AGENDA

JOINT HEARING

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2
ON EDUCATION FINANCE
&
ASSEMBLY BUDGET SUBCOMMITTEE NO. 1
ON HEALTH & HUMAN SERVICES

Assembly Member Susan Bonilla, Chair
Assembly Member Holly Mitchell, Chair

WEDNESDAY, MARCH 14, 2012
1:30 pm- STATE CAPITOL, ROOM 4202

OVERVIEW OF THE GOVERNOR'S 2012-13 CHILD CARE & DEVELOPMENT PROGRAMS

I. OPENING REMARKS

ASSEMBLYMEMBER SUSAN BONILLA, CHAIR
ASSEMBLYMEMBER HOLLY MITCHELL, CHAIR

II. BUDGET PERSPECTIVE
TOM TORLAKSON, SUPERINTENDENT OF PUBLIC INSTRUCTION

III. GOVERNOR'S 2012-13 BUDGET PROPOSALS: CHILD CARE & DEVELOPMENT PROGRAMS
SARA SWAN, DEPARTMENT OF FINANCE

PETE CERVINKA AND STAN CAGLE, DEPARTMENT OF SOCIAL SERVICES

RACHEL EHLERS, LEGISLATIVE ANALYST'S OFFICE

ERIN GABEL, DEPARTMENT OF EDUCATION

IV. EARLY LEARNING & CARE EXPERTS

LYNN KAROLY, SENIOR ECONOMIST, RAND CORPORATION

MARCY WHITEBOOK, DIRECTOR/SENIOR RESEARCHER, CENTER FOR THE STUDY OF CHILD CARE EMPLOYMENT (CSCCE) INSTITUTE FOR RESEARCH ON LABOR & EMPLOYMENT (ILRE), UNIVERSITY OF CALIFORNIA AT BERKELEY

V. CHILD CARE & DEVELOPMENT STAKEHOLDERS

MICHAEL OLENICK, CEO OF CHILD CARE RESOURCE CENTER

FRITZI GRAGG, PROGRAM DIRECTOR FOR CHILD DEVELOPMENT CENTERS/ CONTINUING DEVELOPMENT INC. (CDI/CDC)
PARENT

VI. PUBLIC COMMENT

BACKGROUND

BACKGROUND & HISTORY OF CHILD CARE & DEVELOPMENT PROGRAMS 2

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BACKGROUND

6110 DEPARTMENT OF EDUCATION

CHILD CARE & DEVELOPMENT PROGRAMS

This issue is informational only to provide the Subcommittee with a synopsis of the Child Care & Development Program.

BACKGROUND:

Under current law, the state makes subsidized child care services available to: 1) families on public assistance and participating in work or job readiness programs; 2) families transitioning off public assistance programs; and, 3) other families with exceptional financial need.

The CalWORKs Child Care Program. Child care services provided within the California Work Opportunity and Responsibility to Kids (CalWORKs) program are administered by both the California Department of Social Services (DSS) and the California Department of Education (CDE); depending upon the "stage" of public assistance or transition the family is in.

CalWORKs Stage 1 child care services are administered by the DSS for families currently receiving public assistance, while Stages 2 and 3 are administered by the CDE. Families receiving ***CalWORKs Stage 2*** child care services are either (1) receiving a cash public assistance payment (and are deemed "stabilized"), or (2) in a two-year transitional period after leaving cash assistance. Child care for this population is an entitlement for twenty-four months under current law. The state allows counties flexibility in determining whether a CalWORKs family has been "stabilized" for purposes of assigning the family to either Stage 1 or Stage 2 child care. Depending on the county, some families may be transitioned to Stage 2 within the first six months of their time on aid, while in other counties a family may stay in Stage 1 until they leave aid entirely, depending on their success at addressing barriers to employment and becoming employed.

If a family is receiving ***CalWORKs Stage 3*** child care services, they have exhausted their two-year Stage 2 entitlement. The availability of Stage 3 care is contingent upon the amount of funding appropriated for the program in the annual Budget Act.

There is also a small amount of funding allocated to the Community College Districts to support subsidized child care for students. This includes funding for the following programs:

- **CalWORKs Stage 2:** $9.2 million for subsidized child care for children of CalWORKs recipients. This program is proposed to be part of the Governor's categorical reform and would no longer be restricted for this purpose.

- **Cooperative Agencies Resources for Education (CARE):** $9.3 million to provide students with supplemental support services designed to assist low-income single parents to succeed in college. Child care is one of many supports funded by this program. This program is proposed to be part of the Governor's categorical reform and would no longer be restricted for this purpose.

- **Child Care Tax Bailout:** $3.3 million for districts meeting specific criteria, to provide assistance for child care. This program was included in the categorical flex item adopted in the 2009-10 budget, but there have been no changes to this program since that time. This program is proposed to be part of the Governor's categorical reform and would no longer be restricted for this purpose.

Non-CalWORKs Child Care Programs (General Child Care, Migrant and Severely Handicapped Programs). 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 70 percent of State Median Income (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 and prior to current year cuts were estimated to include approximately 200,000 children.

As of 2011-12, both CalWORKs and non-CalWORKs programs are funded with a combination of non-Proposition 98 General Fund and federal Child Care & Development Fund monies, with the exception of part-day/part-year **State Preschool Program** which continues to be funded from within Proposition 98.

The California State Preschool Program. CDE also administers the early childhood education programs for children ages three to five years old from low income families. Part-day/part-year preschool is the only program that does not require that parents be working or engaged in some other qualifying activity, and families can exceed the State Median cap by ten percent. About one-third of children attending this program are supported by funding redirected from the General Child Care (GCC) budget, in order to fund full-day/full-year care.

