work in clerical or wage occupations. The federal government also produces data reflecting consumer prices in California's two largest urban areas—Los Angeles and San Francisco. State economists use data from the two regions to calculate a state-specific urban price index, known as the CA CPI-W. Many of the state's county public health departments use this index to calculate annual COLAs for their employee salaries. The Governor's proposed change for the K-12 COLA would use an unweighted version of the CA CPI-W.

LAO recommends using the employee compensation component of the GDPSL. The LAO argues that because the CA CPI-W focuses exclusively on consumer costs, it may be influenced by cost increases that have no bearing on schools' operational expenses.

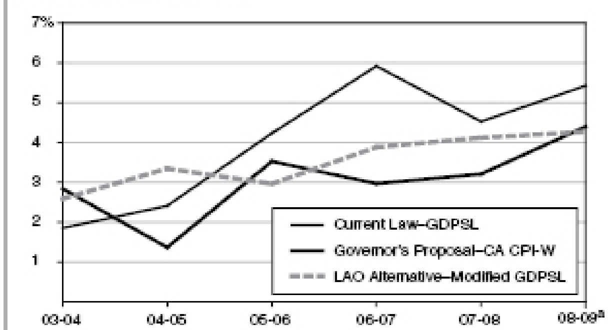
Because the state is providing K-12 COLA funding to schools and colleges—the employers—and not directly to the employees, they believe the GDPSL is a more appropriate inflationary measure than the administration's proposal. However, the overall GDPSL index does not accurately reflect cost increases schools actually face. Therefore, the LAO recommends that instead of using the total GDPSL, the state use the employee compensation component of the index. According to the LAO, this would account for inflationary changes in employer costs for both salaries and benefits and this approach also results in greater simplicity and transparency, making it easier for all parties to understand.

What is the effect of the LAO recommendation? The following figure displays actual growth rates for the GDPSL, the CA CPI-W, and the employee compensation component of the GDPSL from 2003-04 to 2007-08, as well the projected growth rates for 2008-09. As shown, no one index is consistently higher than the others. However, looking back at the GDPSL and its components over the past 20 years, the employee compensation component has grown more quickly than the overall index 75% of the time.

Figure 5

Comparison of K-12 COLA Rates Under Different Indices

2003-04 Through 2008-09



[a] Estimated. Based on revised data.

Costs of Existing COLA Rate Higher Than Alternatives in Recent Years. Over the past four years (2004-05 through 2007-08), the state paid approximately $8.3 billion to fund COLAs for K-14 education. Had the K-12 COLA been calculated over the same time period using either the Governor's proposed index or the LAO alternative, the costs would have been less—$5.4 billion or $6.9 billion, respectively.

Existing COLA Rate Expected to Be High Again in 2008-09. The LAO projects the GDPSL will continue to be higher than the two alternatives in 2008-09. Providing COLAs at the current statutory rate of 5.4% to the K-14 programs that typically get them would cost the state approximately $3 billion in 2008-09. In contrast, estimates are lower for both the Governor's proposed index and the LAO alternative—4.4% and 4.3%, respectively—each resulting in a cost of around $2.4 billion.

COMMENTS

COLA change and the effect on the budget year and out-years. The LAO contends that this may be the best year for a change to the COLA index since K-14 education programs may not receive a COLA in 2008-09. (Neither the Governor's proposed budget nor the LAO alternative includes COLAs.) However, the change in 2008-09 could have a fiscal effect on future K-12 revenue limits if the Legislature chooses to create a "deficit factor."

When COLA is not provided, the state has the option of providing a deficit factor. This allows the state to keep track of the level of revenue limit funding that would be needed in subsequent years if the earlier reduction had not occurred. As a result, the state achieves short-term savings but revenue limits are not affected into perpetuity. Instead, the state provides more than otherwise required for revenue limits when times are better.

The Governor's budget proposes not to provide a COLA to revenue limits and to create a deficit factor. Based on the current COLA factor (5.4 percent), the size of the deficit factor would be $1.9 billion. By comparison, it would $1.6 billion under the Governor's COLA proposal (4.4 percent) and $1.5 billion under the LAO recommendation (4.3 percent).

