

AGENDA**JOINT HEARING**

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

**Assembly Member Susan A. Bonilla, Chair
&
Assembly Member Holly J. Mitchell, Chair**

**WEDNESDAY, FEBRUARY 2, 2011
STATE CAPITOL - ROOM 4202
9:00 AM**

**OVERVIEW OF THE GOVERNOR'S 2011-12 BUDGET PROPOSALS
CHILD CARE & DEVELOPMENT PROGRAMS**

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6110 CALIFORNIA DEPARTMENT OF EDUCATION (CDE)**ISSUE 1: BACKGROUND ON CHILD CARE & DEVELOPMENT PROGRAMS
(INFORMATIONAL ONLY)**

The issue before the Subcommittee is background information regarding the Child Care and Development Programs.

PANELISTS

- Rachel Ehlers, Legislative Analyst's Office

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.

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.

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 discretionary and contingent upon the amount of funding appropriated for the program in the annual Budget Act.

Non-CalWORKs 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 75 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.

Both CalWORKs and non-CalWORKs programs are funded with a combination of Proposition 98 and federal Child Care & Development Fund monies. In the 2009-10 Budget Act, as well as the Governor's 2010-11 budget proposal, these programs continue to receive one-time funds from the American Recovery and Reinvestment Act (ARRA) that total \$110 million.

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.

2010-11 BUDGET ACT

The 2010-11 Budget Act includes a total of \$2.6 billion for child care and development (CCD) programs. This is a decrease of nearly \$500 million, or 16 percent, compared to the prior year. Ongoing Proposition 98 support for CCD programs dropped from \$1.8 billion to \$1.3 billion, while federal support stayed relatively flat at \$1.1 billion. As in prior years, a notable portion of ongoing CCD programs are supported in 2010-11 with one-time funds (\$201 million in prior-year Proposition 98 carryover and \$110 million in federal ARRA funds).

The 2010-11 Budget Act scores almost \$140 million in savings from the following policy changes:

- Caps the amount of funding Title V child care centers may hold in reserve at 5 percent of their total contract amount, and for 2010-11, requires centers to use reserve funds to serve children before receiving additional state funds.
- Reduces the maximum rates that license-exempt child care providers can charge from 90 percent to 80 percent of the maximum licensed rate.
- Reduces the Alternative Payment agency allotment for administration and support activities from 19 percent to 17.5 percent of total contract amounts.

- Reduces or ceases ten different state-level quality improvement activities, such as professional development and technical assistance for providers.

Despite the Legislature's attempt to preserve child care slots, Governor Schwarzenegger vetoed \$256 million, all of the state support funding, for California Work Opportunity and Responsibility to Kids (CalWORKs) Stage 3 child care, maintaining \$129 million in federal funds to pay for services rendered from July 1 through October 31, with services scheduled for elimination on November 1, 2010. This program offers subsidized child care services for approximately 55,000 children from low-income families who formerly received CalWORKs grants.

Overview of State's Child Care and Development Programs^a

(2010–11)

Program	Funding (In Millions)	Estimated Enrollment	Description ^b
CalWORKs Child Care			Recipients of CalWORKs assistance are eligible for subsidized child care. This care is administered in three stages. All CalWORKs providers are paid through a voucher reimbursement system based on regional market rates (RMR).
Stage 1	\$494	51,236	Stage 1 begins when a participant enters the CalWORKs grant program. Stage 1 is overseen by the Department of Social Services.
Stage 2	440	59,980	CalWORKs families are transferred into Stage 2 when the family is deemed to be stable. Participation in Stage 1 and/or Stage 2 is limited to two years after the family stops receiving a CalWORKs grant. (A small portion of these programs are run through the California Community Colleges.)
Stage 3	193 ^c	55,145 ^d	A family may enter Stage 3 when it has exhausted its limit in Stage 2 (referred to as timing out), and remain as long as they are otherwise eligible for child care. Based on the 2010–11 veto, services discontinued January 1, 2011.
Non-CalWORKs Child Care			Low-income families not receiving CalWORKs assistance also are eligible for subsidized child care, though demand typically exceeds funded slots.
General Child Care (Title 5)	797	86,169	Care provided in a licensed center or family child care home (FCCH). Providers paid through direct contract with California Department of Education (CDE) at standard statewide reimbursement rate.
Alternative Payment	271	38,777	Care provided in licensed center, FCCH, or by license-exempt provider. Providers paid through voucher reimbursement system based on RMR.
Migrant and Severely Handicapped	35	7,561	Programs targeted for specific populations of children.
State Preschool	439	116,847	Early childhood education programs for three- to five-year-old children from low-income families.
Totals	\$2,669	415,715	