California Child Care Programs – Funded Enrollment

Program		***2010-11 Enrollment***	***2011-12 Enrollment***	***2012-13 Estimated Enrollment***
CalWORKs				
Stage 1		51,236	44,294	60,313
Stage 2[a]		59,980	64,724	-
Stage 3[a]		55,145	22,383	-
Community Colleges (Stage 2)		1,279	1,289	1,372
Subtotals		***167,640***	***132,690***	***61,685***
Non-CalWORKs				
General Child Care		86,169	73,418	52,809
Alternative Payment Programs[a]		38,777	32,052	82,834
Migrant & Severely Handicapped Programs		7,561	6,654	6,318
Subtotals		***132,507***	***112,124***	***141,961***
State Preschool (part-day/part year)		***116,847***	***99,334***	***90,580***
TOTALS - ALL PROGRAMS		**416,994**	**344,148**	**294,226**

[a] In 2012-13, the Governor proposes to consolidate the Stage 2, Stage 3 and Alternative Payment Program into one block grant.

Source: DOF

The Reimbursement Process. Child care providers are paid through either (1) direct contracts with CDE or (2) vouchers through the Alternative Payment Program.

- *Direct Contractors* receive funding from the state at a Standard Reimbursement Rate, which pays for a fixed number of child care "slots." These are mostly licensed child care centers but also include some licensed family child care homes (FCCH). These caretakers provide an educational component that is developmentally, culturally, and linguistically appropriate for the children served. These centers and FCCH also provide nutrition education, parent education, staff development, and referrals for health and social services programs.

- *Alternative Payment Programs (APs)* act as an intermediary between CDE, the child care provider, and the family, to provide care through vouchers. Vouchers provide funding for a specific child to obtain care in a licensed child care center, licensed family day care home, or license-exempt care (kith and kin). With a voucher, the family has the choice of which type of care to utilize. Vouchers reimburse care providers based on the market rates charged by private providers in their region.

RECENT REDUCTIONS MADE TO CHILD CARE PROGRAMS

In recent years, the state has made significant reductions to the Child Care & Development programs and operations. Since 2008-09, overall funding for the CCD system has dropped by about one-quarter. In the past three years, the state has:

- Eliminated funding for approximately 20 percent of slots.
- Reduced maximum payment rates for license-exempt providers from 90 percent to 60 percent of licensed rates.
- Lowered income eligibility thresholds from 75 percent to 70 percent of state median income (SMI).
- Eliminated the Latchkey after school program.
- Reduced administrative allowances for AP agencies.
- Reduced reserve balances for Title 5 centers.
- Eliminated the State's Centralized Eligibility List.
- Reduced or eliminated several of the State's quality improvement projects.

OVERVIEW OF THE GOVERNOR'S 2012-13 BUDGET PROPOSALS

As shown in the top part of the figure below, the Governor proposes to spend a total of $1.6 billion for child care programs in 2012-13 – a reduction of $391 million, or 19 percent, compared to the current year. Total State funding would decrease by $468 million, offset by $77 million in federal funds. Because the 2011-12 Budget Act shifted State support for all of Child Care & Development programs other than the State Preschool Program from Proposition 98 to non-Proposition 98 General Fund monies, the figure below displays funding levels for part-day preschool separately at the bottom of the figure.

Child Care and Development Budget Summary

(Dollars in Millions)

	2010–11	2011–12 Revised[a]	2012–13 Proposed	Change From 2011–12 Amount	Change From 2011–12 Percent
Child Care					
Expenditures					
CalWORKs child care					
Stage 1	$486	$429	$482	$54	13%
Stage 2	458	442	292[b]	–151	–34
Stage 3	288	152	121[b]	–30	–20
Subtotals	($1,232)	($1,023)	($895)	(–$127)	(–12%)
Non–CalWORKs child care					
General Child Care[c]	$785	$675	$470	–$205	–30%
Alternative Payment	271	213	158[b]	–55	–26
Other child care	28	30	26	–4	–13
Subtotals	($1,083)	($918)	($654)	(–$264)	(–29%)
Support programs	$100	$76	$76	—	—
Totals	**$2,415**	**$2,017**	**$1,626**	**–$391**	**–19%**
Funding					
State General Fund					
Proposition 98	$856	—	—	—	—
Non–Proposition 98	29	$1,069	$609	–$460	–43%
Other state funds	350	8	—	–8	—
Federal funds					
CCDF	602	533	548	15	3
TANF	467	406	468	62	15
ARRA	110	—	—	—	—
Part–Day State Preschool					
Expenditures[d]	$397	$368	$310	–$58	–16%

[a] Includes midyear trigger reductions totaling $23 million across all programs. Also includes $8 million midyear augmentation to Stage 3.
[b] Governor's proposal would combine funding for Stage 2, Stage 3, and Alternative Payment into one program.
[c] Funding totals include about $400 million used for the California State Preschool Program.
[d] All funding for part–day preschool program is from Proposition 98.
CCDF = Child Care and Development Fund; TANF = Temporary Assistance for Needy Families; and ARRA = American Recovery and Reinvestment Act.

Summary of the Governor's Proposed Reductions. The chart below highlights the Governor's specific changes to the child care budget, which is discussed in further detail in the agenda. These proposals would lead to a combined $391 million in savings and over 63,000 fewer slots. About 75 percent of the savings results from the stricter work eligibility requirements. The chart below also shows a $35 million augmentation for County Welfare Departments (CWDs) to ramp up their activities in anticipation of the proposed restructuring.