ISSUE 2: ACROSS THE BOARD REDUCTION IN CHILD DEVELOPMENT

BACKGROUND

Overview of Governor's Budget. The state supports a variety of child care and development programs. It also supports efforts to improve the quality and availability of these programs through community, parent, and provider education. Although the specific objective of each program is unique, collectively the programs aim to provide high-quality supervision and/or early education experiences to children from birth through age 12, or longer for children with special needs. As shown in the figure below from the LAO *Analysis*, in 2008-09, the Governor proposes to spend nearly $3.1 billion to provide these services to more than 437,000 children.

California Child Care and Development Programs

2008-09 All Funds
(Dollars in Millions)

Program[a]	2007-08	Proposed 2008-09	Change Amount	Change Percent
CalWORKs[b] Child Care:				
Stage 1[c, d]	$511	$554	$43	8.4%
Stage 2[d, e]	489	497	8	1.5
Stage 3	405	420	15	3.8
Subtotals	($1,405)	($1,471)	($66)	(4.7%)
Non-CalWORKs[b] Child Care:				
General child care	$805	$753	-$52	-6.5%
Other child care programs	336	313	-24	-6.8
Subtotals	($1,141)	($1,066)	(-$75)	(-6.6%)
State Preschool	$442	$413	-$29	-6.6%
Support Services	$106	$100	-$6	-6.0%
Totals—All Programs	**$3,094**	**$3,050**	**-$43**	**-1.4%**

[a] Except where noted otherwise, all programs are administered by the California Department of Education.
[b] California Work Opportunity and Responsibility to Kids.
[c] Administered by California Department of Social Services.
[d] Does not include reserve funding.
[e] Includes funding for centers run by California Community Colleges.

Child Care and Development Programs. Of the entire CCD budget, approximately 83 percent is used for child care programs, 14 percent is for preschool programs, and about 3 percent is for related support activities. In general, child care programs are designed primarily to supervise children whereas child development programs have a focus on early childhood education. In reality, these programs frequently have many points of overlap and coordinate to serve the same children. The state programs serve children of families in the California Work Opportunity and Responsibility to Kids (CalWORKs) program as well as non-CalWORKs, low-income families.

- **CalWORKs Guarantees Families Child Care.** In exchange for engaging in work or work preparation activities, the state guarantees child care to CalWORKs recipients. Thus, the demand for CalWORKs child care is driven by CalWORKs caseload. CalWORKs child care is supported by state General Fund (Proposition 98), federal Temporary Assistance for Needy Families (TANF), and federal Child Care and Development Fund (CCDF) monies. The program involves three stages of child care.

- **CalWORKs Stage 1.** This stage begins when a participant enters the CalWORKs program. The child care component is administered by the Department of Social Services through county welfare departments. It is funded completely with TANF monies. In 2008-09, the Governor's budget includes $554 million to serve more than 63,000 children in Stage 1 care.

- **CalWORKs Stage 2.** The CalWORKs families are transferred to Stage 2 when the county determines that participants' schedules become stable. Families remain eligible for Stage 2 as long as they are participating in CalWORKs and up to two years after the family stops receiving a CalWORKs grant. This stage is administered primarily by the California Department of Education (CDE), although the California Community Colleges also have a small administrative role. It is funded with a combination of Proposition 98 and TANF monies. In 2008-09, the Governor's budget includes $497 million to serve approximately 75,000 children in Stage 2 care (including nearly 3,000 children served in community college centers).

- **CalWORKs Stage 3.** When they have exhausted their two–year limit in Stage 2 (referred to as "timing out"), a family is eligible for Stage 3 as long as their income remains below 75 percent of the State Median Income (SMI) level and their children are younger than age 13. Stage 3 also is administered by CDE. It is funded with a combination of Proposition 98 and CCDF grant monies. In 2008-09, the Governor's budget includes $420 million to serve approximately 60,000 children in Stage 3 care.

- **Non-CalWORKs Families Not Guaranteed Child Care.** In addition to CalWORKs Stage 2 and 3, CDE administers general and targeted child care programs to serve non-CalWORKs, low-income children at little or no cost to the family. The base eligibility criterion for these programs is family income at or below 75 percent of SMI relative to family size. Because the number of eligible low-income families exceeds available child care slots, waiting lists for this care are common. These programs are funded with a combination of Proposition 98 and CCDF monies. In 2008-09, the Governor's budget includes almost $1.1 billion to serve approximately 130,000 non–CalWORKs, low–income children. The Governor's proposal also includes freezing SMI at the 2007–08 level, which is discussed further below. The CDE estimates approximately 200,000 eligible children are on the wait-list for non-CalWORKs child care. The majority of those children need full-time care.

