

Supplemental Analysis of The *2002-03 Governor's Budget* for Child Care

LEGISLATIVE ANALYST'S OFFICE

April 24, 2002



The purpose of this analysis is to provide (1) an overview of the Governor's child care budget for 2002-03, (2) an estimate of child care spending that would be called for under current policy without the Governor's reforms, and (3) options and recommendations for the Legislature to consider in funding and reforming the state's subsidized child care system.

GOVERNOR'S 2002-03 CHILD CARE BUDGET

California's subsidized child care system is administered primarily through the State Department of Education (SDE) and the Department of Social Services (DSS). A limited number of child care slots are also provided through the California Community Colleges. The *2002-03 Governor's Budget* proposes about \$3.2 billion for the state's child care and development programs—\$1.8 billion General Fund and \$1.4 billion federal funds—that serve low-income families at little or no cost. This is an increase of \$172.3 million from the revised current-year level of funding for these programs, including actions taken by the Legislature in the Third Extraordinary Session.

Figure 1 (see next page) summarizes the funding levels for these programs in the current year (as revised) and as proposed by the Governor for the budget year. As indicated in the figure, the \$3.2 billion total proposed by the Governor includes \$1.3 billion for programs serving current and former California Work Opportunity and Responsibility to Kids (CalWORKs) families and \$1.7 billion for non-CalWORKs programs. The remaining \$124 million is for various activities that support these programs.

Governor's Child Care Reform Proposals

The Governor's budget also proposes to reform the state's subsidized child care system by modifying current eligibility rules, reimbursement rate limits, and family fees. Specifically, the Governor proposes to reduce income eligibility limits, reduce reimbursement rates for child care providers, implement fees for lower-income families, increase current fees for relatively higher-income qualifying families, and eliminate eligibility for 13-year-old children.

Appendix 1 summarizes the Governor's proposals in comparison to current practice. As indicated in the appendix, one of the major reforms proposed by the Governor is to phase out the CalWORKs Stage 3 "set-aside" and shift the funds and caseload to SDE's alternative payment (AP) program. The proposed budget does include, however, \$80.6 million under the Stage 3 set-aside to assure continuing child care to families expected to exceed their two years of Stage 2 child care in the budget year. This amount is estimated to be sufficient to serve qualifying families until the end of March 2003.

Figure 1

California Child Care and Development Programs—Local Assistance

(In Millions)

	Agency ^a	Revised 2001-02			Proposed 2002-03		
		General Fund	Federal Funds	Totals	General Fund	Federal Funds	Totals
CalWORKs^b							
Stage 1	DSS	\$103.0	\$472.0	\$575.0	\$119.2	\$353.2	\$472.4
Stage 2	SDE	138.3	566.3	704.6 ^c	196.8	395.2	592.0 ^d
Community Colleges (Stage 2)	CCC	15.0	—	15.0	15.0	—	15.0
Reserve for Stages 1 and 2	DSS	—	46.3	46.3 ^e	—	164.7	164.7
Stage 3	SDE	116.1	139.0	255.1 ^f	33.4	47.2	80.6 ^g
Subtotals		(\$372.4)	(\$1,223.6)	(\$1,596.0)	(\$364.4)	(\$960.3)	(\$1,324.7)
Non-CalWORKs							
State preschool	SDE	\$308.0	—	\$308.0	\$308.0	—	\$308.0
General child care	SDE	512.6	\$91.8	604.4	443.8	\$91.8	535.6
Alternative payment program	SDE	65.7	142.5	208.2	323.9	301.8	625.7
Migrant day care	SDE	26.5	5.4	31.9	26.5	5.4	31.9
CalSAFE child care	SDE	39.8	—	39.8	40.7	—	40.7
Before and after school	SDE	95.3	—	95.3	162.8	—	162.8
Other non-CalWORKs	SDE	34.0	—	34.0	34.0	—	34.0
Subtotals		(\$1,081.9)	(\$239.7)	(\$1,321.6)	(\$1,339.7)	(\$399.0)	(\$1,738.7)
Support Activities							
Resource and referral	SDE	\$16.1	—	\$16.1	\$16.1	—	\$16.1
Local planning councils	SDE	—	\$5.5	5.5	—	\$5.5	5.5
Quality improvement	SDE	15.3	44.8	60.1	15.3	50.2	65.5
COLA for 2002-03	SDE	—	—	—	20.8	5.3	26.1
Other activities	SDE/DSS	9.7	6.2	15.9	6.3	4.6	10.9
Subtotals		(\$41.1)	(\$56.5)	(\$97.6)	(\$58.5)	(\$65.6)	(\$124.1)
Totals		\$1,495.4	\$1,519.8	\$3,015.2	\$1,762.6	\$1,424.9	\$3,187.5