Governor's Proposed Reductions to Child Care Programs

(In Millions)

	Funding
County "ramp–up" for child care restructuring	$35
Limit eligibility to families by narrowing definition or work	–294
Reduce reimbursement rates for centers that contract with CDE[a]	–68
Reduce income eligibility ceiling to 200 percent of federal poverty level[a]	–44
Reduce maximum reimbursement rates for child care vouchers	–17
Technical/caseload/adjustments	–4
Total	**–$391**

[a] Governor's proposal also includes Proposition 98 reductions to part–day preschool program, not shown here. Specifically, proposal assumes $58 million savings ($34 million for lower reimbursement rates and $24 million for income eligibility change).
CDE = California Department of Education.

ITEMS TO BE HEARD

ISSUE 1: GOVERNOR'S 2012-13 PROPOSAL: REDUCING ELIGIBLITY BY IMPOSING LIMITING DEFINITIONS OF WORK REQUIREMENTS

The issue for the Subcommittee to consider is the Governor's budget proposal to reduce families' eligibility for child-care services based on imposing of a limited definition of work acceptable activities.

PANELISTS

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

WORK REQUIREMENTS

Families Currently Qualify for Subsidized Care for Various Reasons. Under current law, with the exception of part-day/part-year preschool programs, families generally must meet two criteria to be eligible for subsidized child care. They must display "need" for care and earn less than 70 percent of the State Median Income (SMI). As long as families meet these requirements, their children can continue to receive services until they turn 13 years of age.

Most families – over 90 percent of current child care cases – need care because parents are engaged in work, vocational training, or pursuing an education. Parents who are employed may receive child care benefits for the hours they are working, with no set hourly requirements or time limits. Parents engaged in vocational training or attending school can receive benefits for up to six years, provided they pass at least half of their courses or maintain a 2.0 grade point average.

Additionally, about 6 percent of parents currently receive subsidized child care benefits because they are medically incapacitated, seeking a job, or seeking permanent housing. In each of these latter two categories, a parent may receive child care benefits for up to 60 days per year. The remaining caseload is made up of children under the care of child protective services.

Federal Law Requires States to Meet Work Participation Rate (WPR). Federal law generally requires states to ensure that at least 50 percent of able-bodied Temporary Assistance for Needy Families (TANF) recipients participate in certain categories of work activities for a specified number of hours or face a penalty of a portion of their block grant. States can, however, reduce or eliminate penalties by disputing them, demonstrating reasonable cause or extraordinary circumstances, or planning for corrective compliance. It is also important to note that Federal formulas for calculating a state's WPR do not give credit if families partially meet requirements.

For example, a single-parent family with a work requirement of 30 hours in which the parent is working 25 hours per week is not counted as participating at all. According to the County Welfare Directors Association in 2009, data showed that 65 percent of adults the state required to work were participating, including 50 percent of work-required families who had employment earnings.

Federal & State WPR Differ in Two Ways. The figure below shows how California's statutory work requirements differ in two notable ways from federal work requirements.

1. ***Allowable Activities:*** Federal and State law designate specific activities as "core" and "non-core." Although Federal and State core activities generally are the same, some state non-core activities are less restrictive than the federally allowable activities. The State currently allows any type of higher education (not limited to vocational education) typically up to 24 months, which is an allowable activity for the Federal government only up to12 months. Another activity that under current State law has a less restrictive time-limit is for mental health, substance abuse, and domestic violence treatment.

2. ***Required Hours:*** California requires all single parents to participate in work activities for 32 hours a week whereas Federal law requires 20 hours for single parents with children under six and 30 hours for single parents with older children. For two parents, Federal law requires 30 hours of core work activities whereas the State requires only 20 hours.

Comparison of Federal and Current State Work Requirements

Number of Hours Required Per Week

Family Type	Federal Total Hours	Federal Core Hours	State Total Hours	State Core Hours
Single–parent with child under six	20	20	32	20
Single–parent with older children	30	20	32	20
Two–parent[a]	35	30	35	20

Allowable Activities

Core: Federal and State	Non–Core: Federal	Non–Core: State
○ Unsubsidized employment. ○ Subsidized employment. ○ Work experience. ○ Community service. ○ Vocational education (up to 12 months). ○ On–the–job training. ○ Job search and job readiness training (six weeks per year, can include mental health and substance abuse treatment). ○ Providing child care to a community service program participant.	○ Job skills training directly related to employment. ○ Education directly related to employment. ○ Satisfactory attendance at a secondary school or course leading to a certificate of GED.	○ All activities listed under federal.[b] ○ Mental health, substance abuse, and domestic abuse services beyond six weeks. ○ Any higher education (typically up to 24 months).[b] ○ Other activities necessary to assist in obtaining employment.

[a] Must participate in a combined total of 35 hours. [b] These activities can count toward core hours in some circumstances.

Source: LAO

Governor's Budget Proposal. The Governor proposes to institute minimum hourly work requirements and restrict the kinds of activities that qualify parents for subsidized care, generally consistent with the changes proposed for CalWORKs. Specifically, single parent families with older children would have to work at least ***30 hours of subsidized or unsubsidized*** employment each week. This requirement would be higher for two-parent households (35 hours) and lower for single parents with young children (20 hours). These new eligibility standards would apply to both CalWORKs participants and other low-income families receiving subsidized child care.

The Administration estimates these changes would eliminate child care eligibility for about **46,000** children from families whose parents work fewer hours or are engaged in other activities – which is about one-fifth of the state's current child care caseload – and yield savings of **$294 million**. As of April 2013, this change would eliminate services for 109,000 families. A notable effect is on the roughly 31,000 children currently receiving subsidized child care while their parents are engaged in training or attending educational programs.