^a Excludes support programs, which do not provide direct child care services.

^b All child care and development programs are overseen by CDE unless otherwise noted.

^c Includes \$129 million provided in *2010–11 Budget Act* and additional \$64 million approved to continue services through December 2010. Does not include additional \$53 million set aside by the Governor pending legislation.

^d Represents estimated enrollment for program operations July through December 2010.

Source: LAO

2011-12 GOVERNOR'S BUDGET PROPOSALS
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The Governor's 2011-12 CCD proposed budget totals \$2.2 billion, which is \$535 million lower than the 2010-11 funding level. The Governor's budget achieves these reductions by proposing several significant changes to current policies, which will be individually discussed. The Governor requests that all necessary statutory changes be adopted quickly in order to implement on July 1, 2011, to achieve a full-year of savings.

The chart below provides details on the Governor's specific changes to the child care and development budget. The three major policy proposals that generate these substantial reductions are: state subsidies reduction by 35 percent, reduction in income eligibility ceilings, and changes to age eligibility, that total \$750 million in savings (\$716 million in Proposition 98 and \$34 million in non-Proposition 98 General Fund).

Major Proposed Changes to Child Care and Development Spending *(In Millions)*

	Propositio n 98	Federal/ Other	Totals
Backfill for one-time 2010-11 actions	\$363	-\$399 ^a	-\$36
Sunset of two-year Stage 1 exemption	—	215	215
Restore CalWORKs Stage 3 child care veto	256	-64	192
Reduce state subsidies by 35 percent	-577	—	-577
Reduce income eligibility ceiling to 60 percent of SMI	-79	—	-79
Eliminate eligibility for 11- and 12-year olds	-59	-34	-93
Stage 2 workload adjustment based on CalWORKs policy change	-34	—	-34
Reduce quality improvement activities	—	-16	-16
Technical/caseload ^b	-44	-62	-106
Totals	-\$175	-\$360	-\$535

^a Includes one-time Proposition 98 funds, federal child care block grant carry over and ARRA monies, and a draw down of local center reserves.

^b Includes shift of \$7.9 million from centralized eligibility lists to child care programs.
SMI = state median income and ARRA = American Recovery and Reinvestment Act.

Source: LAO

Child Care and Development Budget Summary

(Dollars in Millions)

