AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 1
ON HEALTH AND HUMAN SERVICES

ASSEMBLYMEMBER MERVYN DYMALLY, CHAIR

WEDNESDAY, APRIL 14, 2004
STATE CAPITOL, ROOM 444
1:30 P.M.

STAFF
CHRISTIAN GRIFFITH
CONSULTANT

ITEMS TO BE HEARD

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5180 DEPARTMENT OF SOCIAL SERVICES
6110 CALIFORNIA DEPARTMENT OF EDUCATION

ISSUE 1: CHILD CARE CASELOAD AND FUNDING TRENDS

The Subcommittee will consider the caseload and funding trends in child care

BACKGROUND:

CASELOAD DECLINING: The caseload in child care programs is declining, most of the caseload decline is in the CalWORKs funded child care programs.

The following table illustrates caseload trends for various child care programs (average monthly caseload):

Child Care Slots	Revised 2001-2002	Revised 2002-2003	Estimated 2003-2004	Proposed 2004-2005
General Child Care	89,500	89,500	87,300	86,100
CalWORKs Stage 1	74,122	76,474	68,317	64,041*
CalWORKs Stage 2	115,300	100,692	96,863	93,732
CalWORKs Stage 3	39,468	50,082	59,900	56,980
Alternative Payment	33,400	33,400	33,000	29,800
Migrant Day Care	9,000	9,000	9,000	9,000
Extended Day Care	6,000	6,000	6,000	6,000
Campus Child Care	600	600	600	600
Severely Handicapped	200	200	200	200
Total	367,590	372,145	363,780	353,453

* Additional Stage 1 child care provided as part of CalWORKs reform not included in caseload estimate

COSTS DECLINING: Overall child care costs would have naturally declined by at least $174.3 million in the budget year if no CalWORKs or child care reform was proposed. Previous reform efforts were based upon projected cost increases in child care programs.

PROP 98 FUNDING OF CHILD CARE DECLINING: All State support (except CalWORKs Stage 1) for child care is funded with Proposition 98 funds. Since 2002, the level of Proposition 98 support has been declining. The chart below details the total Proposition 98 funding for child care programs:

Funding Source	Revised 2001-02	Revised 2002-03	Budgeted 2003-04	Proposed 2004-05
Prop 98	883.6	879.2	855.7	794.1
One time Prop 98 funds	47.1	102.0	27.0	134.0
CCDF	504.7	442.3	506.2	504.6
One time Federal Funds	109.5	131.9	16.0	32.0
General Fund	106.7	110.7	8.2	57.3
TANF	879.3	804.0	1,064.3	838.1
Total	2,530.9	2,470.1	2,477.4	2,360.1

The proposed reform would reduce the ongoing Proposition 98 funding for child care by about $69.2 million a year. These ongoing Proposition 98 funds would be used for other K-14 priorities.

However, if the reform was not proposed, there would have been a 11.6 percent increase in ongoing Proposition 98 funds budgeted for child care in the budget year. Most of this increase is due to the fact that one-time funding has been used to fund existing child care expenditures that would normally be funded with ongoing Proposition 98 dollars. If the total amount of ongoing and one-time Proposition 98 funding is considered, the baseline Proposition 98 expenditures for the budget year for child care would be lower than they were in FY 01-02 or FY 02-03.

The chart below details the difference in funding in the proposed budget from the baseline amount of funding needed to operate the existing programs under current law:

Funding Source	Budgeted 2003-2004	Baseline 2004-2005	Proposed 2004-2005
Prop 98	855.7	954.7	794.1
One time Prop 98 funds	27.0	134.0	134.0
CCDF	506.2	504.6	504.6
One time Federal Funds	16.0	32.0	32.0
General Fund	8.2	57.3	57.3
TANF	1,064.3	728.3	838.1
Total	2,477.4	2,410.9	2,360.1

COMMENTS:

Previous child care reform efforts were based, in part, on an analysis in a 2001 Results Group report that predicted huge growth in costs in the CalWORKs Stage 3 Child Care programs. However, the actual caseload history for CalWORKs Stage 3 Child Care show that this analysis was flawed. The table below compares the actual Stage 3 Caseload with the projections made by the 2001 Results Group report.

Fiscal Year	Result Group Projected Cost (millions)	Results Group Projected Caseload	Actual CalWORKs Stage 3 Costs (millions)	Actual Stage 3 Caseload (average)
FY 2001-02	280.5	45,500	239.8	39,468
FY 2002-03	446	68,700	348.5	50,082
FY 2003-04	569.5	83,700	357.7	59,900*
FY 2004-05	629	88,000	353.8	56,980

* Budgeted Caseload for FY 03-04, actual caseload is projected to be lower than budgeted

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ISSUE 2: REASONS FOR REFORMING CHILD CARE

The Subcommittee will discuss the need for further reform of the State child care system.

BACKGROUND:

The Governor's Budget Summary states that child care reform is necessary for the follow reasons:

- Personal responsibility is promoted by lowering the income threshold when families are asked to share in the cost of child care.
- Program effectiveness and quality will be enhanced by providing financial incentives for licensed providers to integrate early childhood development education principles.
- Program equity is enhanced by implementing a tiered income eligibility structure that recognizes higher cost areas.
- Program integrity and efficiency will be enhanced by establishing lower reimbursement limits for lower quality care, improving compliance and authorizing administrators to pursue overpayments made to providers and families.