Under the Governor's proposal, these families would have to make other child care arrangements (and assume any associated costs) or elect to stop going to school/training and instead find a job in order to maintain child care eligibility. Families working fewer than the required number of hours also would be affected by the proposed changes, though the administration estimates that most currently employed parents already are meeting the new minimum work requirement. The Governor's proposal would have a significant impact on low-income families not meeting the stricter work requirements because in addition to losing child care services they also would have significantly lower grants.

LAO COMMENTS

The LAO believes that the Administration has overstated their number of children who would lose eligibility based on the proposed changes, as well as the estimated savings. Specifically, since the Administration has clarified that the roughly 7,000 children under the care of CPS or living with an incapacitated caretaker would retain current eligibility; no savings should be scored associated with these populations. Accordingly, the LAO estimates that the Governor's proposed changes would only eliminate about ***39,000*** child-care slots and yield about ***$250 million*** in savings.

The LAO provides a modified recommendation if the Legislature wishes to continue supporting low-income families furthering their education, it could consider adopting a modified version of the Governor's proposal. The state could continue to provide child care to low-income parents engaged in training or education, but for a more limited period of time. Instead of the current six years (or indefinitely for parents using campus-based Title 5 child care centers), the state could limit child care eligibility based on educational activities to two years. This would allow parents a limited-term opportunity to pursue non-work activities that might make them more employable in the long run, while at the same time prioritizing limited resources for those who currently are working.

Because the state does not currently collect precise information on length of time in care, estimating how many families this would affect or the associated savings is difficult. Based on available data, the LAO estimates the change could yield roughly $50 million in savings. To implement this change, the state would have to start keeping track of each family's duration of and reason for care. A fiscal estimate of this new administrative mandate would be needed to ascertain the cost of impact.

ISSUE 2: GOVERNOR'S 2012-13 PROPOSAL: LOWERING FAMILIES' INCOME ELIGIBILITY THRESHOLD

The issue for the Subcommittee to consider is the Governor's proposal to lower the income eligibility threshold to be eligible for subsidized child care services.

PANELISTS

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

BACKGROUND

Current Eligibility Income Thresholds. Currently, families eligible for the state's Child Care & Development programs can earn up to 70 percent of the state median income (SMI). Note: the income ceiling was reduced from 75 percent to 70 percent of the state median income as part of the budget solutions for 2011-12, which generated $28.5 million in both Proposition 98 General Fund and Non-Proposition 98 General Fund savings.

Governor's Budget Proposal. The Governor proposes to lower this income eligibility threshold to 200 percent of the Federal Poverty Level (FPL), or about 62 percent of the SMI. After accounting for the reduced caseload from the stricter work participation requirements, the Governor estimates that changing income ceilings would terminate child-care eligibility for about **8,400** children currently being served in the Child Care & Development Programs. This proposal would eliminate the funding associated with these slots, reducing $44 million in Non-Proposition 98 General Fund support. The Governor would also apply this change to Proposition 98 General Fund funded part-day preschool, saving an additional $24 million and eliminating an additional **7,300** pre-school slots.

Impact on Eligibility. For a family of three, this would drop the maximum eligible monthly income from $3,518 to $3,090. This change is linked to the Governor's attempt to improve the state's Work Participation Rate (WPR) by bringing non-CalWORKs families receiving subsidized child-care into this proposed Work Incentive Nutritional Supplement (WINS) Plus Program. Under federal law, 200 percent of FPL is the maximum amount a family can earn to receive TANF-funded services.

LAO COMMENTS

Instead of Lowering Family Income Thresholds for State Preschool Programs, Eliminate Slots. The State already prioritizes enrollment in the State Preschool for the lowest income applicants, therefore, the Governor's proposal to lower the income eligibility threshold to achieve savings is not necessary. That is, providers already are required to select first from the families furthest below the existing ceiling of 70 percent of the SMI. The LAO recommends if savings have to be generated, to instead, reduce the number of available slots in order to focus eligibility on an even narrower group of families.

If the Legislature decides it has to reduce the State Preschool programs, it is recommended to simply reduce funding, thereby reducing the total number of spaces. Programs will then, per CDE regulations and directives, end services to the highest income families, while retaining the flexibility to close classes and reduce enrollment in ways that allows centers to remain in business.

ISSUE 3: GOVERNOR'S 2012-13 PROPOSAL: REDUCING MAXIMUM PROVIDER RATES

The issue for the Subcommittee to consider is the Governor's proposal to reduce the maximum amount for licensed providers under both the voucher-based and direct contractor systems.

PANELISTS

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

BACKGROUND

The State Has Two Types of Subsidized Child Care Systems. Currently, the State funds child care and development programs through two main mechanisms: the voucher-based system and the direct contract with providers.

The Voucher Reimbursement System. The Department of Education (CDE) allocates funding to local Alternative Payment (AP) organizations or county welfare departments (CWDs) to issue vouchers to CalWORKs families in any of the three stages of child care programs. In addition, the State provides vouchers for non-CalWORKs working poor families through the Alternative Payment Program. In total, approximately 49 percent of the children in state-subsidized child care programs are served through a voucher system.

Families may use vouchers in one of the three-settings: licensed centers, licensed family child care homes, and license-exempt care. The license programs must adhere to the requirements of the 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 (***Licensed providers)*** are reimbursed for services up to a maximum of the 85th percentile of the 2005 Regional Market Rate. ***License-exempt providers*** are reimbursed at a maximum of the 60 percent of what licensed providers receive in their region. The cost of child care in specific regions of the State is determined via the Regional Market Rate (RMR) survey of both the public and private child care providers. The RMR survey is conducted every two years. However, the State is not obligated to update or use the new RMR survey information.