^a Department of Social Services (DSS); State Department of Education (SDE); California Community Colleges (CCC).

^b California Work Opportunity and Responsibility to Kids.

^c Includes \$100.7 million in CalWORKs carryover funds.

^d Includes \$42.7 million in CalWORKs carryover funds (\$17.4 million in General Fund and \$25.3 million in federal funds) and \$55.7 million in General Fund carryover from 2000-01 child care appropriations.

^e Reflects transfer of \$25 million to Stage 1 and \$79.1 million to Stage 2.

^f Includes \$32.5 million in General Fund carryover from 1999-00 child care appropriations and \$18.7 million in one-time federal funds.

^g One-time funds to provide child care to families expected to "time out" of Stage 2 between July 1, 2002 and end of March 2003.

The administration estimates that the proposed reforms would save approximately \$400 million annually. These savings result from a combination of higher family fees, lower reimbursement rates, and an estimated 22,000 children losing subsidized child care (these children would be from families with relatively higher incomes). The Governor proposes to retain the savings in child care programs, thereby increasing the availability of child care and before and after school services for approximately 96,000 children (these would be from families with relatively lower incomes). This results in a net increase of 74,000 new slots. In addition, the Governor proposes to spend \$37.4 million in new Proposition 98 resources to increase the availability of before and after school programs to an additional 38,000 children.

As Figure 2 shows, the Governor’s budget proposes to provide child care slots (on an average monthly basis) for approximately 735,000 children. Of the 735,000 slots in the Governor’s budget, about 239,400 (33 percent) are reserved for current and former recipients of CalWORKs. We note that this amount does not include the 40,000 children currently receiving care under the Stage 3 set-aside that the Governor proposes to serve through the AP program.

Figure 2			
California Child Care and Development Programs—			
Estimated Enrollment			
	Agency^a	Revised 2001-02	Proposed 2002-03
CalWORKs^b			
Stage 1	DSS	99,600	78,400
Stage 2	SDE	116,300	114,000
Community Colleges (Stage 2)	CCC	2,700	3,000
Reserve for Stages 1 and 2	DSS	7,500	29,500
Stage 3 set-aside	SDE	41,400	14,500 ^c
Subtotals		(267,500)	(239,400)
Non-CalWORKs			
State preschool	SDE	100,000	100,000
General child care	SDE	89,500	89,500
Alternative payment program	SDE	33,400	110,000
Migrant day care	SDE	9,000	9,000
CalSAFE child care	SDE	4,500	4,500
Before and after school	SDE	105,800	176,600
Other non-CalWORKs	SDE	6,000	6,000
Subtotals		(350,300)	(495,600)
Totals		617,800	735,000
^a Department of Social Services (DSS); State Department of Education (SDE); California Community Colleges (CCC).			
^b California Work Opportunity and Responsibility to Kids.			
^c About 40,000 children currently receiving care in Stage 3 set-aside would be served through the Alternative Payment program under the Governor’s budget.			

CHILD CARE BUDGET WITHOUT GOVERNOR'S REFORMS

Below, we estimate what would be needed to fund the state's child care budget for 2002-03 under current policy and practice without the proposed reforms. For this estimate, we assume (1) full funding of the child care needs of former CalWORKs families expected to "time out" of Stage 2 in 2002-03 and (2) approval of the Governor's proposal to spend \$37.4 million in new General Fund (Proposition 98) resources for the expansion of before and after school programs. As indicated in Figure 3 (see next page), we estimate, based on the most recent data provided by the Department of Finance, that current practice would require a child care budget of about \$3.3 billion for 2002-03. This is approximately \$110 million above the Governor's proposed spending level for child care and development programs. We note, however, that the Governor's January budget assumes caseload estimates for CalWORKs Stages 1, 2, and 3 based on data collected last fall. Therefore, the \$110 million shortfall we identify above could increase or decrease based on revised caseload estimates presented by the administration in the May Revision.