	2009–10	2010–11 Revised	2011–12 Proposed	Change From 2010–11	
				Amount	Percent
Expenditures					
CalWORKs Child Care					
Stage 1	\$547	\$494	\$611	\$117	23.7%
Stage 2 ^a	485	440	255	-186	-42.2
Stage 3 ^b	412	193	200	8	3.9
Subtotals	(\$1,445)	(\$1,127)	(\$1,066)	(\$-61)	(-5.4%)
Non-CalWORKs Child Care					
General child care ^c	\$797	\$797	\$480	-\$317	-39.8%
Other child care ^c	321	305	173	-132	-43.2
Subtotals	(\$1,118)	(\$1,103)	(\$654)	(\$-449)	(-40.7%)
State Preschool^c	\$439	\$439	\$438	-\$1	-0.2%
Support programs	109	100	76	-24	-24.2
Totals	\$3,110	\$2,768	\$2,233	-\$535	-19.3%
Funding					
State General Fund					
Proposition 98	\$1,836	\$1,262	\$1,087	-\$175	-13.9%
Non-Proposition 98	29	29	29	—	—
Other state funds ^d	66	290	—	-290	-100.0
Federal funds					
CCDF	541	602	526	-77 ^e	-12.7
TANF	528	475	592	117	24.6
ARRA	110	110	—	-110	-100.0
^a Includes \$9 million for Stage 2 program run by the California Community Colleges. Does not reflect any reduction based on the \$10.7 million the Governor proposes to sweep in 2010–11.					
^b Does not include \$52.6 million the administration has indicated setting aside pending legislation for CalWORKs Stage 3 in 2010–11.					
^c For 2010–11 includes funding from local reserves.					
^d Includes prior-year Proposition 98 carryover and, in 2010–11, \$6 million non-Proposition 98 General Fund redirected from the Assembly's budget and \$83 million from local reserves.					
^e Year-to-year decrease due mostly to the use of one-time funds in 2010–11.					
CCDF = Child Care and Development Fund; TANF = Temporary Assistance for Needy Families; ARRA = American Recovery and Reinvestment Act.					
Source: LAO					

ISSUE 2: ACROSS-THE-BOARD REDUCTION TO STATE CHILD CARE SUBSIDIES

The issue for the Subcommittee to consider is the Governor's proposal to reduce the amount provided to all child care contractors, other than Pre-School and CalWORKs Stage 1 contractors, by **34.6 percent, generating \$577 million** in Proposition 98 General Fund savings.

PANELISTS

- Lynn Podesto – Department of Finance
- Rachel Ehlers – Legislative Analyst's Office
- Camille Maben – California Department of Education

BACKGROUND

Under the Governor's proposal, the child care contractors would have to continue to provide the same level of service, essentially decreasing the average annual amount provided per child care slot in these programs from \$7,841 to \$5,237, a reduction of \$2,604 compared to current-year subsidy levels. The Governor assumes that families would find a way to pay the difference between the amount their childcare providers currently charge and the reduced state subsidy.

**Governor's Proposal Would Dramatically Reduce
Amount Provided for Each Child Care Slot^a**

	2009–10	2010–11	2011–12	Change From 2010–11	
				Amount	Percent
Total child care funding (in millions)	\$2,015	\$1,736	\$1,109	-\$627	-36%
Estimated child care slots	252,422	221,339	211,708	-9,631	-4
Funding per slot (in dollars)	\$7,984	\$7,841	\$5,237	-\$2,604	-33

^a Does not include CalWORKs Stage 1 or State Preschool.

Source: LAO

Given the expectation that the same number of children would continue to receive care for the same number of hours, the Administration proposes to grant some local discretion as to how the 35 percent cut is applied across families. This discretion would provide new authority to local child care contractors – Alternative Payment (AP) agencies and Title 5 centers – to apply a larger or smaller subsidy reduction to families of different income levels, as long as the reduction across all the families they serve totals 35 percent.

As described earlier, the AP agencies typically serve as the intermediary between the California Department of Education (CDE) local child care providers, passing along state payments to child care providers, but not typically providing child care services themselves. Title 5 centers have contracts with CDE to serve children directly.

For example, a contractor could reduce a very low-income family's subsidy by only 20 percent (decreasing the copay amount the family would have to pay). However, in order to absorb the 35 percent reduction to their overall contract, this would mean the contractor would have to reduce another low-income family's subsidy – and increase their new-copayment – by 50 percent. Alternatively, the agency could cut each of their families' subsidies by 35 percent across-the-board without regard to income and expect each family to make up the difference through higher copayments.