In 2011-12 Budget Act, the license-exempt providers' rate was reduced from 80 percent to 60 percent of the 85th percentile of the RMR, as a means of reducing costs without impacting slots.

The Direct Contractor System. For non-voucher child care and preschool, CDE contracts directly with over 700 different agencies through approximately 1,100 direct service 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 Receive the Standard Reimbursement 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, but it is not adjusted for regional market differences. The current rate has not been adjusted in six years to account for inflation, staying at $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.

There are Requirement Differences for the Two Systems. The figure below shows the major care types and associated regulations offered through CalWORKs/Alternative Payment (AP) providers and SDE Contracts. From left to right, requirements to provide the specific type of child care become more difficult to meet and suggest a higher level of quality.

Subsidized Child Care Providers Assuming All Preschool-Aged Children

	CalWORKs and AP Providers				CDE Contractors
	Exempt Provider	Title 22 Licensed FCCH	Title 22 Licensed Centers		Title 5 Child Care Including Preschool
Provider/Teacher Education & Training	None	None.	Child Development Associate (CDA) Credential or 12 units in ECE/CD.		Child Development Teacher Permits (24 units of ECE/CD plus 16 general education units).
Provider Health & Safety Training	Criminal Background check required (except relatives). Self certification of health and safety standards.	15 hours of health and safety training and finger printing.	Staff and volunteers fingerprinted and subject to health and safety standards.		Staff and volunteers fingerprinted and subject to health and safety standards.
Required Ratios	None.	1:6 adult-child ratio.	1:12 teacher-child ratio or 1 teacher and 1 aid for 15 children.		1:24 teacher-child ratio and 1:8 adult-child ratio.
Accountability, Monitoring & Oversight	None.	Unannounced visits every five years or more frequently under special circumstances	Unannounced visits every five years or more frequently under special circumstances		On-site reviews every three years. Annual outcome reports, audits, and program information.

FCCH = Family Child Care Home CalWORKs = California Work Opportunity & Responsibility to Kids
AP = Alternative Payment Providers ECE/CD = Early Childhood Education/Child Development

Source: LAO

GOVERNOR'S BUDGET PROPOSAL

The Governor proposes to reduce the maximum amount the state will pay for licensed providers under both the voucher-based and direct contractor systems but maintain existing payments for caretakers who are not licensed by the state.

Elimination of COLA. The Governor proposes $29.9 million in non-Proposition 98 General Fund savings and $11.7 million in Proposition 98 General Fund savings by eliminating the statutory COLA for capped non-CalWORKs child care programs.

Reduction to the Voucher System. The Governor proposes to reduce rates to the 50th percentile of RMR using 2009 survey data. Due to the updated data, the effective reduction to rates would be between 12 percent and 14 percent, on average. The Governor proposes to generate $11.8 million in non-Proposition 98 General Fund savings and $5.3 million General Fund savings from Stage 1 in the Department of Social Services budget.

- Example: In Los Angeles County, the proposal would drop the maximum daily voucher for a preschool-age child in full-time care from $43.27 to $37.79. According to the California Resource & Referral Network, LA County lost 18 percent of their licensed family child care homes due to financial constraints.

License-Exempt Provider Rates Maintained at Current Levels. Because the maximum voucher payments for license-exempt providers were reduced in both 2010-11 and 2011-12, the Governor does not propose additional reductions for this category of caretaker. The proposed rates for these providers would shift from 60 percent of current licensed rates to 73 percent of the newly lowered licensed rates – leaving actual dollar amounts essentially flat. Note: License-exempt providers were significantly reduced as part of the 2011-12 Budget Act, from 90 percent to 60 percent of licensed rated.

- Example: In Los Angeles County, license-exempt providers receive about $481 per month for full-time monthly care for a child. Prior to the reduction to the 60 percent of licensed rate, a license-exempt provider would receive about $602 for the same services.

Reduction of 10 percent to the State Reimbursement Rate (SRR) for Title 5 Centers. The Governor also would reduce the SRR by ten percent, dropping the Title 5 per-child rate for full-day services from $34.38 to $30.94 and the part-day preschool rate from $21.22 to $19.10.

LAO COMMENTS

The Standard Reimbursement Rate Reductions are Problematic. A year ago, the Legislature approved, as part of the March budget package, to reduce the Standard Reimbursement Rate by ten percent. Immediately, the Department of Education and Title 5 providers informed the Legislature of the detrimental impacts that would lead to the disruption and closure of many centers due to the requirements under Title 5 that prevent them from scaling back. This reduction was rescinded as part of the final 2011-12 Budget Act.

The concerns still exist that many preschool providers have few options or levers for absorbing the Governor's proposed ten percent reduction to the SRR, and might close or drop out of the State program as a result. The State mandates, under Title 5 regulations, the adult-to-child ratios, and instructional day requirements for these centers. Combine that with local collective bargaining agreements – which frequently are embedded within larger K-12 school district contract agreements – and it means that providers have limited flexibility to generate local savings. Moreover, the state rate for these centers is already somewhat low – in several areas in the State, the SRR currently is lower than the rates charged by the majority of other preschool providers in the county.

While parents and providers working with the voucher system could respond to the proposed RMR reduction in a number of ways, the Title 5 centers receiving lower state reimbursements would have no choice but to reduce their operating budgets, or close completely. That is, state requirements around adult-to-child ratios and days of operation – and, in many cases, school district collective bargaining agreements – leave these centers little flexibility to accommodate such a reduction.

State law also prevents Title 5 centers from continuing to charge existing rates and asking parents to make up the difference. Moreover, the state rate for these centers already is somewhat low – in several areas in the state, the SRR currently is lower than the rates charged by the majority of other providers in the county. As a result of these factors, such a reduction could lead to many Title 5 centers closing, thereby reducing access to child care services. For all these reasons, it is recommended that the Legislature reject the proposed SRR rate reduction.