Figure 4 (see page 6) provides the estimated enrollment by program if the child care budget for 2002-03 were based on current policy without the Governor's reform proposals. We estimate that such a budget would provide child care slots for approximately 677,000 children. This would serve 58,000 fewer children than the Governor's budget.

OPTIONS AND RECOMMENDATIONS FOR THE LEGISLATURE

In our *Analysis of the 2002-03 Budget Bill*, we withheld recommendation on the Governor's child care reform proposals pending further review of programmatic and fiscal implications. We noted that (1) the proposed reforms are extensive and involve significant policy and fiscal considerations and (2) the administration had not provided the Legislature with draft language for legislation needed to enact the proposed reforms. Since the release of the Governor's budget in January, the administration—with DSS designated as the lead agency—commissioned a working group of representatives from various child care organizations and agencies to solicit input on the proposed reforms. Based upon feedback from this working group, the administration intends to propose a revised set of reforms as part of the May Revision. Although the specifics of these revised reforms are not finalized, the administration in recent budget hearings stated its intention to fully fund the child care needs of former CalWORKs families expected to time out of Stage 2 in 2002-03.

In order to assist the Legislature in fashioning a child care budget for 2002-03, we provide below several options and recommendations.

Figure 3
California's Child Care Budget
Under Current Policy Without Governor's Reforms

(In Millions)

	Agency ^a	2001-02 Revised Budget	2002-03 Governor's Budget	2002-03 Budget Without Reforms
CalWORKs^b				
Stage 1	DSS	\$575	\$472	\$522
Stage 2	SDE	705	592	725
Community Colleges (Stage 2)	CCC	15	15	15
Reserve for Stages 1 and 2	DSS	46 ^c	165	165
Stage 3	SDE	255	81	388 ^d
Subtotals		(\$1,596)	(\$1,325)	(\$1,815)
Non-CalWORKs				
State preschool	SDE	\$308	\$308	\$308
General child care	SDE	604	536	604
Alternative payment program	SDE	208	626	208
Migrant day care	SDE	32	32	32
CalSAFE child care	SDE	40	41	41
Before and after school	SDE	95	163	133 ^e
Other non-CalWORKs	SDE	34	34	34
Subtotals		(\$1,321)	(\$1,740)	(\$1,360)
Support Activities				
Resource and referral	SDE	\$16	\$16	\$16
Local planning councils	SDE	6	6	6
Quality improvement	SDE	60	66	66
COLA for 2002-03	SDE	—	26	26
Other activities	SDE/DSS	16	11	11
Subtotals		(\$98)	(\$125)	(\$125)
Totals		\$3,015	\$3,190	\$3,300

^a Department of Social Services (DSS); State Department of Education (SDE); California Community Colleges (CCC).

^b California Work Opportunity and Responsibility to Kids.

^c Reflects transfer of \$25 million to Stage 1 and \$79.1 million to Stage 2.

^d Assumes intent to provide ongoing child care for former CalWORKs families expected to "time out" of Stage 2 in 2002-03.

^e Includes Governor's proposal to spend \$37.4 million for the expansion of before and after school programs.

Figure 4				
Estimated Enrollment in California's Child Care Programs Without Governor's Reforms				
		2002-03		
	Agency^a	2001-02 Re-vised Budget	Governor's Budget	Without Reforms
CalWORKs^b				
Stage 1	DSS	99,600	78,400	78,400
Stage 2	SDE	116,300	114,000	118,100
Community Colleges (Stage 2)	CCC	2,700	3,000	2,700
Reserve for Stages 1 and 2	DSS	7,500	29,500	29,500
Stage 3 set-aside	SDE	41,400	14,500 ^c	61,900 ^d
Subtotals		(267,500)	(239,400)	(290,600)
Non-CalWORKs				
State preschool	SDE	100,000	100,000	100,000
General child care	SDE	89,500	89,500	89,500
Alternative payment program	SDE	33,400	110,000	33,400
Migrant day care	SDE	9,000	9,000	9,000
CalSAFE child care	SDE	4,500	4,500	4,500
Before and after school	SDE	105,800	176,600	144,000 ^e
Other non-CalWORKs	SDE	6,000	6,000	6,000
Subtotals		(350,300)	(495,600)	(386,400)
Totals		617,800	735,000	677,000
^a Department of Social Services (DSS); State Department of Education (SDE); California Community Colleges (CCC). ^b California Work Opportunity and Responsibility to Kids. ^c About 40,000 children currently receiving care in Stage 3 set-aside would be served through the Alternative Payment program under the Governor's budget. ^d Assumes intent to provide ongoing child care for former CalWORKs families expected to "time out" of Stage 2 in 2002-03. ^e Reflects Governor's proposal to spend \$37.4 million for the expansion of before and after school programs.				

