

AGENDA
ASSEMBLY BUDGET SUBCOMMITTEE NO. 1
ON HEALTH AND HUMAN SERVICES

Assemblymember Hector De La Torre, Chair

WEDNESDAY, APRIL 26, 2006, 1:30PM
STATE CAPITOL, ROOM 444

ITEMS TO BE HEARD

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ITEM TO BE HEARD

ITEM 5180 DEPARTMENT OF SOCIAL SERVICES

ISSUE #1: CALWORKS UPDATE

CWDA has written a "white paper" on strategies the State could use to improve CalWORKs work participation rates.

BACKGROUND:

In February, the President signed the federal Deficit Reduction Act of 2005, which made changes to the federal TANF that resulted in California needing to improve our work participation rate in the budget year in order to avoid federal penalties.

CWDA COUNTY WHITE PAPER:

CWDA began a study of best practices of counties in the fall to provide the State with some options for improving work participation based upon current county programs that had demonstrated results.

The CWDA will provide a summary of their findings.

DSS CALWORKS WORKING GROUP:

DSS recently held the first meeting of its CalWORKs working group. On April 21, 2006, the full group met for the first time and created four sub-working groups to discuss the challenges and opportunities of the TANF changes in the federal Deficit Reduction Act. The group will meet again on May 5th, 2006.

DSS will present an update on the working group.

PANELISTS:

Frank Mecca
CWDA

Char Lee Metsker
Department of Social Services

ISSUE #2: TANF TRANSFERS

The Subcommittee will consider changing the way TANF funds can be transferred by the Department of Finance.

BACKGROUND:

Each year the state receives \$3.7 billion in federal TANF block grant funds and unspent funds remain available for state expenditure in subsequent years. This funding level is set in federal law. TANF block grant funds may be used for a wide variety of purposes including cash grants, child care, child welfare services, employment services, and foster care. Moreover, TANF block grant funds can be used to offset General Fund costs and are usually fungible to the General Fund. Use of TANF block grant funds outside of the budget act should be subject to similar legislative oversight as the General Fund. The budget act already requires legislative notification through Section 28.00 if TANF funds are to be used in augmentation of budget act authority or through notification procedures contained in Item 5180-403 if the Department of Finance wishes to expend from the TANF reserve. The one "loop hole" in the existing legislative oversight is DOF's assertion that it may substitute TANF funds for existing non-TANF federal funds expenditure authority.

For 2005-06, the Department of Social Services estimates that the federal government will deny \$19 million in budgeted claims for federal Title IV-E funds for child welfare services emergency hotline activity costs. The Governor's has backfilled this loss with federal TANF block grant funds without notifying the Legislature. (The Governor did submit a Section 28.00 letter asking for augmentation of federal TANF funds authority to replace General Fund authority.) The Department of Finance argues that because the budget has sufficient federal funds authority (for Title IV-E), it does not need an augmentation of federal funds authority pursuant to Section 28.00 of the act. Essentially, DOF asserts the right to substitute TANF funds for other federal funds authority without legislative consultation. Although this argument has some merit, it conflicts with legislative intent expressed in Item 5180-403, which governs the use of the TANF reserve.

LAO RECOMMENDATION:

To strengthen legislative control over TANF block grant funds after the budget has been enacted, the LAO recommends amending Section 8.50 of the budget bill which governs the use of federal funds. Specifically, a new paragraph should be added to Section 8.50 indicating that substitution of TANF block grant funds for existing federal funds authority is subject to the same requirements set forth in Section 28.00.

Add paragraph (c) to Section 8.50 as follows:

(c) Paragraph (a) of this Section does not apply to federal Temporary Assistance for Needy Families (TANF) block grant funds. Any expenditure of TANF funds beyond what is authorized in this act are subject to the notification procedures and requirements

set forth in Section 28:00 of this act or Provision 4 of Item 5180-101-0001, whichever is applicable.

PANELISTS:

Todd Bland
Legislative Analyst's Office

Nick Buchen
Department of Finance

STAFF COMMENT:

Given that that TANF funding is much more flexible than other federal funds, the proposed language helps ensure that the Legislature is consulted before these are expended.

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

ISSUE #3: CHILD CARE ELIGIBILITY

The Subcommittee will discuss child care eligibility.

BACKGROUND:

Under current law, a family must earn less than 75% of the State Median Income (SMI) to be eligible for subsidized child care. The SMI level for this determination has not been updated since 2000 (based on 1998 income data). The continued freeze of this eligibility level has significantly reduced the income range a family can earn and still be eligible for child care. Under the current eligibility threshold, a family of 3 can earn up to \$2,925/month; If the SMI were updated, that same family could make up to \$3,956/month

Current State law requires that the SMI used for eligibility be updated by March 1 of each year. However, for the last five years the Budget Bill has contained a provision that suspends this SMI update.

FEE:

The budget bill includes language that proposes a working group to discuss both the eligibility level and the family fees for child care. Finance and Subcommittee staff have been discussing the possibility of having a meeting this year to resolve the issue.