Details of Implementation: Department of Finance provided additional details as to how the Administration envisions providing direction to local agencies in establishing copayment rates. If the Legislature were to adopt this policy change, County Offices of Education would be encouraged to create guidelines, for how providers would charge families copayments, and may consult with their respective county welfare directors or local planning councils. County Offices of Education must submit such a plan by March 1, 2011 to the Department of Social Services (DSS). DSS, in consultation with the CDE has to implement these plans by July 1, 2011. However, the County Office of Education could decline such a task, as it would be an additional workload, forcing all families in those counties to lose their subsidies by 35 percent without regard to their income levels.

The proposal states that CDE shall enter into an interagency agreement with DSS, and utilizing quality improvement funds, reimburse DSS for costs associated with the review and approval of the plans.

ISSUES OF CONCERN

Impact on Low-Income Families. Currently, families making below 40 percent of State Median Income (which for a family of three is about \$2,010 a month) are not required to pay any fees. About two-thirds of the children served in the state's child care programs are from such families. In many counties, the reimbursement rate for a preschool-age child in full-time center based care is roughly \$650 a month. In this example, the Governor's proposal would reduce the state payment by about \$220 a month, meaning families making 40 percent of the SMI would have to dedicate more than 11 percent of their incomes to maintain current child care arrangements. For the over 160,000 families making below 40 percent of the SMI and those that live in high-cost counties where child care is more expensive than in this example, absorbing this drop in state support could be prohibitive.

Currently, the state provides eligible families in the AP program and all three CalWORKs stages with a funding voucher sufficient to cover entirely the rate charged by about 65 percent of the licensed providers in their county. Title 5 child care centers, which serve families in the General Child Care program, charge one statewide

standardized reimbursement rate. If the family chooses one of the 35 percent of providers that charge above the state reimbursement ceiling, then they must pay the difference.

The state's maximum reimbursement rates were set at the 85th percentile of the regional market rate (RMR) in 2005, meaning they were supposed to be sufficient to provide subsidized clients access to 85 percent of the licensed child care providers in their county in that year. However, since state rates have not been updated in the intervening years and the amounts most providers charge have increased, we estimate the state's rates are now effectively at about the 65th percentile of the RMR. The Governor's proposed reduction would lower the state reimbursement rate below the 50th percentile. Families would have access to fewer than 50 percent of licensed child care providers currently charging at or below the Governor's proposed level of state subsidies. This puts at risk families ability to maintain access to quality care.

Impact on Licensed-Providers. Assuming most families could not afford the higher payments, their current providers could choose to reduce their rates to make up for some or all of the lost state funding. However, many licensed child care providers would have few options for absorbing a revenue drop of this magnitude. In addition, there are many restrictions that tie the providers' ability to reduce costs, such as:

1. State licensing regulations require that licensed providers maintain specific adult-to-child ratios, which currently limit their ability to reduce staff to save money.
2. For many centers, local collective bargaining agreements may further limit their ability to accommodate the reduction by lowering salaries.
3. State law forbids providers from charging private-pay clients a higher rate than subsidized families, which would prohibit them from recapturing the lost revenue from other families.
4. The Governor's proposal would prohibit contractors from reducing the number of subsidized children served or hours of care offered.

It is unreasonable to expect providers could maintain the exact same level of care for 35 percent less revenue and continue to stay in business. A more likely scenario is that licensed providers would opt not to lower rates so substantially, effectively resulting either in a shift away from subsidized clients to private clients or in closure.

Impact on License-Exempt Providers. The shortage of licensed providers who would be affordable under the proposed drop in subsidies might lead to an increase in the number of families who opt for license-exempt care. License-exempt providers, who currently care for roughly 15 percent of all children in the state's subsidized care system, might be able to absorb the drop in subsidies more easily than licensed providers. For one, these "kith and kin" providers typically care for their own family members in their own homes and do not have the overhead expenses of running a business or meeting licensing requirements. However, if the child care payment represents the license-exempt provider's sole income, he or she likely also struggle with

a steep reduction in pay and could opt instead to seek a higher salary in another vocation.