Options for Meeting Legislative Priorities

Based on current state law and practices, the Governor's budget underfunds some existing child care programs. We have attempted to identify a list of options that the Legislature could use to ensure that particular programs are fully funded and that its priorities are reflected in the state's child care budget. These options include available funding not proposed for expenditure in the Governor's budget and expenditures proposed in the budget that may be considered of lower priority to the Legislature.

Newly Identified Available Funding (\$51.2 Million). Based on fiscal data provided to us by SDE, we have identified a total of \$51.2 million available from carryover and federal sources that is not included in the Governor's budget. The Legislature could use

these funds for child care or, in some cases, any of its other K-14 education priorities. The \$52.1 million total consists of the following:

- \$26.4 million in one-time General Fund (Proposition 98) savings due to child care and state preschool providers not expanding services in the current year as rapidly as had been expected.
- \$17.9 million in “unanticipated” federal funds (one-time) made available in the current year that must be spent on child care.
- \$4.2 million in state child care funds (excluding CalWORKs child care) that have been carried over from 2000-01. Education Code Section 8278 permits SDE to carry over General Fund appropriations for child care and development activities for two years. Funds not spent in one year may be carried over and spent on one time child care and development activities.
- \$2.7 million in CalWORKs carryover (\$1.3 million General Fund [Proposition 98] and \$1.4 million federal funds) from 2000-01. Current law states legislative intent that carryover funds from CalWORKs child care be used to offset Stage 2 costs in subsequent fiscal years.

Reducing Program Expansion (\$24.8 Million). The Governor’s budget includes a total of \$308 million General Fund (Proposition 98) for state preschool programs. Of this amount, SDE plans to initiate a request for applications process in order to award \$14.8 million for additional state preschool slots in the budget year. In addition, the Child Care Facilities Revolving Fund administered by SDE currently includes a balance of \$10 million that is being set aside for state preschool facilities in order to serve additional students. Alternatively, the Legislature could redirect a total of \$24.8 million from state preschool programs (\$14.8 million) and the Child Care Facilities Revolving Fund (\$10 million) to any of its K-14 education priorities (including child care) without decreasing the number of children currently served in state preschool programs.

Discontinuing CalWORKs Center-Based Pilot Program (\$10 Million). The Legislature, recognizing the need to ensure equitable access to high quality child care for all families, stated legislative intent in the 1999-00 Budget Act for SDE to develop a pilot program allowing CalWORKs families to receive care in child care centers under contract with SDE. Consistent with this action, the Legislature provided \$10 million in child care savings (Proposition 98) in the 2000-01 Budget Act for CalWORKs families in SDE’s “center-based” programs. The department, however, has made essentially no progress in implementing the pilot program. All of the funds provided in the 2000-01 Budget Act have been carried over in successive budgets. Due to contracting and attendance-tracking difficulties, SDE staff recently indicated that the department does not regard program implementation as feasible. Thus, the Legislature could redirect the \$10 million to other education purposes.