Types of Child Care. There are various types of non-California Work Opportunity and Responsibility to Kids (CalWORKs) child care available to low-income families in California.

- **General Child Care.** State licensed child care providing supervision and child development services for children from birth through age 12 as well as older children with exceptional needs. Also includes campus child care for the children of parents enrolled in community college.

- **School–Age Community Child Care Services (Latchkey).** A safe environment with age and developmentally appropriate activities for school-age children during the hours when school is not in session.

- **Severely Handicapped Care.** Available in the San Francisco Bay Area only. Child care, developmentally appropriate activities, and therapy for eligible children and young adults (with an authorizing plan from a special education program) from birth to age 21.

- **Migrant Child Care.** Child care in a licensed facility for children of agricultural workers. Hours and locations of care are structured around local agricultural activities. These programs are also required to reserve slots for children of migrant workers in anticipation of families moving.

Role of Child Care in Work Participation and Family Well-Being. Providers and advocates argue that state-funded child care and development services are essential to low-income parents finding work, achieving self-sufficiency, supporting children's developmental growth, and preparing children for school and life. Permanently reducing the funding base for child care and development subsidy programs will cause parents' work stability to suffer and their steady income potentially could be compromised.

Access to care and education are viewed as key to achievement and maintenance of self-sufficiency for all working families. For families connected to the welfare system, especially in light of restrictive welfare policies, it is incumbent on the state to maintain its commitment to welfare reform policies that support parenting, offer early care and education subsidies, and other supportive services, making it possible for parents to parent, work, and become self-sufficient.

Proposed Reductions.

Governor's Proposed Child Care and Development Budget

(In Millions)

2007 08 Budget Act	**$3,094**
“Workload Budget” Adjustments	
Cost-of-living adjustment (4.94 percent)	$80
Growth adjustment (.69 percent)	11
California Work Opportunity and Responsibility to Kids (CalWORKs) caseload adjustment	66
Total Workload Adjustments	**$157**
2008-09 “Workload” Estimate	**$3,249**
Budget Bill Reductions	
Reduce General Fund contribution to all non-CalWORKs programs proportionately	-$199
2008-09 Proposed	**$3,050**

Attrition Question and Slot Capacity. According to CDE, the reduction translates into the loss of approximately 8,000 slots that are currently being used. The administration proposes that normal attrition rates will reduce the likelihood of a currently-enrolled child losing their slot. The slot reduction is spread across programs, with an exemption for CalWORKs Stages 2and 3 child care.

The LAO notes that the estimated number of "slots" does not translate to real children. One "slot" is one full-time equivalent child of service for a year, but that money might serve a portion of a baby's care for a year, or multiple school age children in part time care. A method to determine "slots" is to use average cost of care per program, which was the LAO's approach to determine that the number of slots proposed to be reduced by the Governor is less than the number of slots currently unused.

Opponents of this analysis would argue that these numbers are state aggregate numbers and that the unspent funds and reductions may not be distributed evenly across providers so there is a chance that any given provider might need to turn away children. The LAO acknowledges this concern but urges the reductions to be made across programs proportionate with the carryover to mitigate this concern.

The LAO continues to concur with the Administration that due to unspent funds and normal attrition, it is unlikely that a child currently receiving care will be denied care in 08-09 under the Governor's funding level. However, the wait list may grow and time on the wait list might increase.

Growth and COLA. The proposal eliminates the COLA, which would have been at 4.94 percent, and growth, an increase of 0.69 percent, and thus reduces existing funding for the remaining programs proportionately regardless of fund source.

SMI Freeze. The proposal freezes the state median income (SMI) at the 2007-08 level. The family income eligibility ceiling is 75 percent of the SMI for a family of four for all child care and development programs. The administration's rationale here was to preserve in-demand slots for the neediest families at the lower end of the income eligibility range. Advocates in opposition to this freeze contend that families who lose their eligibility as a result of this could be forced to return to cash aid or leave their children in unsafe situations.