LAO RECOMMENDATIONS

The Legislative Analyst's Office raises many concerns with how the Governor's proposal would be implemented, including the inconsistency of not applying the reduction to CalWORKs Stage 1 or state pre-school, and the new authority it provides to local agencies, many of which are not public agencies, to allocate the reduction in different ways across the state. The LAO recommends that the Legislature reject this proposal, and apply reductions more consistently across programs and regions.

Lower Regional Market Rate. Rather than eliminating 35 percent of the total subsidy, the Legislature may wish to consider a more modest decrease in the child care subsidy rates for both licensed and unlicensed providers. For example:

- Reduce licensed provider reimbursement rate from 85th percentile to 75th percentile of the RMR: \$19 million savings.
- Reduce license-exempt provider reimbursement rate from 80 percent to 70 percent of the licensed rate: \$56 million savings

Restrict Child Care for School-Age Children. Since school-age children are more able to attend after-school programs, the Legislature could consider restricting subsidies for school-age children to non-traditional hours of care and prioritizing these children for after-school programs. The LAO estimates that this option could create savings of \$300 million.

Apply Lower Income Ceiling to Preschool. The Governor's budget proposal excludes preschool from the 60 percent SMI ceiling (keeping preschool at 75 percent of SMI). The Legislature may wish to consider lowering the income ceiling for state-subsidized preschool to 60 percent of SMI. The LAO estimates that this option could create savings of up to \$60 million.

Parent Fees. Currently, families making less than 40 percent SMI do not pay the daily parent fees (which increase with income). The Legislature may wish to lower the income ceiling at which parent fees become mandatory. The LAO estimates that this option could create savings of up to \$30 million, depending on how the fee schedule is changed.

Administration Funding. Currently, the APPs are allowed 17.5 percent of their contract for administration (which includes intake services of the families). If this percentage was reduced to 15 percent, the LAO estimates that this option could create savings of \$15 million. To help AP agencies accommodate this reduction, the Legislature should also consider a corresponding reduction to their administrative requirements.

STAFF COMMENTS

Staff concurs with the LAO's concerns, detailed above, that despite the Governor's intentions to protect child care slots, families will be unable to make up for the drop in the state subsidy and will struggle to find affordable care. As for providers, it is unlikely that they can absorb running their businesses at such reduced rates and would more likely chose to serve financially better off families who can afford the copayments and/or private clients, or end up closing their businesses.

Many providers who serve subsidized families, have found themselves struggling financially during this recession, as they do not receive payment until the budget is enacted, which has been delayed in recent years. The 2010-11 Budget Act was enacted three months into the fiscal year, and due to the uncertainty of these programs existence, many providers found it difficult to secure lines of credit.

As for allowing local entities to determine the copayment schedule without a certainty as to how many county offices of education will participate in creating such a plan, it will lead to disparate payment schedules throughout the state, jeopardizes families' ability to afford the same level of services.

And in review of the implementation proposal, staff raises the following issues: 1) this proposal allows local agencies new authority to set copayment rates differently throughout the state and establish their own centralized waiting lists, creating a new level of bureaucracy that APPs and Title 5 contractors have to work with, 2) there is no funding limit as to how much DSS can request for reimbursement to review county office of education plans, and 3) this proposal would allow CDE to determine where the quality improvement funds to reimburse DSS will come from, which might not reflect the priorities of the Legislature.

ISSUE 3: ELIMINATION OF SUBSIDIZED CARE FOR 11- AND 12-YEAR OLDS

The issue before the Subcommittee to consider is the Governor's proposal to eliminate child care services to 11- and 12-year olds, saving \$93 million, of which \$59 million is in Proposition 98 General Fund savings and \$34 million is in Department of Social Services General Fund savings.