Recommendations on Governor's Proposals

Appropriate New Federal Funds for Before and After School Programs (\$41.5 Million). The federal 21st Century Community Learning Centers provide academic enrichment and recreational activities to students before and after regular school hours. In the past, the federal Department of Education awarded competitive grants for these centers directly to local education agencies (LEAs). The reauthorized Elementary and Secondary Education Act, however, converts the 21st Century Community Learning Centers to a state formula grant program. The federal budget for federal fiscal year 2002 includes \$41.5 million for California to provide *new* grants to LEAs for the centers. These funds are not proposed for expenditure in the Governor's January budget. We recommend that the Legislature appropriate these funds in the budget year to provide before and after school services to additional students. This approach would enable the state to save \$37.4 million of Proposition 98 funds and still serve 4,500 more students in before and after school programs than proposed in the budget, as described in more detail below. We further recommend that the federal 21st Century Community Learning Centers program be implemented as much as possible in accordance with the state's Before and After School Learning and Safe Neighborhoods Partnership Program. For example, the Legislature should consider providing identical per-pupil reimbursement rates for the two programs.

Redirect General Fund Proposed for Expanding State's Before and After School Program (\$37.4 Million). The Governor's budget includes \$37.4 million in new Proposition 98 resources for expanding the Before and After School Learning and Safe Neighborhoods Partnership Program to provide homework assistance and recreational activities to an additional 38,000 pupils in kindergarten and grades 1 through 9. As we note above, however, California will receive \$41.5 million in new federal funds for 21st Century Community Learning Centers. Given the availability of these new federal funds for before and after school programs, we recommend that the Legislature reject the Governor's proposal to spend an additional \$37.4 million for the state's Before and After School Learning and Safe Neighborhoods Partnership Program. This action would "free up" \$37.4 million from the General Fund for the Legislature to direct to any of its K-14 education priorities. As stated above, our approach could serve 4,500 more students in before and after school programs than proposed in the Governor's budget. Alternatively, if the Legislature wanted to serve the same number of students as proposed in the budget, it could free up an additional \$4.1 million in savings from various child care reforms that the Governor retains for increasing the availability of before and after school programs.

Approve Budget's Proposal to Eliminate Child Care Eligibility for "Grandfathered" Families (\$24 Million Savings). In 1997, the Legislature reduced the family income eligibility requirements for subsidized child care from 100 percent to 75 percent of the state median income (SMI), adjusted for family size (Chapter 270, Statutes of 1997 [AB 1542, Ducheny]). Chapter 270, however, specified that children from families with incomes between 75 percent and 100 percent of SMI that were receiving subsidized care as of December 31, 1997, maintain their right to such care as long as their family income

does not exceed 100 percent of SMI. (In other words, these children were grandfathered into the program.) The Governor's budget proposes to eliminate the eligibility exception for these children. According to SDE and the administration, this proposal would save \$24 million. There is some indication, however, that this estimate may be high, and the administration is currently conducting data analyses to confirm the projected savings of this reform.

We concur that the state's limited child care resources should be directed to families with the greatest need for care. Typically, there are long waiting lists for subsidized child care because demand from families with incomes at or below 75 percent of SMI substantially exceeds available slots. In order to reduce the waiting lists for the families with lower incomes, we recommend that the Legislature approve the administration's proposal to eliminate child care eligibility for families that were grandfathered by Chapter 270. The Legislature may wish to consider "phasing in" the proposal in order to provide sufficient time for families and child care providers to adapt to the new requirements. However, this would result in less than the anticipated amount of savings during the first year of implementation.

Approve Budget's Proposal to Eliminate Child Care Eligibility for 13-Year Olds (\$5.5 Million Savings). Under current law, children age 13 or below from families with incomes below 75 percent of the state median income are eligible for state subsidized child care. The Governor's budget proposes to eliminate child care services for 13-year olds, for annual savings of \$5.5 million. According to the administration, no other state provides subsidized care to 13-year old children. This is mainly because federal funds can only be spent on child care for children age 12 or below. We believe the budget's proposal is reasonable given the state's fiscal circumstances. Moreover, aligning state and federal requirements in this instance would simplify the rules that providers must follow regarding allowable expenditures. In addition, there already are multiple programs serving 13-year old students before and after regular school hours. The availability of \$41.5 million in new federal funds for before and after school programs (discussed above) would further increase services available to these students. The Legislature could choose to phase in the Governor's proposal in order to provide sufficient time for families and child care providers to adapt to the new restriction. However, this would result in less than the anticipated amount of savings during the first year.