The decision of whether to freeze SMI is a complicated matter that the Legislature and the administration have debated frequently in recent years. Freezing SMI results in families becoming ineligible for service earlier than they would if SMI was increased with inflation. If a family at the upper end of the eligibility range received an income increase equal to inflation while SMI stayed flat, that family would lose eligibility for subsidized child care. This would, in turn, free up a child care slot—which would be filled by the lowest–income family on the wait–list. Thus, the LAO notes, the decision of whether to freeze SMI becomes a question of priorities—keeping higher–income families eligible for service or serving lower–income families now on the wait–list.

LAO Alternative. The figure below shows that the Governor's proposed funding level would result in the loss of roughly 16,600 FTE slots from non-CalWORKs programs. However, it is unlikely that any child currently in care will lose a slot based on these reductions. As mentioned above, CCD programs have an average of $200 million in unspent funds each year. That equates to approximately 22,000 slots (using an average cost of care) across the non-CalWORKs programs. In fact, for 2007–08, CDE has already identified $102 million in unspent funds ($80 million of which the Governor has proposed to carry forward to fund the 2008-09 budget), which equates to more than 18,000 slots. Based on recent trends, the LAO anticipates additional unspent 2007–08 funds will materialize in the coming years. Thus, the Governor's proposal would unquestionably result in a reduction in *funded* slots but not a reduction in *used* slots.

Number of Reduced Slots Would Be Less Than Number of Currently Unused Slots

	2007-08 Funded Slots	2008-09 Proposed Slots	Change
Non-CalWORKs Child Care:			
General	86,974	81,374	-5,600
Alternative Payment	38,301	35,835	-2,466
Other[a]	13,493	12,624	-869
Preschool	117,624	109,963	-7,661
Totals	**256,392**	**239,796**	**-16,596**
Unused Slots[b]			**22,000**

[a] Includes Migrant, Latchkey, and Severely Handicapped child care programs.
[b] Reflects average number of unused slots across all non-CalWORKS child care programs from 2003-04 through 2007-08.

The LAO recommended alternative to the CCD budget arrives at the same funding level as the Governor but with different assumptions. From the 2007–08 budget, the LAO adjusts for the chronic CCD carryover—using $120 million as a conservative estimate of 2007–08 funds likely to go unused. Unlike the Governor's plan, the LAO recommends the Legislature fund growth (calculated at $10 million after adjusting the 2007–08 budget for chronic carryover). This growth adjustment maintains the relative size of the wait–list to the pool of children receiving service. Then the LAO includes the same adjustment for CalWORKs caseload estimates as the Governor ($66 million) and, like the Governor, would not provide a COLA. Under this alternative, the 2008-09 CCD budget is nearly $3.1 billion (the same level as under the Governor's plan).

Alternative Child Care and Development Budget *(In Millions)*	
2007-08 Budget Act	**$3,094**
Recommended Adjustments	
Reduce chronic carryover	-$120
Growth adjustment (.69 percent)	10
California Work Opportunity and Responsibility to Kids caseload adjustment	66
Total Adjustments	**-$44**
2008-09 LAO Proposed	**$3,050**

PANELISTS

- Legislative Analyst's Office
- Department of Finance
- California Department of Education

COMMENTS

The discussion around the question of slots may appear academic in nature, as real waiting lists and predictable reductions in service, especially in light of the growing costs of care, are certainties. The LAO's suggestion on methods to look more deeply at costs and carryover will be discussed in the next section and inform this overall debate. This item will be held open pending further review and consideration of its interaction with the overall Prop. 98 discussion.

Related discussion of the Centralized Eligibility List and Regional Market Rate appear later in this agenda.

QUESTIONS

- DOF and CDA, to what extent has the administration contemplated the effects of cuts in this area on the state's work participation rate and for indicators of family and child well-being?

- DOF and CDA, what do we know about unspent funds and attrition in particular programs and how can this inform decisions about where to reduce, if reductions are indeed chosen?

- How does the freeze in the SMI affect high cost areas, such as Alameda County, and does the freeze affect enrollment of sufficient numbers of eligible families in this areas to maintain program service levels?

- What effect on providers will the elimination of growth and COLA have on the natural, in the absence of the ten percent or other further reduction?