PANELIST:

Linda Lewis
Department of Finance

STAFF COMMENT:

The Subcommittee has received reports of many parents taking pay cuts, turning down promotions, or cutting hours so they don't go over the income limit. Some child care administrators also report former CalWORKs Stage 3 families returning to CalWORKs cash aid because they cannot afford private pay child care.

ISSUE #4: ALTERNATIVE PAYMENT PROGRAM ADMINISTRATION

The Alternative Payment Program administrators have requested language to increase their administrative funding flexibility.

BACKGROUND:

The Governor's budget includes trailer bill language to increase the amount that Alternative Payment Program administrators can charge for administration. The language is intended to restore the AP's administration level to 20 percent of the total expenditures, up from the current rate of 19 percent. The language reflects a recognition that AP administrative burdens have increased while caseloads have flattened, which requires AP's to spend more funds on administration.

DOF BUDGET BILL LANGUAGE:

The Department of Finance has proposed the following Budget Bill Language to address this issue:

Notwithstanding any other provision of law, administrative and support services allowances for the programs funded through Schedules (1.5)(d), (1.5)(e), and (1.5)(f) of this item shall be limited to no more than 25 percent of the total contract amount. Alternative payment agencies shall provide verification of administrative and support services expenditures to the department.

There was some concern that the proposed language would actually increase the administration rate to 25 percent of total expenditures.

CAPPA PROPOSED TRAILER BILL LANGUAGE:

The California Alternative Payment Program Association (CAPPA) has suggested the following Trailer Bill Language to implement the increase in the administration rate to 20 percent:

8223. The assigned reimbursement rate for alternative payment programs shall include ~~the cost of child care funds to be paid directly to~~ paid to child care providers, ~~plus the administrative and support services costs of the alternative payment program funds to be used for family and provider support services, and administration of the alternative payment program.~~ The total cost for administration and support services shall not exceed an amount equal to ~~23.4567~~ 25 percent of the direct cost-of-care payments to child care providers.

CAPPA LANGUAGE FOR SMALL COUNTIES:

Small alternative payment contractors have commented that they have difficulty projecting their total administrative budget given the volatile nature of the child caseloads. CAPPA has requested that language be adopted that allows CDE and alternative payment programs to increase the administration rates, on a one-time basis, in the event that administrative costs exceed the 20 percent level:

8222.1. Out of funds appropriated in accordance with Section 8278 for alternative payment programs, the State Department of Education shall reallocate funds necessary to reimburse alternative payment programs for actual and allowable costs incurred for additional services. Applicants may apply for up to and including ~~an amount not to exceed five thousand dollars (\$5,000), or two~~ 7 percent of the contract amount, whichever is greater. ~~Applicants who received funds for two consecutive years under this section may not apply for funding for the following year.~~ Applicant must be provided funding within 30 days of request.

PANELISTS:

Debbie Macdonald
YMCA Child Care Resource Services

Bobby Malone
Child & Family Resources of Lassen County

STAFF COMMENT:

Both Finance and CDE thought that the proposed language might need technical changes to address the problems identified by the administrators.

ISSUE #5: IN AND OUT OF MARKET RATE

The Subcommittee will discuss the process for ensuring that public vouchers are not paid in excess of the rate charged to the private market.

BACKGROUND:

Current law states that vouchered child care slots shall be paid a rate that is based upon the rate paid by private paying families for that provider. In addition, this requires that at most 75 percent of a provider's slots can be filled with subsidized children receiving a voucher for their child care. Although these provisions have been in law for several years, there are no consistent statewide guidelines regarding how to enforce these requirements.

For the last three years, Trailer Bill Language has suspended CDE regulations that created a mechanism to verify the rates providers receive from private pay families and also set the rates for providers that had only vouchered child care families. Providers would need to have at least one private pay families send in a form to verify the private pay rate. If the child care provider did not serve private paying families the regulations would arbitrarily pick five providers in the area to ascertain their rates for private pay families.

The Subcommittee received numerous complaints about these proposed regulations. There were three basic problems with these regulations:

- The regulations required private pay families to provide personal information, even though they were not part of the State program.
- AP's were concerned that collecting and verifying all of the private pay rates would result in a substantial increase in workload.
- Advocates were concerned that some providers would stop taking vouchered children because of the additional administrative burden on them and their other families.

Last year, the Subcommittee adopted Trailer Bill Language to make statutory changes that would set the market rate based upon the rate that providers report to their local Resource and Referral agency. The Trailer Bill Language was intended to use the competitive pressures of the private market to enforce the current policy without burdening private pay families or creating the paperwork associated with the CDE regulations.

PANELIST:

Debbie Macdonald
YMCA Child Care Resource Services

STAFF COMMENT:

The Legislature, CDE, and Finance agree on the State's policy direction for setting vouchered child care reimbursement rates, however there is disagreement on the mechanism that is used to set the rates. Staff is working with Finance and CDE to see if a compromise can be reached so that this issue can be resolved.

ISSUE #6: STANDARD REIMBURSEMENT RATES

The Subcommittee will discuss the reimbursement rate for Title V Child Care centers.