PANELISTS

- Lynn Podesto – Department of Finance
- Rachel Ehlers – Legislative Analyst's Office
- Camille Maben – California Department of Education

BACKGROUND

Currently, children who meet other eligibility criteria can participate in the state's subsidized child care system from birth through age 12 (with some extensions for children with special needs). While children used to be able to participate through age 13, the age limit was reduced by one year as part of the 2003-04 budget package.

The Governor proposes to drop this age cut-off again, such that children could only receive care through age 10. The Governor estimates this change would terminate child care eligibility for approximately 14,000 11- and 12-year old children.

LAO RECOMMENDATION

Since there are more supervision options available for school-age children, we believe the Governor's proposal to lower the state's age eligibility threshold and prioritize services for younger children merits consideration, perhaps in modified form.

California funds an extensive before and after school program in which slots could be prioritized for 11- and 12-year olds (and even younger school age children) displaced from CCD programs. Specifically, the state annually spends almost \$550 million on the After School & Safety Education (ASES) program and an additional \$130 million in federal funds from the 21st Century Community Learning Centers. Many schools and communities also run a multitude of other locally based after-hours programs for school-age children. Taking better advantage of existing school age care programs could allow the state to prioritize limited child care funds for infants and toddlers – for whom care typically is more costly and harder to find. Although no other state sets its age limit for subsidized care as low as age 10, there are no federal prohibitions against prioritizing services for younger children.

STAFF COMMENT

The Department of Education informed staff that the Federal Child Development Grant (CDBG) has restrictions on states eliminating services to eligible families because of a specific age before 13 years old, but does allow for prioritization of services to families based on income. As the proposal is currently written, it violates the federal government's requirements.

ISSUE 4: REDUCTION OF FAMILY INCOME CEILING

The issue before the Subcommittee to consider is the Governor's proposal to reduce the income ceiling eligibility of families for subsidized child care programs, again, excluding preschool, from 75 percent of the State Median Income to 60 percent of State Median Income, saving \$79 million in Proposition 98 General Fund.

PANELISTS

- Lynn Podesto – Department of Finance
- Rachel Ehlers – Legislative Analyst's Office
- Camille Maben – California Department of Education

BACKGROUND

Current law states that families can earn up to 75 percent of the SMI to be eligible for the state's child care programs. The Governor proposes to lower this income eligibility ceiling to 60 percent of the SMI for all state CCD programs, with the exception to preschool. Consistent with current statute and recent practice, the Governor proposes to continue using 2007 SMI data for purposes of determining eligibility ceilings.

For a family of three, this would drop the maximum eligible monthly income from \$3,769 to \$3,015. After accounting for the age eligibility change, the Governor estimates that changing income thresholds would terminate child care eligibility for approximately 14,000 slots, thereby saving \$79 million.

The LAO assumes that if the Legislature did not enact changes to 11- and 12-year old eligibility, they estimate this proposal would save about \$90 million and affect 16,000 slots.

LAO RECOMMENDATION

The LAO believes the Governor's proposal is reasonable, but questioned the Governor's policy of exempting state preschool from the proposed change to income eligibility. Leaving the income at 75 percent of SMI for this program, the Governor also does not propose changing current statute that allows these programs to enroll up to 10 percent of their caseload from families that make 15 percent more than 75 percent of SMI.

In addition to the administrative complication that different eligibility ceilings would create for centers than run blended preschool and General Child Care program for 3- and 4 year olds, preserving access to subsidized preschool for higher income families while lower income families remain on waiting lists does not prioritize services for the most needy children.

The LAO estimates that including preschool in the income ceiling reduction could save the state an additional \$60 million (for a total savings of \$150 million).

ISSUE 5: QUALITY IMPROVEMENT ACTIVITIES

The issue before the Subcommittee to consider is the Governor's proposal to reduce \$16 million in funding for quality improvement programs.