Possible Pilot of Other Reforms. We continue to withhold recommendation on other elements of the Governor's proposed child care budget pending receipt of revisions to that proposal that will be forthcoming from the administration. Given that the Legislature may have little time to review the revised proposal in its 2002-03 budget deliberations, the Legislature may find it useful to consider a pilot test of reforms in the budget year. For example, in our *Analysis of the 2000-01 Budget Bill* (beginning on page E-94), we recommended a pilot test of a Wisconsin-style child care program in up to four counties in California. Pilot projects, including elements of the Governor's child care reforms, would provide valuable information on the impact of major child care reforms and their effects on families.

APPENDIX 1

Summary of Governor's Child Care Reforms as Proposed January 10, 2002

Current Practice	Governor's Proposal
Income and Age Eligibility	
<p>Family income up to 75 percent of state median income (SMI), adjusted for family size.</p>	<p>Reduce maximum income limit to (1) 66 percent of SMI for four "highest cost" counties in Bay Area, (2) 63 percent for other high cost counties, and (3) 60 percent for remaining counties.</p>
<p>"Grandfathered" families with incomes above 75 percent of SMI who received services at the time income limits were reduced in 1997 from 100 percent to 75 percent of SMI.</p>	<p>Eliminate eligibility for grandfathered families with incomes above eligibility limits.</p>
<p>Income limits for family sizes derived annually by formula based on the SMI for a family of four as determined by Department of Finance.</p>	<p>Replace current formula. Adjust annual income limits based on the California Consumer Price Index and the family size adjustment factor utilized in calculating federal poverty levels.</p>
<p>Children age 13 or below.</p>	<p>Eliminate eligibility for 13-year-olds.</p>
Reimbursement Rates	
<p>Center-based programs funded at a "standard reimbursement rate" specified in statute and increased annually for cost of living.</p>	<p>No change.</p>
<p>Alternative payment programs funded up to the "regional market rate" (average cost of care in each region of the state) plus 1.5 standard deviations as determined from annual surveys. Separate rates calculated depending on provider type, age of children, and length of care.</p>	<p>Restrict maximum reimbursement to the 75th percentile of the regional market rate. Eliminate certain adjustment categories and separately derived rates.</p>
Family Fees	
<p>Families with incomes below 50 percent of SMI pay no fees. Families with incomes above 50 percent of SMI pay fees on a sliding scale—as family income rises, fee amounts increase. Fees are the same regardless of cost of care or number of children in family receiving care.</p>	<p>Implement a new three-step, graduated schedule for nearly all families.</p> <ul style="list-style-type: none"> • First step for first 5 years of care. • Second step for next 2 years. • Third step begins after 7 cumulative years of care with fees proportional to a family's income as a percentage of SMI. (For example, families with incomes at 60 percent of SMI would pay 60 percent of the full cost of care.)
<p>Center-based programs collect fees directly from families. Alternative payment programs collect fees from families, not direct child care providers.</p>	<p>Shift responsibility for fee collections for alternative payment programs to direct child care providers.</p>
Waiting List Priorities	
<p>First priority for children who are at risk of abuse or neglect and recipients of child protective services. Second priority for families with lowest income.</p>	<p>Give second priority to families in the lowest income tier who are working full-time with children under age 5.</p>

Summary of Governor’s Child Care Reforms as Proposed January 10, 2002

Current Practice	Governor’s Proposal
Child Care for Former CalWORKs Families	
<p>Former CalWORKs recipients who have exceeded their two years of Stage 2 child care move into the non-CalWORKs child care system or the Stage 3 “set-aside.” The Legislature created the set-aside to provide continuing child care to these families that remain income-eligible. (Legislative practice has been to fully fund this program.)</p>	<p>Eliminate Stage 3 set-aside and shift the funds to the alternative payment program. (Governor’s budget includes one-time funds to provide—at least through the end of the budget year—continuing child care to families expected to “time out” of Stage 2 between July 1, 2002 and the end of March 2003.)</p>
Other Issues	
<p>Extended Day Care program.</p>	<p>Phase out existing Extended Day Care program over a three-year period with redirection of the funds for this program to the Before and After School Learning and Safe Neighborhoods Partnership Program.</p>
<p>Accountability, compliance, and efficiency measures.</p>	<p>Adopt measures to increase accountability, compliance, and efficiency.</p>