BACKGROUND:

CDE contracts directly with 850 different agencies through approximately 2,100 different contracts. These providers are reimbursed with the Standard Reimbursement Rate, \$31.59 per full day of enrollment (proposed 2006-07 rate). 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.

In many parts of the State, the SRR lags behind the Regional Market Rates that the State pays for vouchered care. This gap is particularly acute in the Bay Area counties, where the cost of care is much higher than the State average.

PROPOSITION 49 IMPACT ON TITLE V RATE:

Advocates have stated one large school district in the Bay Area has considered converting all of their Title V child care center “classrooms” into afterschool program “classrooms” because the SRR was too low to cover the high costs associated with meeting Title V requirements. The district ultimately decided to continue providing the contracted Title V child care. However, with the addition of the Proposition 49 funding in the budget year combined with possible legislative changes to increase the reimbursement rates of the after school programs, it is possible that the local districts use funding from their existing Title V program to fund the local match for the after school program.

LAO RECOMMENDATION:

The LAO recommends increasing the Standard Reimbursement Rate by making the following adjustments:

- Redirect all child care growth funding to the SRR (\$14.8 million).
- Limit license-exempt funding to 90 percent of the Title 5 reimbursement rate in high-cost counties.
- Require centers to provide the state a similar sibling discount as given to private-paying customers.
- Adopt a sliding scale cost-of-living adjustment (COLA), providing a higher COLA in high-cost counties, and lower COLA in low-cost counties.

The LAO recommendation redirects growth from pre-school and vouchered child care programs. The growth funding for the Title V General Child Care program alone is \$7.6 million.

UNSPENT GENERAL CHILD CARE FUNDING:

According to CDE, over \$4 million budgeted for General Child Care programs was returned as unspent funding in FY 04-05. The SRR could further increase if the State could find a way to convert some of the unused slots in current contracts into a higher rate for the program.

PANELISTS:

Legislative Analyst's Office

Michael Jett
California Department of Education

STAFF COMMENT:

Child care advocates commented that some child care centers meeting Title 5 requirements are considering discontinuing their General Child Care contracts because they cannot get reimbursed for their costs.

Last year, the Department of Education estimated that it would cost \$119.5 million to reimburse Title 5 centers in counties that have an RMR above the SRR at the higher RMR level.

ISSUE #7: LA CARES SUNSET

LA County has asked for Trailer Bill Language to extend the sunset for a provision that allows family child care homes to participate in CARES in LA County.

BACKGROUND:

Current law, Chapter 547 of the Statutes of 2000 (AB 212--Aroner), implements the Child Care Salary and Retention Incentive Program ("Stipend Program") through the California Department of Education (CDE). The CDE contracts with county local child care and development planning councils (LPC's) to administer the Stipend Program. The county LPC's develop plans which are reviewed and approved by CDE, and those plans provide local guidelines defining qualified teachers, measurable outcomes, retention rates, and accounting for the expenditure of the funding. In addition, Chapter 650 (AB 1285 - Montanez) of the Statutes of 2005 added Section 8279.7 of the Education Code, if funding is available, to include participation as defined to qualified child care teachers in Los Angeles County for one budget year through 2005-06.

Since the passage of these statutes, the Budget Act has funded the State's Stipend program \$15 million annually and allocated moneys to LPC's based on the percentage the county receives state-subsidized center-based funds to address the retention of qualified teachers in CDE-subsidized child care centers through stipends. The Budget Act for 2006-07 includes \$15 million for the Stipend Program through the 2007-08 Budget Year. It has also been identified by the California Department of Education to meet state matching requirements for the Federal Child Care Development Block Grant.

Los Angeles County's Stipend Program is known as the Investing in Early Educators Program (IEE). The IEE Program provides cash stipends to teachers in the County of Los Angeles who: 1) Hold a Child Development Permit; 2) Remain employed in a CDE-funded child development center for at least nine months; 3) Work directly with children at least 20 hours per week; and 4) Complete at least three semester college units leading to a degree or related to child development. In the history of the program, an applicant has never been denied a stipend due to lack of funds.

As a result of AB 1285 (Montanez), educators from licensed child care programs, who are not CDE-contracted, are participating in the Stipend Program. This statute broadened the successful IEE Program in Los Angeles County to include participants from Family Child Care Home Education Networks, and licensed child care centers and family child care homes where a majority of the child care enrolled are receiving State subsidies. Since January 2006, approximately 800 newly eligible early childhood educators have applied to the program, including 393 family child care providers and 420 child care center employees.

LA COUNTY REQUESTS EXTENSION OF SUNSET:

LA County has asked for trailer bill language to extend the sunset date through June 30, 2009 for Los Angeles County's Stipend Program to enhance childcare development training for teachers serving a majority of state-subsidized children in licensed child care settings and family day care homes.

STAFF COMMENT:

The county's proposed trailer bill language extends the program's sunset by appropriating \$15 million annually for the next three years for the program. The Subcommittee generally does not adopt language that appropriated funding beyond the budget year. However, staff believes that alternative language could be crafted that could extend the sunset without creating an out-year appropriation.