PANELISTS

- Lynn Podesto – Department of Finance
- Rachel Ehlers – Legislative Analyst's Office
- Camille Maben – California Department of Education

BACKGROUND

The Governor's budget proposes to reduce federally funded quality improvement programs by \$16 million. In 2010-11, the state spent \$88 million in federal funds (\$69 million in child care block grant monies and \$19 million in ARRA grant, the Governor's 2011-12 budget proposal reduces overall spending on quality improvement activities by \$16 million. Under the proposal, 18 quality activities, including the California Preschool Instructional Network, California Early Childhood Mentor Program, and support for young English language learners, would be reduced, or eliminated.

As a condition of receiving federal child care block grant funds, the state must spend a certain amount on quality improvement activities. These activities typically include professional development, stipends for child care providers, and activities related to health and safety.

LAO RECOMMENDATION

LAO believes that the Governor's proposal not to backfill \$16 million for quality improvement projects that were funded with ARRA funds seems reasonable given the \$69 million that would remain for these activities under the Governor's budget. Nonetheless, the LAO thinks the Legislature could improve upon the Governor's proposal by coming up with its own list of quality projects to maintain, reduce or eliminate. The LAO recommends taking a careful look at which quality initiatives are most effective, of highest priority, and complementary, then developing a package of initiatives strategically designed to work together in a concerted effort to improve the quality of the overall child care system.

STAFF COMMENT

Staff Comment: Staff has requested a list of quality improvement activities from the Department of Education. Some of these activities have spending mandated in state statute, so the Department does not always have discretion over how much funding to provide for an activity. Staff under the direction of the Subcommittee, will work with the CDE, stakeholders, and Leadership staff to develop a list that utilizes the \$69 million in the most effective way possible, and provide that list for the Budget Committee for a vote at later date.

ISSUE 6: ELIMINATION OF CENTRALIZED ELIGIBILITY LIST

The issue before the Subcommittee to consider is the Governor's proposal to eliminate funding for the Central Eligibility List (CEL) and redirect the \$7.9 million to other child care activities.

PANELISTS

- Lynn Podesto – Department of Finance
- Rachel Ehlers – Legislative Analyst's Office
- Camille Maben – California Department of Education

BACKGROUND

The Centralized Eligibility List (CEL) serves as the master waiting list for all eligible non-CalWORKs families in each county seeking subsidized child care. This lists rank families by income to help ensure the neediest families get first priority when providers have child care slots available. Since 2005-06, the state has provided a total of \$7.9 million annually to the 58 counties to maintain countywide CELs. As of June 2010, there were almost 188,000 children on county CELs waiting for care.

The effect of the proposal would be that eligible families once again have to sign up on multiple waiting lists at multiple child care centers rather than in one centralized place, and providers with available slots would only consider families that had signed up on their individual lists.

LAO RECOMMENDATION

The LAO recommends that the Legislature adopt the Governor's proposal to redirect \$7.9 million from supporting the CELs to child care programs because it prioritizes direct services for children over administrative activities. While the county-based CELs help facilitate and streamline the registration and enrollment process for eligible families waiting for care, in this fiscal climate keeping children off the waiting lists is a more important state-level priority than tracking how many children are on the waiting lists.

ISSUE 7: RESTORING CALWORKS STAGE 3

The issue before the Subcommittee to consider is the funding gap and restoration of CalWORKs Stage 3.

PANELISTS

- Lynn Podesto – Department of Finance
- Rachel Ehlers – Legislative Analyst's Office
- Camille Maben – California Department of Education

BACKGROUND

As part of the 2010-11 budget package, \$256 million in Proposition 98 funds for CalWORKs Stage 3 child care were vetoed, with an expectation that services would end on November 1, 2010. The settlement of a subsequent lawsuit, *Parent Voices Oakland vs. O'Connell*, required that the state extend Stage 3 services until December 31 to allow parents sufficient eligibility screening for other subsidized child care programs. These additional two months were funded with \$58 million in one-time federal child care block grant carryover and \$6 million General Fund redirected from the Assembly's operating budget.