Previous reform efforts were based upon the projected fiscal pressure from caseload trends in child care programs.

The chart below details how the savings from the proposed reform, by program.

FY 04-05 Savings $ in millions	Age Eligibility Reforms	Eligibility Limits	RMR - Reforms	Family Fees	Stage 3 One Year Time Limit	Total Savings
Stage 1	$18.2	$1.1	$22.5	$0.0	n/a	$41.8
Stage 2	$25.4	$1.6	$19.2	$7.6	n/a	$53.8
Stage 3	$15.8	$0.8	$11.0	$4.9	$0	$32.5
GCC	$4.5	$4.9	$0.0	$7.7	n/a	$17.1
Latchkey	$3.0	$0.2	-	$0.1	-	$3.3
AP	$8.6	$0.7	$5.0	$2.0	n/a	$16.3
Total	**$75.5**	**$9.3**	**$57.7**	**$22.3**	**$0**	**$164.8**

COMMENTS:

The Administration has used the budget to pursue policy changes in the child care field. The chart below details the history of these reforms:

Date Proposed	Proposed Reform	Final Action Taken
FY 2000-2001	Funding provided for Results Group Study of Child Care expenditures.	Statutory authority and funding provided for study in Budget.
FY 2002-2003 January Budget	Eliminate Stage 3 Child Care, reduced eligibility, reimbursement rates, and increased fees, would have resulted in $400 million in savings.	Pulled Back At May Revise by the Administration
FY 2002-2003 May Revise	Administration Restored CalWORKs Stage 3 Child Care, pulled back reform proposal, and proposed reductions.	Legislature adopted Administration's May Revise child care budget.
FY 2003-2004 January Budget	Proposal to Realign of Child Care Programs to Counties	Pulled Back at May Revise by the Administration
FY 2003-2004 May Revise	Reform effort that would have reduced child care expenditures by $384 million, the reform was in place of the Realignment proposal that was pulled back.	Legislature adopted a reform package that reduce overall expenditures by $108 million and used $131 million in additional TANF funding to offset Proposition 98 funding.
FY 2004-2005 January Budget	Time-Limits Stage 3 Child Care, reduced eligibility, reimbursement rates, and increased fees, for $164.8 million in savings.	Discussed in this Agenda.

The Legislature has considered several child care reform efforts in previous years. All of these reform efforts were contained in the budget. Many of the elements of the FY 04-05 proposed child care reform have been rejected by the Subcommittee in previous budget discussions.

Because there is a natural overall caseload decline in the child care programs; the Subcommittee may want to consider the overall need for reform through the budget process. The other programmatic reforms proposed in the budget for In-Home Supportive Services, CalWORKs, Medi-Cal, Immigrant Programs, Foster Care, and Developmental Disabilities all target programs with projected cost increases in future fiscal years. Since the proposed reform for child care is based upon a public policy determination of equity between working poor populations and a judgement of how California's level of service should compared to other States, the discussion may be better suited to a policy committee instead of a fiscal committee.

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ISSUE 3: REFORM PROPOSAL: TIERED REIMBURSEMENT LEVELS FOR PROVIDERS

The Governor's Budget proposes to create a tied maximum reimbursement rate for paying child care providers.

BACKGROUND:

The Governor's proposed reform creates a tiered maximum reimbursement rate for vouchered child care programs that ranges from 85-40 percentile of the Regional Market Rate. The level of child development principles (quality) would determine the maximum level of reimbursement.

- 85 percentile for accredited licensed providers that serve private-pay children
- 75 percentile for all other licensed providers that serve private-pay children
- 75 percentile for accredited licensed providers that do not serve private-pay children
- 50 percentile for all other licensed providers that do not serve private-pay children
- 50 percentile for licensed exempt providers with that meet certain health, safety and training requirements.
- 40 percentile for all other licensed exempt providers

Providers would still be paid the amount they charge unsubsidized families receiving care. Therefore, the tiered reimbursement rate would represent the most the State would pay a provider of each type.

Current law has two different interpretations of what a provider should charge if the maximum reimbursement rate does not cover the full cost of care. In most cases, the provider charges a "family co-pay" to the family for the difference in the rate. Under one section of current law, a provider must charge the family the same rate that a private pay provider charges. Thus the proposed reduction in the reimbursement rate could translate to additional costs for families receiving child care. The Administration is proposing trailer bill language that would allow providers to charge families less than this amount, so that the provider would decide whether the family should pay a co-pay and the amount of that co-pay.

COMMENTS:

The tiers proposed in the budget combine attempts to pay more for quality care and for providers that compete in the private market. However, the Administration is also supporting regulations that would address how much we pay providers that are not participating in the private market. The Subcommittee may want to explore the reason why two different processes are necessary for providers that serve only vouchered children.

Few child care providers are currently accredited, so the proposed tiered level would reduce the maximum reimbursement rate for almost all providers in the State. Los Angeles County has funded aggressive efforts to accredit their child care providers over the last three years. According to Los Angeles County, at this time only one-percent of all providers are currently accredited. Thus 99 percent of the providers in Los Angeles would have the maximum rate they could receive reduced.