ISSUE 3: ANNUAL ESTIMATING ISSUES: CASELOAD, CONTRACTING, COSTS, AND CARRYOVER

BACKGROUND

The Governor's budget provides $3.1 billion for CCD in 2008-09. As with K-12 programs, the Governor first builds a workload budget for 2008-09—including a cost-of-living adjustment (COLA) for all programs, growth for non-CalWORKs programs, and caseload adjustments for CalWORKs programs. From that workload budget, the Governor proposes to reduce Proposition 98 General Fund support for CCD by $199 million, resulting in a total year-to-year reduction of $44 million, or 1.4 percent. As discussed in the prior issue, the Governor estimates this proposal will result in a loss of approximately 8,000 existing full–time equivalent (FTE) slots but assumes that normal attrition rates in these programs should reduce the likelihood of a currently enrolled child losing his or her slot. The Governor's proposal effectively results in eliminating funding for growth and COLA and proportional reductions across all programs (except CalWORKs child care, which would still receive a minor increase in an attempt to fully fund that entitlement program).

Unspent Funds. For each of the past five fiscal years, at least $200 million of the CCD appropriation has gone unspent (and has been "carried over" to fund future years of service). Although the bulk of unspent funds for a particular fiscal year are typically identified within 12 months after the close of that fiscal year, it may take up to five subsequent years to identify all unspent funds. There are many reasons that these funds go unspent but they generally fall into two categories:

- ***Unobligated Funds.*** The first situation is the result of CDE being unable to award contracts up to the level of the full appropriation. This could be due to staffing issues at CDE, the required to conduct a Request for Application, or lack of interest from providers.
- ***Unearned Funds.*** The second situation is the result of providers not serving the exact number of children, or spending money on allowable expenses, up to the full amount of their contracts. The reasons for this so–called "under–earning" are many but can include such things as delays in planned facilities expansions, difficulty filling slots when children exit the program, or just the sheer complexity of tracking allowable expenses and calculating earnings.

For CalWORKs child care there are two components to consider when estimating the total dollar amount of funding needed: caseload and cost of care. Caseload estimates are provided by DSS and CDE to Finance and there is not substantial variance across the three organizations on these estimates. Cost of care estimates however vary greatly between DSS and CDE because estimating the impact of the RMR increases as well as changes in number of hours in care is somewhat subjective and difficult process.

Reserve Issue in Current Year. These difficulties led to the situation we are facing with Stage 2 child care in 07-08 where costs will exceed the appropriation of $474 million as well as the TANF reserve (originally $50 million). CDE attributes the shortage to higher than anticipated costs of care - particularly hours of care. This shortage in 07-08 is a concern as we estimate 08-09. Hours of care and the impending RMR increase need to be considered.

The administration is attempting to arrive at an accurate assessment of the need in CalWORKs child care in the current year and a status report from the administration is requested for this hearing.

Estimating for Budget Year. CDE has revised their latest estimates for the 08-09 Stage 2 need at $543 million and Stage 3 at $475 million. The Governor's January proposal attempted to fully fund CalWORKs based on the latest estimate from CDE and DSS at the time.

For non-CalWORKs child care programs contracting issues have led to chronic carryover across nearly all programs every year. The LAO proposes the Legislature convene an informational hearing and begin to address some of the factors causing the chronic carryover.

LAO Recommendation. The LAO does not believe that chronic carryover can be eliminated in one year or that all issues can be solved immediately, but there are actions that can be taken to begin to address the problem and reduce the amount of money that is carried over instead of being used to serve kids as intended. The CDE is formulating a list of options in this area too. The LAO is willing to lead an effort to consolidate a list of ideas for the Legislature over the next month if desired.

If the Legislature does not take action to reduce chronic carryover, any reductions to child care and development funding will result in actual reductions of service. Therefore, these contracting issues should be addressed and considered in connection with estimates for the 08-09 budget. The LAO states that the result of chronic carryover is that fewer children are served than intended and more children remain on the waiting list. The LAO alternative includes a one-time alignment of funding with service. However, if the systemic issues that cause chronic carryover are not addressed, the problem will continue. Every year fewer children will be served than intended and funds will go unused.