At the time of Governor Schwarzenegger's veto, the Stage 3 program served approximately 52,000 children. Based on anecdotal reports, at least one-fifth of these children have found other ways to access the state's subsidized care system – most either by obtaining a slot in a non-CalWORKs program or by counties authorizing an additional 24 months of Stage 2 care through CalWORKs "Diversion" for parents at risk of losing their jobs. These are funds that counties can utilize to assist families that demonstrate being risk of losing employment in order to retain child care services.

The Diversion Program. Stage 3 parents affected by the Governor's veto, who were employed but may have needed to quit their jobs due to the loss of child care, were encouraged to contact their local County welfare departments to apply for CalWORKs Diversion. Some counties offered Stage 2 child care to Stage 3 parents who needed child care services to remain employed and avoid returning to cash aid. This benefit was not available for adults who have exhausted their CalWORKs 60-month time limit.

The counties determine apparent eligibility for CalWORKs, based on family composition, deprivation, family income (excluding the job income that would be lost), and family property/resource amounts. If the family and at least one adult meet the apparent eligibility test, the family may qualify for Diversion, and may be provided 24 months of Stage 2 child care.

2011-12 Budget Proposals. The new Administration proposes to restore CalWORKs Stage 3 for the last quarter of the 2010-11 fiscal year (April 1 through June 30, 2011), by setting aside \$52.6 million. For some reason, the Governor's budget does not fund

the program in January through March 31, 2011. The restoration plan assumes that the Stage 3 program incorporates the three policy changes (the 35 percent reduction to subsidies, the income eligibility reduction, and the change in age eligibility) beginning April 1 of this year.

For the fiscal year, the budget provides a total of \$200 million in ongoing funds to continue the program.

LAO RECOMMENDATION

The LAO believes the Legislature should reconsider the priority of the CalWORKs Stage 3 program compared to other child care services, since Stage 3 is not an entitlement program.

STAFF COMMENT

The Legislature has always been committed to providing low-income families, who may find themselves at risk of losing their employment, an extension in child care services. If the Legislature chose to restore Stage 3 based on current law and for the remainder of the current fiscal year, from January through June 30, 2011, the LAO estimates it would cost roughly \$135 million. Both the Assembly and Senate have introduced legislation, AB 1 (Speaker Perez) and SB 12 (Senator Corbett) to restore this program and are working with the Administration to reduce expenditure while ensuring services to displaced families.

ISSUE 8: CASELOAD ADJUSTMENT TO STAGE 2

The issue before the Subcommittee to consider is the Governor's current year caseload adjustments for CalWORKs Stage 2.

PANELISTS

- Lynn Podesto – Department of Finance
- Rachel Ehlers – Legislative Analyst's Office
- Camille Maben – California Department of Education

BACKGROUND

The Governor's budget assumes the CalWORKs Stage 2 will not need the full 2010-11 Budget Act appropriation. The Governor proposes to sweep \$11 million from the program and use it for other Proposition 98 purposes in the current year.

LAO RECOMMENDATION

The LAO recommends the Legislature reject the Governor's proposal to sweep and reallocate \$11 million from the current-year CalWORKs Stage 2 program. The LAO believes it is premature to assume savings will materialize in this program, particularly given the current-year veto of the Stage 3 program. Due to unused Stage 2 eligibility and some counties' creative use of the CalWORKs Diversion program, the LAO believes several thousand former Stage 3 children have reentered Stage 2 care, hence increasing current-year Stage 2 caseload.

STAFF COMMENT

The Department of Education has informed staff that the latest caseload numbers indicated about 7,500 children transferred from Stage 3 to Stage 2, thus increasing the number of children served in Stage 2. The Department estimates that, without changes to eligibility policy, Stage 2 may be under-funded by as much as \$12 million in the current year.