Reductions to the Regional Market Rate is also Problematic. Provider rate reductions have been proposed by the Administration in prior years. During previous subcommittee hearings on this topic, child care providers testified that rate reductions could make it very difficult for licensed family child care providers and centers that accept families with subsidies (and are reimbursed through the voucher system) to stay in business and provide high quality services.

The Regional Market Rate system was designed to ensure that subsidized families have equal access to child care services. However, about 75 percent of licensed family child care homes are at or above the current Regional Market Rate, which means low-income parents are paying a co-pay for the difference that is not covered by the voucher, and a family fee if they earn above 40 percent state median income (SMI).

ISSUE 4: GOVERNOR'S 2012-13 PROPOSAL: RESTRUCTURING THE CHILD CARE SYSTEM

The issue for the Subcommittee to consider is the Governor's proposal to restructure the delivery of child care services and administration of the programs from the Department of Education to the Department of Social Services.

PANELISTS

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

YEAR ONE OF RESTRUCTURE

The Governor proposes major changes that would restructure the administration of the child care programs over two years. According to the Administration, the proposed changes are to focus the state's subsidized child care programs on supporting work to maximize the number of child care slots available with limited resources.

***Consolidates Funding & Eliminates Distinctions but Retains Administration with CDE*.** The Governor proposes to begin restructuring the child care programs in 2012-13, by consolidating the CalWORKs Stage 2 and Stage 3 funding with non-CalWORKs AP funding into one voucher-based grant, and eliminating those programs' distinctive purposes. This consolidated voucher-based grant program would continue in the budget year to be administered by the local Alternative Payment agencies.

As under current law, County Welfare Departments (CWDs) would continue to administer child care for families just entering the CalWORKs program (comparable to the existing Stage 1 program), and CDE would continue to contract directly with Title 5 centers for non-CalWORKs care in the State Preschool Program, General Child Care, Migrant Program, and Severely Handicapped programs.

Prioritization Requirements for Subsidized Services. First priority for vouchers would be for families whose children are recipients of child protective services, or at risk of being abused, neglected or exploited, and cash-aided families meeting revised narrower work requirements. Any remaining funding for vouchers would be prioritized for the lowest income eligible families. Cash-aided families that are currently enrolled in Stage 1 will continue to receive child care services. Eligible working poor families not participating in CalWORKs also could apply to an AP agency for subsidized child care vouchers and be served to the extent the agency still has funding available after accommodating cash-aided families. Any remaining funding for vouchers would be prioritized for the lowest income eligible families.

New Eligibility Requirements for Subsidized Services. Eligibility for child care services would be contingent on families meeting the Governor's narrower and stricter work and income requirements.

The diagram below illustrates the changes proposed to the child care structure in 2012-13.

Year 1 – Child Care Restructure

CalWORKs Child Care Stage 1 (DSS): will continue to be administered by County Welfare Directors, subject to the new work participating requirements.

Funding: $429 million in General Fund
Child Care slots: 45,000

CalWORKs Child Care Stage 2 (CDE): CalWORKs families are transferred to Stage 2 when "stable" and limited to two years after an adult stops receiving a CalWORKs cash grant.

CalWORKs Child Care Stage 3 (CDE): is a capped program that provides an extension to families who have exhausted their time limit in Stage 2, and remain as long as it is otherwise eligible for child care.
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Non-CalWORKs – Alternative Payment Programs (CDE): provides low income families with vouchers for care in a licensed center, family child care home, or by a licensed-exempt provider.

New Consolidated Block Grant (CDE): would provide vouchers to serve low-income families that met the new eligibility requirements with priority given to families whose children are recipients of child protective services, or at risk of being abused, neglected, or exploited, and cash-aided families.

Funding: $571 million in General Fund
Child Care slots: 82,834 slots

The New Consolidate Block Grant would receive $236 million LESS in General Fund and support 36,325 fewer slots.

Non-CalWORKs Programs – General Child Care/Migrant & Severe Handicapped (CDE): programs that provide non-CalWORKs low-income families with child care services, some programs are targeted for specific populations of children.

Funding: $496 million non-P98 General Fund
Child Care slots: 59,127

YEAR TWO OF RESTRUCTURE

Beginning in 2013-14, the Governor would collapse all remaining child-care programs into one voucher-based program to be administered locally by CWDs. The proposal includes $35 million for CWDs in 2012-13 to begin preparing for this shift.

The Administration asserts that the ramp up funds would go towards a three-month period of transition costs, based on workload distributed among the counties. However, it is unclear if this funding is meant solemnly for the one-time purchase of IT software and/or initial process of hiring/training staff to handle the workload of administrating all the child-care programs. The Legislature will need to consider if this is the appropriate time to initiate a new infrastructure that will need training on how the child care structure functions (i.e. administering families' eligibility) at the expense of using those limited resources to fund as many child care slots.

The state no longer would contract directly with AP agencies or Title 5 child-care centers. Local CWDs could choose to subcontract with AP agencies to administer child-care vouchers, as many do now for the CalWORKs Stage 1 program. The CDE would continue to administer the part-day/part-year preschool program currently funded with Proposition 98 funds but no longer would oversee any other child care services including services for infant, toddlers, and other pre-kindergarten aged children.

All child-care monies – including both state General Fund and the federal child care block grant – would be appropriated to DSS to allocate to local CWDs. What is possible from this shift, is that part-day/part-year preschool programs would have a difficult time remaining in business if they are unable to fill the remaining slots with either voucher or private pay children, as families would be expected to go through CDE to become eligible for part-day/part-year preschool services and then go through the county welfare department to attain eligibility for a limited voucher-based service. If there is not a high level of attention paid to maintaining seamless full-day/full-year wrap around services between Title 5 centers and the new voucher-based program, the State could put at risk an already diminished preschool structure.