Although there likely is not one easy solution to this problem, various groups have made valid reform suggestions. These include: (1) procedural changes enabling CDE to reallocate contract funds among existing providers in good standing who are under–earning or over–earning (shifting funds from under– to over–earners), (2) grant–based contracts with minimum attendance requirements instead of reimbursement–based funding, and (3) increasing flexibility to allow providers to shift funds between separate CCD programs. The LAO recommends that the Legislature hold an informational hearing this year to consider these various options. We believe that solving the problems that cause chronic carryovers likely will require a multifaceted approach, possibly with different solutions for different programs. The LAO also believes that new options might need to be explored to ensure the underlying incentive problems are adequately overcome.

Request from Child Care Law Center. The Child Care Law Center requests that the following language be adopted as BBL:

> It is the intent of the Legislature to fully fund the third stage of child care for **former** CalWORKs recipients.

Request from California Alternative Payment Program Association (CAPPA). CAPPA requests consideration of the following language from BBL to TBL in the Education Code:

> **Education Code Section 8223-** The reimbursement for alternative payment programs shall include the cost of child care paid to child care providers plus the administrative and support services costs of the alternative payment program. The total cost for administration and support services shall **be limited to no more than 20 percent of the total contract amount. Total contract amount for the purposes of determining the limit of allowable administrative and supportive services for Alternative Payment type programs means either the initial maximum reimbursable amount or the total of direct payments to providers, which includes family fees for certified children and interest earned on advanced contract funds, plus reimbursable administrative and support services costs, whichever is greater.** ~~not to exceed an amount equal to 23.4567 percent of the direct cost-of-care payments to child care providers.~~ The administrative costs shall not exceed the costs allowable for administration under federal requirements.

PANELISTS

- Legislative Analyst's Office
- Department of Finance
- California Department of Education

QUESTIONS

- DOF and CDA, please provide an update on the current year reserve issues in CalWORKs Stages 1, 2, and 3?

- DOF, to what extent can we expect updates in the May Revision on your child care estimates for budget year? How do the reserve issues in the current year impact this?

- LAO, can you describe what changes in processes might be required to move from a reliance on carryover dollars? Please explain the assertion that reductions in services would occur if carryover isn't reduced.

- DOF and CDA, can you please comment on reform discussions within the administration in the areas of budgeting, contracting, and carryover?

ISSUE 4: QUALITY PROGRAMS

BACKGROUND

A small portion of total Proposition 98 and CCDF monies are used to fund programs that do not provide direct services to children but rather provide support services designed to improve program effectiveness. Some support programs are geared toward parents and providers. For example, resource and referral agencies provide information to parents and the community about child care available in the area and offer training to providers. By comparison, some are geared more toward government planning. For example, the county–based Local Planning Councils are responsible for assessing need, planning, and coordinating child care services within the county. Other support programs, collectively called "Quality Programs," are intended to improve the quality and availability of child care. In 2008-09, the Governor's budget provides approximately $100 million for these support services.

Proposed Reductions. Overall quality funding decreased by $5.6 million in GF. One-time federal funds were reduced by 16%, but the balance of federal funds was unchanged. Quality activities as a whole were reduced by 6.4%, although the Child Care Salary and Retention Program suffered a 25.9% cut.

Quality Improvement Activities	GF Reduction
Child Care Salary and Retention Program (AB 212)	$3,885,000
Resource and Referral Agencies	$1,252,000
Local Child Care and Development Planning Councils	$427,000
Child Care Initiative Project	$16,000
TOTAL	*$5,580,000*

Reaction from Advocates. Stakeholders, including labor unions and service providers, state that the cut to the AB 212 program will compromise its ability to deliver meaningful professional support to early childhood teachers who care for California's vulnerable low-income children in Title V programs. The program currently enables teachers to increase their professional preparation and commit themselves to continue providing high quality care and education to California's young children by rewarding them with a modest stipend.

Request from Child Care Law Center. The Center requests the adoption of the following trailer bill language.

> 6110-196-001 (4)(e). As required by federal law, the (SDE) shall develop an expenditure plan that sets forth the final priorities for child care. The SDE shall coordinate with the DSS, the California Children and Families Commission, and other stakeholders, including the Department of Finance, to develop the Child Care Development Fund (CCDF) Plan. By February 1 of the year the CCDF Plan is due to the federal government, SDE shall release a draft of the plan. It shall then commence a 30-day comment period that shall include at least one hearing and the opportunity for written comments. SDE shall provide the revised CCDF Plan to the chairperson of the committee in each house of the Legislature that considers appropriations and shall provide a report on the plan to the committee in each house of the Legislature that considers the annual Budget Act appropriation, prior to the May budget revision.