The Administration is not proposing to assist providers in obtaining accreditation. According to advocates, accreditation is a costly and lengthy process. There are reports that the accreditation bodies already have a backlog of child care providers seeking accreditation. Providers that are not accredited may have to wait over two years to obtain accreditation.

COUNTIES IMPACTED DIFFERENTLY:

Since the market rates vary by county, the potential magnitude of the impact of the proposed tiered reimbursement rate would be different in each county. The chart below illustrates the impacts in five different counties for care for a 6-year-old child in full-time care at a non-accredited family child slot:

County	Maximum monthly rate provider can currently charge	Proposed maximum monthly rate provider could charge	Difference	Percentage Change
Alameda	$ 649.5	$ 606	-43.5	-6.7%
Contra Costa	$ 628	$ 584.5	-43.5	-6.9%
Los Angeles	$ 628	$ 584.5	-43.5	-6.9%
Sacramento	$ 541.5	$ 541.5	0	0.0%
San Francisco	$ 649.5	$ 628	-21.5	-3.3%

The table above illustrates that under the proposed change, providers charging at the maximum RMR would have the greatest hit to their rates in Alameda and Contra Costa counties. Sacramento County providers would not be affected, because the Market Rates for the 85 percentile are the same as the market rates for the 75 percentile for this type of care. This example is typical of the impact upon school-aged children at the family child care, so it is a good example of how many providers would be impacted.

BIG IMPACT FROM IN-MARKET/OUT-OF-MARKET TIER ON INFANT CARE

The most expensive type of care provided in the State is for children under aged 2 in a center-based setting. The State requires strict staffing levels in its licensing guidelines that result in higher costs for care and less capacity than other levels of care. There is a shortage of infant care statewide, the State has made recent efforts to increase this capacity.

The impact of the proposed reform on the maximum rate for infant care at an in-market, unaccredited, center varies by county, but roughly equates to the impact on family child care for 6 year olds illustrated in the previous table:

County	Maximum monthly rate provider can currently charge	Proposed maximum monthly rate provider could charge	Difference	Percentage Change
Alameda	$ 1,200	$ 1,100	-100	-8.3%
Contra Costa	$ 1,015	$ 970	-45	-4.4%
Los Angeles	$ 920	$ 860	-60	-6.5%
Sacramento	$ 825	$ 825	0	0.0%
San Francisco	$ 1,200	$ 1,175	-25	-2.1%

However, the proposed tiering based upon whether a providers services children in the private pay market would have a very dramatic impact upon the rates at centers for infants. In Alameda, the maximum rate would decline by almost one third:

County	Maximum monthly rate provider can currently charge	Proposed maximum monthly rate provider could charge	Difference	Percentage Change
Alameda	$ 1,200	$ 825	-375	-31.3%
Contra Costa	$ 1,015	$ 890	-125	-12.3%
Los Angeles	$ 920	$ 680	-240	-26.1%
Sacramento	$ 825	$ 706	-119	-14.4%
San Francisco	$ 1,200	$ 1,050	-150	-12.5%

While many centers serve private paying families, some centers in poorer neighborhoods may not. But even if a center has private paying families, it is possible that it may have only subsidized families utilizing the small number of infant slots typically available in each center.

LICENSED-EXEMPT RATES ARE REDUCED:

Currently, Licensed Exempt Child Care is compensated at a rate that is equal to 90 percent of what a Family Child Care providers would be paid for the same care. Currently that rate is the 85 percentile of the market. The proposed tiered-reimbursement would set the Licensed Exempt rate at the 40th percentile. The chart below details the effect on Licensed Exempt Care in some counties:

County	Maximum monthly rate provider can currently charge	Proposed maximum monthly rate provider could charge	Difference	Percentage Change
Alameda	$ 584.6	$ 498	-86.55	-14.8%
Contra Costa	$ 565.2	$ 476.5	-88.7	-15.7%
Los Angeles	$ 565.2	$ 476.5	-88.7	-15.7%
Sacramento	$ 487.4	$ 433	-54.35	-11.2%
San Francisco	$ 584.55	$ 519.50	-65.05	-11.1%

The State has not conducted a regional market rate survey since 2002, so the rates cited in the tables above would change when the survey is updated.

Last year, the Subcommittee reduced the maximum reimbursement rate for child care vouchers from the 93rd percentile to the 85th percentile.

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ISSUE 4: REFORM PROPOSAL: INCREASED FAMILY FEES

The Governor's Budget proposes to increase family fees for child care providers to collect.

BACKGROUND:

Under the proposed reform, family fees would start at 38 percent of the current eligibility limit. For CalWORKs, family fees at the point when a family leaves cash aid. The total fee would not exceed 10 percent of income. Fees would be collected by providers.

Currently, the State begins charging family fees at 50 percent of State Median Income and are limited to 7-8 percent of total income

The following table illustrates the differences between the proposed family fee levels to existing levels for full-time care for a family of three:

Income	Current Fee	Proposed Fee	Difference
$1,564		$22	$22
$1,662		$38	$38
$1,773		$57	$57
$1,884		$77	$77
$1,994	$43	$100	$57
$2,105	$54	$124	$70
$2,216	$76	$151	$75
$2,327	$87	$179	$92
$2,438	$115	$210	$95
$2,548	$132	$242	$110
$2,659*	$167	$266	$99
$2,792**	$184	$279	$95
$2,925***	$227	$293	$66

*Proposed Income Eligibility Cap for Low-Cost Counties
**Proposed Income Eligibility Cap for Medium-Cost Counties
***Proposed Income Eligibility Cap for High-Cost Counties

Child Protective Services Referrals

Currently, families that are referred for child care because their children are at-risk for child protective services do not pay family fees. Under the reform proposal, CPS referrals would pay family fees after three months unless the referral was made by the county child welfare agency. CWS-referred families would have to pay fee after one year of care. Savings from this proposal would be reflected in FY 05-06 budget.