Prioritization of Services. Families meetings work requirements and receiving cash assistance would continue to have first priority for receiving child care.

New Overpayment & Sanction Proposal. The Governor's proposal centers oversight and design of the child care system with the counties starting in 2013-14, and proposes legislation to change the mechanisms that counties and alternative payment programs use to identify and collect overpayments and to impose sanctions on providers and families that commit intentional program violations such as families receiving care for hours they are not eligible or providers receiving payment for hours in which they did not actually provide care. Any savings identified would be reinvested in child care slots. Further details are not available on how the Administration proposes to collect and redistribute any overpayment funding, as well as the kind of sanctions that will be imposed on providers and families or what factors lead to the proposals to change current laws and regulations that have been the subject of extensive legislative oversight.

Year 2 – New Child Care Structure

CalWORKs Child Care Stage 1 (DSS)

New Consolidated Block Grants (CDE) – formerly the CalWORKs Stage 2 and 3, and Alternative Payment Provider Program.

General Child Care, Migrant Program, and Severely Handicapped Program (CDE)

Consolidated Child Care Block Grant Program (DSS/CWDs): will serve eligible families with priority given to families whose children are recipients of child protective services, or at risk of being abused, neglected, or exploited, and cash-aided families meeting work requirements, and other income eligible families meeting work requirements (if there is available funds). Counties would have authority to continue to contract with Alternative Payment agencies, as currently done by 27 counties with their Stage 1 program.

The Department of Social Services (DSS) would oversee this consolidated program, including the federal Child Care Development Funds.

ISSUES TO CONSIDER

Outstanding Issues Relating to Child Care Services for Non–CalWORKs Families. The Administration had not yet released details as to how child care funding would be allocated to CWDs in the future. In particular, the Administration had not yet clarified whether the funding would be a part of the county single allocation or one or more separate grants restricted for child care services. The current system earmarks funding explicitly to provide subsidized child care to some non–CalWORKs low–income families through the General Child Care and Alternative Payment programs, although demand typically exceeds the number of funded slots. Depending on the specific funding structure for the new county–based system, local funding constraints and competing priorities could result in even more limited access to care for non–CalWORKs families. Specifically, "first calls" on single allocation funding would go not just to fund child care for families on cash assistance but also to employment support services and county administrative costs.

ISSUE 5: GOVERNOR'S 2012-13 PROPOSAL: CHANGING THE STRUCTURE OF THE STATE'S PRESCHOOL PROGRAMS

The issue for the Subcommittee to consider is the Governor's 2012-13 budget proposals for the State Preschool Program (SPP) and General Child Care Program.

PANELISTS

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

BACKGROUND

The 2011-12 Budget Act. In 2011-12, the State budgeted $368 million in Proposition 98 funding to provide part-day/part-year center based preschool services to low-income children. The State also budgeted $675 million for the General Child Care (GCC) program, to provide center-based child care services to low-income children from working families ages birth to 12 years of age and age 21 for children with exceptional needs.

Both the State Preschool Program and General Child Care Program experienced significant reductions of about 7 percent and 14 percent, respectively, due to changes in family income eligibility from 75 percent of the State Median Income (SMI) to 70 percent, and an across the board reductions of 11 percent. These funding reductions led to the curtailment in funded enrollment for Preschool by 17,513 slots and General Child Care by 12,751 slots.

Beginning in 2011-12, the Legislature also shifted the funding sources for GCC – and all child care programs other than part-day preschool – from Proposition 98 to non-Proposition 98 General Fund. Providers for both the part-day preschool and General Child Care receive funding through direct contracts with CDE. In addition to the reductions made in the budget, the State approved $5.9 million in additional across-the-board reductions to State Pre-school Program and $10.9 million in across the board reductions to General Child Care, as part of the budget trigger reductions, which took effect on January 1, 2012.

PRESCHOOL & GENERAL CHILD CARE INTERACTION

AB 2759 (Jones), Chapter 308, Statutes of 2008, allows local providers to merge monies from these two contracts to offer part-day/part-year preschool programs or full-day/full-year preschool programs for three- and four-year olds to best serve the needs of working families and local communities.

While still budgeted as two programs and funded by two sources at the State level, these services are thought of as one SPP program at the local level. Data from CDE suggest that in 2011-12, local providers blended the Proposition 98 funds with about $400 million from the General Child Care (or about 60 percent of the total $685.9 million for General Child Care funding) to offer SPP services to approximately 145,000 low-income preschool age children. Of these, two-thirds were served in part-day programs and one-third in full-day programs. Programs also integrate federally funded Head Start funds with General Child Care and State Preschool programs.

GOVERNOR'S BUDGET PROPOSAL

In 2012-13, Governor Reduces Funds and Slots for the Preschool Programs, and Prioritizes Services to Displaced Children from the Elimination of the T.K. Program. As described under Issue 2 and Issue 3, the Governor proposes to reduce both these programs by reducing the maximum reimbursement rates for providers and imposing a lower income eligibility threshold. The Governor proposes additional trailer bill language to increase the eligibility for the part-day State Preschool program in order to cover four-year old children who are no longer eligible for Kindergarten due to the eligibility age rollback, but who turn five years old during the school year.

The Governor's proposal would give eligible five-year olds first priority for part-day State Preschool funding; however, the Governor does not provide additional funding for the program to cover a potential increase in workload. Therefore, other eligible, low-income three-year olds and/or four-year olds would be displaced, as there is no funding redirection provided to accommodate the eligible five-year olds who would otherwise attend a Transitional Kindergarten.