PANELISTS

- Legislative Analyst's Office
- Department of Finance
- California Department of Education

COMMENTS

The Subcommittee may wish to request that the administration respond specifically on why these reduction proposals were made at the level at which they were proposed and how this fits in with the usual, traditional method for allocating these Quality funds.

QUESTIONS

- What was the administration's approach to the reductions in the impacted quality areas?

- Are there quality programs that did not receive a reduction? Please provide information that explains the differentiation and rationale.

- How is this related to the CCDF activities and expenditure plan?

ISSUE 5: UPDATES ON CENTRALIZED ELIGIBILITY LIST AND REGIONAL MARKET RATE

CENTRALIZED ELIGIBILITY LISTS

The Budget Act of 2005 (SB 77, Chapter 278, Statures of 2005) authorized $7.9 million to an alternative payment program in each county to design, maintain and administer a countywide centralized eligibility list (CEL). All of these funds were allocated to the counties, with the same amount authorized in the 2006 and 2007 Budget Acts. Fiscal year 2005-06 was an implementation year, with all Child Development Division (CDD) contractors required to begin utilizing their county CEL as of July 2006, with three specific program-type exemptions. Los Angeles County was not required to fully implement its CEL until June 2007.

The CEL data indicates that there were 135,067 families and 204,063 children waiting for subsidized care on September 30, 2007. The CEL data from the Legislative Report for 2006 indicated 132,003 families and 206,974 children waited for subsidized child care for the third quarter of 2006. It should be noted that the data reported in the Legislative Report for 2006, and the data reported in this report, may not be comparable.

Characteristics of Families Who Are Waiting

Of the 135,067 families waiting, the reported reason for needing subsidized child care services is as follows:

Reason for needing care	Active Families	Percent
Working/Employed	111,641	82.7%
Actively Seeking Employment	28,194	20.9%
Education or Training	22,497	16.7%
Seeking Permanent Housing	2,588	1.9%
Incapacitated	3,498	2.6%
Looking for Part-day Educational Preschool program	14,121	10.5%

Note that families could have indicated more than one reason for needing care.

The majority (56.1 percent) of families waiting had two or three family members.

Characteristics of Children Who Are Waiting

Of the 204,063 children waiting, the age group of the children is as follows:

Age Group	Active Children	Percent
Up to three years of age	69,320	34.0%
Between three and five years of age	79,768	39.1%
Six years of age and older	54,975	26.9%

Note that age was calculated as of September 30, 2007.

Of the 204,063 children waiting, the reported time-base needed is as follows:

Time base needed	Active Children	Percent
Need Full time Care	156,056	76.5%
Need Part time Care	64,657	31.7%
Need Evening Care	13,312	6.5%
Need Weekend Care	8,021	3.9%

Note that families could have indicated more than one time base for needing care.

Of the 204,063 children waiting, the number of children reported with exceptional needs or in foster care is as follows:

Characteristics	Active Children	Percent
Exceptional Needs with either an Individual Family Service Plan (IFSP) or an Individualized Educational Program (IEP)	23,210	11.4%
Foster children or in the care of an adult who is neither their biological or adoptive parent	4,989	2.4%

The CEL data collected also captured the number of children who waited for subsidized child development services, at some time during the quarter, and were no longer waiting. There were 66,677 (24.63 percent) children who were no longer waiting at some time during the quarter. Of those no longer actively waiting, 18,062 (27.09 percent) children were enrolled in subsidized care, with the remaining records deactivated because either the families could not be contacted, they no longer needed care, or the information was no longer valid. The high “no longer actively waiting” statistic is reasonable as all county CEL Administrators updates records and purge files at least annually.

REGIONAL MARKET RATE

Currently, the state funds child care and development programs through two main mechanisms: vouchers to families and direct contracts with providers.

Most Families Receive Child Care Through a Voucher System. The CalWORKs families in any of the three stages of child care usually receive a voucher from an Alternative Payment (AP) organization or their county welfare department. In addition, the state provides vouchers for non-CalWORKs working poor families through AP organizations. In total, approximately 70 percent of the children in state–subsidized child care are served through a voucher system. Families may use vouchers in one of three settings: licensed centers, licensed family child care homes, and license–exempt care. The licensed programs must adhere to the requirements of Title 22 of the California Code of Regulations and are often referred to as Title 22 programs.