COMMENTS:

Families paying these family fees would also have to pay a co-pay for their child care if the providers rate is higher than the maximum reimbursement rate.

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ISSUE 5: REFORM PROPOSAL: TIERED INCOME ELIGIBILITY FOR FAMILIES

The Subcommittee will consider a proposal to reduce the maximum income a family could earn and still be eligible for child care.

BACKGROUND:

Currently, a family receiving subsidized child care can earn up to 75 percent of the State Median Income (SMI) and still receive a child care subsidy. However, families that earn more than 50 percent of the SMI pay family fees.

According to the Department of Education, the State does not use a current-year SMI measure for its income eligibility limit and instead uses one that is based upon 2000 income data. They calculate the current income eligibility limit is the equivalent to about 63 % of the current SMI. Thus, the proposed reduction would reduce an already diminished maximum income-eligibility level.

The Governor's Budget proposes a three-tiered eligibility limit, based upon county:

- Highest-cost counties would stay at the existing income eligibility level:
  Marin, San Francisco, San Mateo, and Santa Clara

- Medium-cost county counties would have their maximum income eligibility level reduced by 4.55 percent from the current level:
  Alameda, Contra Costa, Los Angeles, Monterey, Napa, Orange, San Diego, San Luis Obispo, Santa Barbara, Santa Cruz, Solano, Sonoma, and Ventura

- Low-cost counties would have their level reduced by 9.11 percent from the current level:
  All other counties

As of FY 04-05, the maximum income eligibility level would become a set dollar amount. In FY 05-06 and subsequent years, this amount would be adjusted by the California Necessities Index (CNI) and would not be based upon the State Median Income. The Department of Finance believes that the change will produce a more stable index that better reflects the actual costs facing participating families.

COMMENTS:

According to the Department of Education the three tiers of income eligibility would be equivalent to the 63 percent of SMI for high-cost counties, 61.1 percent for medium-cost counties and 58.2 percent for low-cost counties

The Subcommittee has received data from some counties that projects the number of children and families effected by the proposed tiered income eligibility. The chart below]details the data provided by these counties:

County	Estimated Number of Children Losing Eligibility	Estimated Number of Families Losing Eligibility
Humboldt	24	13
Los Angeles	1,676	896
Sacramento	559	315
San Diego	220	117

The Administration believes that moving from the SMI to the CNI will create a more stable index for income eligibility. From 1993-2001, the SMI increased by an average of 4 percent per year. The CNI increased by an average of 2.7 percent per year.

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ISSUE 6: REFORM PROPOSAL: TRANSFERRING 11-12 YEAR OLDS TO AFTERSCHOOL PROGRAMS

The Governor's Budget proposes to make afterschool care the preferred mode of care for 11-12 year olds.

BACKGROUND:

The Governor's Budget proposed to provide child care to 11-12 year old children only when "afterschool programs are not available". The proposal assumes $75 million in savings is achieved from all 11-12 year olds being able to transfer to afterschool program in the budget year. The Department of Finance estimates that 18,000 11-12 year old children would receive care next year.

The Governor's budget did not contain additional funds for afterschool programs, but Finance has issued a Spring Fiscal Letter that identified new federal funds would fund the additional afterschool slots needed for the families currently receiving child care. California will receive approximately $60.8 million in 21st-century federal funds in the budget year. Currently, afterschool programs in California receive $46.5 million in federal funds that are directly contracted to providers and are expiring in the budget year. Thus, the net increase in federal funds in $14.3 million additional 21st-century federal funds above the current year level. However, the budget does not guarantee that programs getting receiving federal funds that expire this year will continue to get funding in the budget year.

The voter-approved Proposition 49 of 2002 will eventually increase State funding for afterschool programs by $428 million a year. However the LAO does not think this funding requirement will be triggered until FY 07-08. DOF projects that the trigger will be pulled in FY 06-07.

COMMENTS:

According to child development advocates, many afterschool programs are at capacity and have waiting lists. Thus, even with the additional $14.3 million provided by the federal government in the budget year, it is unlikely that all, 11 and 12 year olds in the current child care system would get an afterschool slot without additional funding.

Many of the families receiving child care need care at off-hours and during school holidays. Even if sufficient slots were available, not all families could utilize afterschool as their only care for their children.

The Department of Finance has commented that it will be adjusting the budget in the May Revise to reflect a small net savings from the movement of 11 and 12 year olds to afterschool programs.

Last year, the budget eliminated child care eligibility for 13 year-old children. According to child advocates, families should not leave children younger than age 12 unattended at home. The Administration intends to continue care to children 12 years old and younger currently in the system, either in an afterschool slot or in child care.