In 2013-14, Governor Proposes to Revert to Part-Day/Part-Year Preschool Program. As part of his proposed changes for non-Proposition 98 funded child care, beginning in 2013-14, the Governor would eliminate the existing General Child Care program and shift the associated funding to a child care voucher system to be administered by county welfare departments. This would abolish the blended State Preschool Program and revert the State's direct-funded center-based preschool program to only a Proposition 98 funded part-day/part-year program for about 91,000 children (a reduction of roughly 54,000 compared to how many children were served in State Preschool Program in 2011-12).

Preschool providers' ability to serve additional children or offer full-day/full-year services to meet the needs of working families would depend upon how many enrolled families could afford to pay out of pocket or obtain a state-subsidized voucher from the county welfare department. (Under the Governor's proposal, low-income families not receiving CalWORKs cash assistance would have more limited access to these vouchers).

ISSUES TO CONSIDER

Governor's Proposal for 2013-14 Ignores Reality of State's Current Preschool Program. The Governor's proposal for 2013-14 treats the Proposition 98 preschool budget item and General Child Care budget item as two separate programs – preserving one and eliminating the other. However, in reality these funding sources have been supporting one uniform preschool program. By redirecting all General Child Care funding into vouchers, the Governor's proposal would reduce the existing State Preschool program by roughly 40 percent. Moreover, the dismantling of the blended State Preschool Program would notably limit local providers' ability to provide a full-day/full-year preschool program, which is often the only way children from working low-income families are able to access services.

The proposal to eliminate direct-contracting practices for existing General Child Care and Migrant Child Care centers would represent a more substantial departure from current practice. Many of these centers would continue to operate and serve subsidized families but be paid with vouchers rather than directly from the state. Presumably, switching to a solely voucher-based system means the state no longer would require these centers to follow existing Title 5 programmatic standards regarding classroom practices and activities, child assessments, and staff development.

The Title 5 requirements would remain for State Preschool programs, which accounts 80 percent of all children attending Title 5 centers. As noted, however, the Governor's proposal would shift the General Child Care funded portion of the full-day/full-year State Preschool Program to the new voucher program.

The State should Recognize the Interaction between State Preschool & General Child Care Programs. The LAO also recommends that the Legislature accurately reflect the existing State Preschool Program budget and align all funding for the program within Proposition 98. As part of this alignment, they recommend a comparable adjustment to the Proposition 98 minimum guarantee to avoid the need for a corresponding reduction to K-12 programs. Specifically, the LAO recommends the Legislature reduce non-Proposition 98 General Fund for General Child Care by $400 million (the amount of General Child Care spent for State Preschool Program services in 2011-12) and increase the Proposition 98 funding for preschool by a like amount. This would allow the State to make policy and budget decisions affecting preschool services for four year olds based on actual programmatic funding and caseload counts.

ISSUE 6: GOVERNOR'S 2012-13 PROPOSAL: SHIFTING ADMINISTRATION OF FEDERALLY FUNDED PROGRAMS

The issue for the Subcommittee to consider is the Governor's proposal to shift administration of federally required programs and activities from the Department of Education (CDE) to the Department of Social Services (DSS).

PANELISTS

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

BACKGROUND

Federally Funded Quality Improvement Funds*.* As a condition of receiving federal child care block grant funding, the state must spend a certain amount on quality improvement activities. In 2011-12, the state is spending $72 million on 27 applicable projects, including professional development, stipends for child care providers that pursue additional education, and activities related to health and safety. Some of these projects (including the 60 Resource & Referral agencies operating across the state) are specified in the annual budget act, and some have been selected by CDE in consultation with stakeholders.

Governor's Budget Proposal. The Governor's budget proposes to shift all program administration and funding – including the federal child care grant – to DSS beginning in 2013-14. DSS would then assume responsibility for reviewing and potentially revisiting the state's approach to spending these quality improvement funds. During the transition in 2012-13, the Governor would have DSS and CDE jointly develop a spending plan, to be approved by the Department of Finance.

Race to the Top Grant (RTTT). California recently attained a $53 million federal "Race to the Top Early Learning Challenge Grant" to develop locally based quality rating systems for CCD programs. The CDE is the lead agency charged with administering this grant, which is to be expended over four years beginning in spring 2012.

Governor's Budget Proposal. The Governor's proposal would shift responsibility for administering this grant to DSS beginning in 2013-14. At the moment, the Administration has not proposed to change the plan for using these funds. Any modification would likely require federal approval. The state also is in the middle of spending an $11 million federal American Recovery and Reinvestment Act grant received in 2010. Because federal guidelines require that this grant be fully expended by September 2013, these activities are not likely to be altered by the Governor's proposed restructuring.

ISSUE TO CONSIDER

The Governor's proposal, as currently articulated, does not provide for legislative oversight of the expenditures of these funds. The LAO recommends that the Legislature continue to take an active role in encouraging and overseeing activities that support a high-quality child care and early childhood education program. Furthermore, the LAO finds that many of the 27 quality improvement projects historically funded by CDE might be worthwhile, but not all have been rigorously evaluated. Therefore, the LAO recommends that the Legislature provide specific guidelines and priorities for the quality improvement activities that are outcome based.

Additionally, through its appropriation authority, the LAO recommends that the Legislature monitor the activity and expenditures associated with the $53 million Race to the Top grant to ensure the projects are meeting intended outcomes. Regular reports to budget subcommittees could help identify issues, improve state oversight, and inform the Legislature as to how best to encourage local efforts to support quality programs.