Voucher Providers Are Reimbursed Using the Regional Market Rate. Title 22 providers are reimbursed for services up to a maximum of 85 percent of the rates charged by private–market providers for the same service in the same region. License–exempt providers may earn a maximum of 90 percent of Title 22 providers in the same region. The cost of child care in specific regions of the state is determined via the Regional Market Rate (RMR) survey of public and private child care providers. The RMR survey is conducted every year, new regional maximums are posted in October, and providers may adjust their rates for their voucher clients after that time. Although the RMR increase for a particular region may vary from less than 1 percent to nearly 10 percent depending on market factors, the *average* RMR increase is typically around 2 percent each year. Thus, a slight increase in RMR is typically built into budget projections. The Governor has assumed an average cost of care increase of 2.8 percent for the CalWORKs voucher programs in his proposed 2008-09 budget. The Governor has assumed no cost of care increase for the non-CalWORKs voucher program.

CDE Contracts Directly With Child Care and Preschool Centers. For non-CalWORKs child care and preschool, CDE contracts directly with over 750 different agencies through approximately 1,300 different contracts. These providers must adhere to the requirements of Title 5 of the California Code of Regulations and are generally referred to as Title 5 providers.

Title 5 Providers All Receive Same Rate. These providers are reimbursed at the Standard Reimbursement Rate (SRR). The SRR is adjusted for factors such as the age of the child or for special needs. (For instance, the reimbursement rate for an infant is 1.7 times the SRR, and the reimbursement rate for a severely handicapped child is 1.5 times the SRR). It is not adjusted for regional market differences. The Governor has proposed to maintain the current SRR of $34.38 per day per child for full–day care (either full–day child care or part–day preschool/part–day child care) and $21.22 per day per child for preschool only.

PANELISTS

- Legislative Analyst's Office
- Department of Finance
- California Department of Education

COMMENTS

The RMR for the current year was delayed and is expected to be implemented at the beginning of the 2008-09 budget year. The Subcommittee is interested in the details on this delay, how it affects providers, how it fits with other proposed cuts, and what is expected for the BY RMR.

QUESTIONS

- DOF and CDA, is there a language request from the administration to require submission of information for the CELs under penalty of perjury?

- DOF and CDA, what is the reduction in funding for the CEL for BY and how will this affect the list?

- DOF and CDA, please explain the status of the implementation of the 2007 RMR. Why was it delayed and what is the net impact on providers?

ISSUE 6: ACROSS THE BOARD REDUCTION FOR BEFORE AND AFTER SCHOOL PROGRAMS

BACKGROUND

The proposal reduces funding by $59.6 million (of a workload budget of $546 million) and therefore the number and/or magnitude of grants that can be funded in the After School Education and Safety (ASES) program, which provides grants to elementary and middle/junior high schools to establish and maintain before and afterschool education and enrichment programs.

The Department has reported point-in-time information on potential available balances of unspent funds from ASES for 06-07 and 07-08.

- 06-07: CDE reports that there will be anywhere from $83 million to $212 million in unspent funds from the 06-07 ASES appropriation ($547 million). Final numbers should be available by the end of April.

- 07-08: CDE reports that of the original $547 million appropriation, approximately $100 million has been reported expended. Updated expenditure reports should be available at the end of April and final numbers will be available at the end of July 2008.

In the Special Session earlier this year, the Legislature clarified language regarding the "continuous appropriation" of funds for the ASES program. This clarification allows the Legislature to recoup funds unspent at the end of each fiscal year. If no action is taken, unspent funds will revert to the Prop 98 Reversion Account on the natural.

The LAO continues to recommend that the Legislature take action before the end of the current year to recoup unspent funds from ASES from prior years to reduce the Proposition 98 spending in the current year. This can be done without the specific numbers being available.

PANELISTS

- Legislative Analyst's Office
- Department of Finance
- California Department of Education

QUESTIONS

- DOF and CDA, please provide updated estimates on available balances here if they are different than what is reflected in the agenda. Are further revisions expected at May Revision?