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ISSUE 7: REFORM PROPOSAL: IMPOSING A TIME LIMIT ON CALWORKS STAGE 3 CHILD CARE AND INCLUDING CALWORKS FAMILIES ON CHILD CARE PROGRAM ON A WAIT LIST.

The Governor's Budget proposes to impose a one-year time limit of CalWORKs Stage 3 child care programs and encourage CalWORKs families to seek placement on the waiting lists for the Alternative Payment and General Child Care programs.

BACKGROUND:

Currently, the CalWORKs families are entitled to two years of CalWORKs Stage 2 child care after they have been "stabilized" in their child care placement. After the two years of eligibility end, the family receives CalWORKs Stage 3 child care. CalWORKs Stage 3 Child Care is provided when funding is available, it is not an entitlement. However, the Legislature has fully funded all Stage 3 families since the program was established. Under current practice, CalWORKs Stage 3 Child Care families receive child care until their children age out of the system (at age 12) or they earn more than current income eligibility level.

The Governor's proposed reform creates a one-year eligibility time limit for CalWORKs Stage 3 Child Care. Since the time limit for current Stage 3 families would not elapse until FY 05-06, there are no budget year savings from this proposal.

The proposed reform would essentially add one more year of eligibility to the two years provided to families under CalWORKs Stage 2 Child Care. In 2005-2006, families would have to complete for slots on the wait list with other low-income families.

The reform also allows CalWORKs families to enter the waiting list for child care as soon as they report earned income. CalWORKs families could then transition to AP/General Child Care as soon as a slot opened. Although families can technically be on the waiting list under current law, it is not current practice in child care programs.

The proposed wait list practice would enable CalWORKs families to transition to child care program that did not contain time limits. However, the extent that this occurred would depend upon the attrition in the program.

If no additional funding is set aside for AP and General Child Care in FY 05-06. The current attrition rate of between 3.56-4.47 percent a month would not be high enough to open enough slots up in the AP and General Child Care systems to accommodate the 56,980 children currently receiving care in Stage 3 before their time-limit elapsed. There would be some unmet need in the first year that the time limit took effect.

COMMENTS:

Alternative Payment Providers estimate that approximately 20,000-30,000 people are currently on child care wait list for vouchered child care. The California Resource and Referral Network estimates range as high as 200,000- 300,000 for the entire program.

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ISSUE 8: REFORM PROPOSAL: LIMITING CHILD CARE FOR PARENTS IN EMPLOYMENT AND TRAINING ACTIVITIES

The Governor's proposed child care reform would limit the total amount of care a family in employment and training activities could receive.

BACKGROUND:

Currently low-income families that are engaged in employment and training activities can qualify for child care in the Alternative Payment Program and the General Child Care Program.

The Governor's Budget proposed reform would limit families attending education and training activities receiving child care in Alternative Payment and General Child Care to two years of care. Like the CalWORKs Stage 3 proposal, the time limit on these AP slots would not elapse until 2005-2006. There would be no savings from this proposal, the slots that would open as a result of the time-limit would be filled by families on the child care wait list.

Data from Los Angeles County suggests that 16.1 percent of the families in these program are receiving care while participating in education or training.

COMMENTS:

The Subcommittee may explore the need for limiting eligibility for this particular group in the budget process.

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ISSUE 9: IN AND OUT OF MARKET RATE DIFFERENTIAL REGULATIONS

The Department of Education (CDE) has proposed regulations that would differentiate the amount that the State pays providers that do provide care to private paying families.

BACKGROUND:

Current law requires that a provider that accept vouchers to serve private-pay children in at least 25 percent of their slots. The intent of the language is to ensure that the State is not paying more than the private paying market for child care. This language has not been enforced in the vouchered program.

For the 2003-2004 Fiscal Year, Trailer Bill Language was adopted that suspended the enforcement of this provision for the current fiscal year. Members of the Legislature were concerned with the effect of the enforcement of this provision on low-income communities and concerns with the collection of data from non-vouchered families.

CDE issued draft regulations that would have enforced the 75-25 rule. The regulations would require:

- Providers must submit documentation that 25 percent of the children are unsubsidized and the rates paid for these unsubsidized slots
- If a provider does not serve at least 25 percent unsubsidized families, the provider will be reimbursed at a rate that equals the average rate paid to 5 randomly selected providers in the same Zip Code.

COMMENTS:

The City and County of San Francisco believes that 75-25 rule suspended by the Subcommittee last year, should be permanently eliminated.

All licensed exempt care would be effected by this proposal, although the caps in the tiered reimbursement proposal would also still apply. The actual rate of pay for a licensed exempt provider would be the lesser of the amount that was paid from the two different processes.

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ISSUE 10: UPDATE ON THE STANDARD REIMBURSEMENT RATE

The Subcommittee will discuss the Standard Reimbursement Rate.

BACKGROUND:

Unlike the vouchered programs, General Child Care is administered through direct contracts between the State and child care centers that meet strict licensing requirements. These centers are reimbursed based upon the attendance within their contract at the Standard Reimbursement Rate (SRR).

In some parts of the State, the Title 5 Licensed Centers receive less at the SRR level for a child care slot than they would at the RMR rate. Title 5 Licensed Centers reimbursed at the SRR are considered to be the highest quality providers in the system. There have been anecdotal accounts of these centers closing or scaling down operations because they cannot cover costs at the SRR.

The budget contains funding for a COLA adjustment to the SRR.

COMMENTS:

The chart below illustrates the difference between the SRR and the RMR for pre-school aged children in the 21 counties where the RMR rate is higher than the SRR:

County	Monthly Center Preschool Ceilings	
	RMR	SRR *
Santa Clara	988.00	586.25
Marin	930.00	586.25
Alameda	919.00	586.25
San Francisco	900.00	586.25
Solano	900.00	586.25
Napa	900.00	586.25
San Mateo	868.00	586.25
Contra Costa	840.00	586.25
Santa Cruz	765.00	586.25
Los Angeles	672.00	586.25
Orange	660.00	586.25
Santa Barbara	642.00	586.25
Sonoma	641.00	586.25
Yolo	629.00	586.25
Monterey	625.00	586.25
Ventura	620.00	586.25
San Diego	604.00	586.25
Placer	600.00	586.25
El Dorado	598.00	586.25
Sierra	598.00	586.25
Sacramento	595.00	586.25

The Subcommittee may wish to explore the extent that the current SRR has result in a loss of center capacity.

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ISSUE 11: ENHANCED COLLECTIONS TRAILER BILL LANGUAGE

The Subcommittee will discuss proposed trailer bill language that would change the way overpayments are collected for child care programs.

BACKGROUND:

The proposed Human Services Trailer Bill contains three provisions (RN 403347 Sections 2, 3, 47, and 48) that would enhance the ability of counties and Alternative Payment Providers to collect overpayments made for child care services. The budget assumes $ 914,000 in savings to the CalWORKs Stage 1 Child Care program as a result of the enhanced collections.

The language contains the following three provisions:

- Allow Alternative Payment Providers to collect overpayments from child care providers and families.
- Change the definition of a "clear-contract" for Alternative Payment Providers so that it makes reference to eligibility, reimbursements, family fees, and overpayments.
- Allows overpayments to be recouped through a reduction in the grant level or the payment of subsidy for child care. Counties get to keep 12.5 percent of all overpayments collected.

COMMENTS:

The Subcommittee may wish to consider feedback from the community on the proposed statutory change.

5180 DEPARTMENT OF SOCIAL SERVICES
6110 CALIFORNIA DEPARTMENT OF EDUCATION

ISSUE 12: AUDIT PROCESSES FOR ALTERNATIVE PAYMENT PROVIDERS

The Subcommittee will consider a proposal to impose specific requirements in the audit guide for child care programs.

BACKGROUND:

The proposed trailer bill contains provisions (Source: Draft language numbered 16-20, Page 7 Section 9) that would increase audit requirements for Alternative Payment Provider and General Child Care programs. These provisions would require the audit to require sampling of particular measures that are specified in statute for both General Child Care and Alternative Payment Provider providers

Currently, Education Code Section 14502 governs the scope of audits of Education programs. Under current law, the Controller, in consultation with CDE and Finance, determine the scope of an audit guide for County Offices of Education and other educational programs based upon a cost analysis of the proposed audit guidelines.

The proposed trailer bill language would no longer utilize this process and would instead statutorily dictate the scope of the audit guide.

COMMENTS:

The proposed audit standards could be adopted using the existing process for determining audit standards. The Subcommittee will consider the necessity for adopting prescriptive audit guide requirements in the budget process.

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ISSUE 13: ALTERNATIVE PAYMENT PROGRAM ADMINISTRATION

The Subcommittee will consider a proposal to adjust the Alternative Payment Provider for small and rural contractors.

BACKGROUND:

Alternative Payment Providers administer child care vouchered programs in local areas. Historically, these providers have been reimbursed up to 20 percent of the overall level of expenditures on child care programs for their administration.

The amount of funding available for administration has decreased as a result of reductions to child care programs adopted in the current year budget combined with a one-percent decrease in the maximum administrative rate. Some small and rural contractors have had difficulty absorbing these cuts, because they face high fixed costs that larger contracts can absorb due to their scale.

The proposed reductions in the budget for child care would further reduce the overall amount contractors could spend on administration.

COMMENTS:

The California Alternative Payment Provider Association has requested that the Subcommittee include budget bill language that would allow small and rural Alternative Payment Providers to be allowed to receive the same level of administrative funding in the budget year that they receive in the current year.

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ISSUE 14: SPRING FISCAL LETTERS

The Subcommittee will consider an April 1 fiscal letter to modify the budget for four child care related items.

BACKGROUND:

The Department of Finance has made four corrections to the child care items of the budget in an April 1 Fiscal Letter. These four changes:

- Implement a reduction to the Alternative Payment Providers administrative rate at a new percentage, rather than a fixed dollar amount. The change would be more in line with actions taken by the Subcommittee last year.
- Provides budget bill language and spending authority for $60.8 million in ongoing 21st Century federal child care funding for afterschool programs. The proposed budget bill language directs the funding to pay for the care of 11 and 12 year olds currently receiving subsidized child care. The language also empowers CDE to waive enrollment caps to create capacity for these youth.
- Eliminates the budgeted spending authority for afterschool programs, as they are now continuously appropriated by the passage of Proposition 49.
- Allows funding received from a private company as part of a legal settlement with the State to be used for child nutrition programs at the schools and child care sites.

COMMENTS:

The $60.8 million received by California will replace a $46.5 million grant that expires in the budget year that was provided directly to contracts. Therefore the net increase to the State is $14.3 million in additional federal funds.

Subcommittee 2, as part of its deliberations, will decide the changes proposed in the Spring Fiscal Letter. However, this Subcommittee can make recommendations on these items.

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ISSUE 15: UNEXPENDED FEDERAL FUNDS FROM PRIOR YEARS

The Subcommittee will discuss the amount of unspent State and federal child development funds available for expenditure in the budget year.

BACKGROUND:

Section 8278 of the Education Code requires that unspent funding that was appropriated for child care to be re-appropriated for child care expenses. It normally takes the Department of Education several months after a fiscal year is over to clearly identify all unspent funds.

The budget re-appropriates $99.6 million in prior year funding to pay for budget year budget expenses.

The 2003 Budget required CDE to report on the amount of unspent State and federal funds from prior years.

The March 11, 2004 report identified the following levels of unspent funding:

Fiscal Year	Source of Funds	Estimate Amount Available ($ millions)
FY 2002-2003	General Fund (Prop 98)	106.3
FY 2002-2003	Federal Funds	43.2
FY 2001-2002	General Fund (Prop 98)	11.3
FY 2001-2002	Federal Funds	8.9
FY 2000-2001	General Fund (Prop 98)	86.6
FY 1999-2000	General Fund (Prop 98)	64.6
TOTAL		$320.9

The report also included expenditure plans for some of the unspent funding from previous years. However, it appears that there is still some uncaptured prior-year funds that could be appropriated to pay for expenses in the budget year.

In addition, the Subcommittee has received data that suggest that over $10.8 million in unspent funds have been identified in the current year.

COMMENTS:

The Subcommittee may want to consider appropriating unspent funding from prior years to offset some or all of the costs associated with child care programs in the budget year. If the Subcommittee were to reject any of the child care reform items, these funds could be used to fund the program on a one-time basis in the budget year. However, the

Department of Finance and the Department of Education must agree on the amount of funding available for the Subcommittee to appropriate it.

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ISSUE 16: CHILD CARE FOOD PROGRAMS

The Subcommittee will discuss the loss of the Child Care Food Programs across the State.

BACKGROUND:

The Child Care Food Program offers nutrition education and reimbursement to licensed family child care providers for the nutritious meals they serve.

Crystal Stairs is the largest administrator of child care programs in the State, serving a large portion of Los Angeles County. Last December, the agency decided not to renew their Child Care Food Program contract, citing overwhelming regulatory burdens.

In a letter received by the Subcommittee, Crystal Stairs cited the following examples of regulatory hurdles required by the program:

- The agency was given different interpretations of the regulations throughout the year. At times, these regulations were conflicting in nature.
- The program required Crystal Stair's employees to complete time-sheets that required that each employee measure the time spent on the program in fifteen-minute intervals.
- Each providers was expected to fill out paperwork immediately after each meal was prepared, which conflicted with their ability to pay attention to the children in their care.

The Department of Education reports that these regulations are a result of a federal Department of Agriculture crackdown on fraud in child food programs. This crackdown is targeting both the child care and the school lunch and breakfast programs. The State spends roughly $1.4 billion per year on nutrition services.

The Department of Education requested 15 PY's using $1 million of federal funds in the budget year to provide technical assistance and increased monitoring of child nutrition programs at the Department of Education, including the child care food program. The budget contains $800,000 in funding for these activities, but does not authorize any positions.

COMMENTS:

The Subcommittee may wish to consider alternatives at the State's discretion to reduce the administrative burdens associated with the program.

4220 CHILD DEVELOPMENT POLICY ADVISORY COMMITTEE

ISSUE 17: CHILD DEVELOPMENT POLICY ADVISORY COMMITTEE

The Subcommittee will consider the Administration's elimination of all funds for the Child Development Policy Advisory Committee.

BACKGROUND:

In the 2003-2004 budget, Governor Davis vetoed all funding for the Child Development Policy Advisory Committee (CDPAC) and eliminate all 5.3 positions of the committee's staff. The Commission was funded at $619,000 ($367,000 General Fund).

CDPAC provided public policy recommendations to the Governor, the Legislature and relevant State Departments on child care and development. The Committee had nine full committee hearings and frequent subcommittee meetings throughout the year. CDPAC was originally established as the Governor's Advisory Committee on Preschool and Educational Program in 1965 by AB 1331 (Unruh). CDPAC was one of over 300 Boards and Commissions contained in the budget. It is the only advisory body in the State that oversees the multi-billion dollar child care and development industry.

The administration proposed to eliminate language that established and governed CDPAC. However the Legislature did not adopt change the law to eliminate the program.

Finance believes that it could veto funding for the Committee last year was that because statute does not require a specific funding level to support the Committee. Therefore, the Administration was under no obligation to provide funding for support services.

COMMENTS:

Last year, the Subcommittee required CDPAC to complete four reports on child care. The subcommittee could inquire on the status of these reports.

5180 DEPARTMENT OF SOCIAL SERVICES

ISSUE 18: INCREASING COMMUNITY CARE LICENSING FEES

The Subcommittee will consider a proposal to increase fees for Community Care Licensing.

BACKGROUND:

The Community Care Licensing Division (CCL) develops and enforces regulations designed to protect the health and safety of individuals in 24-hour residential care facilities and day care. Licensed facilities include child care; foster family and group homes; adult residential facilities; and residential facilities for the elderly. The Governor's budget proposes expenditures of $124.9 million ($42.2 million General Fund) for the CCL in 2004-05.

The Governor's budget proposes an increase in most CCL fees for a budget year savings of $5.8 million General Fund. Further, the budget proposes to continue to increase the fees by equal increments each year for the next two years (through 2006-07). Figure 1 shows examples of a few of the various types of facilities licensed by CCL and illustrates how the fees have grown and are projected to grow if the Governor's proposal is adopted. By 2006-07, the fees generated should be enough to fully offset the General Fund costs associated with administering the program. Currently, CCL fees are considered General Fund revenue and offset 40 percent of the General cost of the program.

The chart below details the estimated effect of the fees levels for various types of facilities:

CCL Licensing Fees					
Examples of Facilities	2002-03	2003-04	2004-05	2005-06	2006-07
Family child care home (1-8 children)	$25	$50	$67	$83	$100
Child care centers (31 to 60 children)	200	400	533	667	800
Adult day care centers (16 to 30 adults)	100	125	167	208	250
All residential care facilities (7 to 15 people)	450	563	793	1,023	1,253

The Department comments that it analyzed its own expenditures within the Licensing Division and attempted to assign the fee increases in proportion to the total expenditures for child care and residential programs.

COMMENTS:

Currently, the CCL fee revenues are considered General Fund revenue and as such are deposited into the General Fund along with all other General Fund revenues. This makes it difficult for the Legislature to determine whether or not the fees are adequate or excessive when it comes to funding the General Fund portion of the CCL budget. The LAO believes that greater oversight of these revenues is necessary given the significant fee increases being proposed by the administration. Toward that end, the LAO recommends enactment of legislation to create a special fund into which the fee revenues would be deposited, with expenditures subject to appropriation by the Legislature. This would increase the Legislature's oversight of the use of these fees. Further, it would help the Legislature determine the appropriateness of the fee level and whether or not it was keeping pace with or outpacing the cost of administering the program.

The Department of Finance is looking at its existing special fund structures to see if there is an administratively simple way to create a special fund for licensing revenues.

The FY 2003-2004 Budget contained a fee increase that ranged from 25-100 percent, depending upon the type of facility.

Some facilities effected by these fees are supported with by rates that are set by the State. These facilities have not received rate increases in a number of years, and this fee increase only increases costs within their fixed operating budget.

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ISSUE 19: CHARGING SMALL CHILD CARE PROVIDERS FOR FBI AND DOJ FINGERPRINTING FEE

The Subcommittee will consider a proposal to require small child care providers to pay for their background checks.

BACKGROUND:

Currently law exempts small child care providers from having to reimburse the State for the cost of running the criminal background checks necessary to obtain a license. The budget for the current year required providers to pay these fees for one year.

The Governor's Budget proposes to continue to charge small child care providers for the one-time $40 cost of conducting the Department of Justice and FBI background checks on staff necessary for licensing. The proposal would save the State $2.7 million in the budget year.

COMMENTS:

None

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ISSUE 20: GOVERNANCE OF CONTINUING CARE RETIREMENT COMMUNITIES (CCRC'S)

The Subcommittee will consider Trailer Bill Language that would look at the governance of CCRC's.

BACKGROUND:

Continuing Care Retirement Communities are full service communities offering a long-term contract that provides for a continuum of care, including retirement, assisted living and nursing services, all on one campus.

Many CCRC governing boards are comprised of members that are business affiliates or individuals with strong ties to the management company. In many areas of the State, complaints have been made regarding the responsiveness of these boards to the residents of these Communities. Many advocates suggest that requiring CCRC's to be governed by independent board members would improve their responsiveness to the residents.

COMMENTS:

The Subcommittee could consider adopting the following Trailer Bill Language to address this important issue:

HSC 1771.9
On or before July 1, 2005, the department, with input from the Continuing Care Advisory Committee established pursuant to Section 1777, shall create a panel of residents, providers and representatives of the department to develop governance standards for applicants and operators of Continuing Care Retirement Communities, including, but not limited to standards that define the authority and representation of independent directors on boards of directors of Continuing Care Retirement Communities and on the audit, compensation and nominating committees of the boards of directors.

5180 DEPARTMENT OF SOCIAL SERVICES

ISSUE 21: INCREASED STAFFING FOR LICENSING

The Subcommittee will discuss two budget proposals to increase Community Care Licensing staffing.

BACKGROUND:

The Governor's Budget includes two budget change proposals to increase Community Care Licensing staffing.

In the a Section 27 letter, the Department of Social Services added 52.5 positions to address increase workload required for criminal background checks. The budget contains a proposal to authorize 58.2 positions and $4.6 million ($2.6 million General Fund) to continue these positions in the budget year. If an individual that applies or currently works in a licensed facility of any kind has any type of criminal record, or if they are accused of a crime, the Licensing staff conducts an investigation to determine whether that individual can be involved in a licensed facility. The increase workload is associated with improved information provided by the Department of Justice.

The second proposal requests 18.5 positions and $1.3 million ($1.2 million General Fund) to accommodate an increase in the number of licensed facilities the Community Care Licensing Division is serving.

COMMENTS:

None.