

April 22, 2010

Overview of the Child Care and Development Budget

LEGISLATIVE ANALYST'S OFFICE

Presented to:

Senate Budget and Fiscal Review
Subcommittee No. 1 on Education

Hon. Carol Liu, Chair





Overview: Child Care and Development (CCD) Programs

Overview of State's Child Care Programs		
Program	Estimated Enrollment (2009-10)	Description^a
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 rate (RMR).
Stage 1	66,316	Stage 1 begins when a participant enters the CalWORKs grant program. Stage 1 is overseen by the Department of Social Services.
Stage 2	63,004	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	55,873	A family may enter Stage 3 when it has exhausted its two-year limit in Stage 1 and/or Stage 2 (referred to as timing out), and remain as long as they remain otherwise eligible for child care.
Non-CalWORKs Child Care		Child care for children from low-income families ages birth through 12 years of age and older children with exceptional needs.
General Child Care	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	37,186	Care provided in licensed center, FCCH, or by license-exempt provider. Providers paid through voucher reimbursement system based on RMR.
Migrant and Severely Handicapped	10,180	Programs targeted for specific populations of children.
State Preschool	116,832	Early childhood education programs for three- to five-year-old children from low-income families.
Total Enrollment	435,560	

^a All Child Care and Development programs are overseen by CDE unless otherwise noted.



Overview: CCD Funding

California Child Care and Development Programs					
<i>2010-11 (Dollars in Millions)</i>					
	2008-09 Actual	2009-10 Revised	2010-11 Proposed	Change From 2009-10	
				Amount	Percent
CalWORKs Child Care					
Stage 1	\$616	\$547	\$444	-\$103 ^a	-18.8%
Stage 2 ^b	505	476	436	-41	-8.5
Stage 3	418	409	262	-147	-36.0
Subtotals	(\$1,539)	(\$1,432)	(\$1,141)	(-\$291)	(-20.3%)
Non-CalWORKs Child Care					
General child care	\$780	\$797	\$794	-\$3	-0.4%
Other child care programs	329	321	303	-18	-5.6
Subtotals	(\$1,109)	(\$1,118)	(\$1,097)	(-\$21)	(-1.9%)
State Preschool	\$429	\$439	\$437	-\$2	-0.4%
Support Programs	106	109	106	-2	-2.2
Totals	\$3,183	\$3,098	\$2,782	-\$316	-10.2%
State Funds					
Proposition 98	\$1,690	\$1,824	\$1,677	-\$147	-8.1%
Non-Proposition 98	28	29	28	-2	-5.3
Other state funds ^c	339	66	—	-66	-100.0
Federal Funds					
Child Care and Development Fund	\$528	\$541	\$540	-\$1	-0.1%
TANF ^d	598	528	427	-101 ^a	-19.2
ARRA ^e	—	110	110	—	—
^a Includes \$47 million transferred to county CalWORKs fund, where counties have the option to continue using the funds for child care or another CalWORKs activity. ^b Includes funding for centers run by California Community Colleges. ^c Includes prior-year Proposition 98 carryover and redirected Child Care Facilities Revolving Fund monies. ^d Temporary Assistance for Needy Families. ^e American Recovery and Reinvestment Act.					



Governor's proposal would reduce overall funding for CCD programs by \$316 million in 2010-11.



Overview: Comparison of CCD Proposals

Summary of Child Care and Development Proposals				
<i>2010-11 (In Millions)</i>				
Issue	Governor		LAO	
	Proposal	Savings	Recommendation	Savings
Reimbursement rates for licensed providers	Reduce rate ceiling from 85th percentile to 75th percentile based on 2005 RMR ^a survey.	\$19	Reduce rate ceiling to 60th percentile based on 2009 RMR survey.	—
Reimbursement rates for license-exempt providers	Reduce from 90 percent to 70 percent of reduced licensed rate.	113	Adopt Governor's proposal but base on LAO-recommended licensed rate.	\$80
CalWORKs Stage 3	Reduce by 18,000 slots.	123	Reject Governor's proposal. Reduce eligibility ceiling to 60 percent of state median income (SMI).	15
Non-CalWORKs child care	No proposal.	—	Reduce eligibility ceiling to 60 percent of SMI. From savings, redirect \$55 million to reduce waiting list.	60
Migrant child care	No proposal.	—	Align funding with program need.	4
Cost-of-Living Adjustment (COLA)	Reduce programs for -0.38 percent COLA.	6	Reject Governor's proposal.	—
Various programs	Make technical adjustments and fund swaps.	55	Adopt Governor's proposal.	55
Totals		\$316		\$214
Proposition 98		\$147		\$65
Federal Funds/Non-Proposition 98 General Fund^b		103		83
Other		66		66

^a Regional Market Rate.

^b Reductions to CalWORKs Stage 1 save federal Temporary Assistance for Needy Families funds, which can then be redirected to save state General Fund.

- LAO alternative would save about \$100 million less than Governor's proposal, including about \$80 million less from Proposition 98.
- LAO approach more straightforward and transparent, prioritizes care for neediest families.



Provider Reimbursement Rates

- Child Care Provider Payments Based on Regional Market Rates (RMR).*** All California Work Opportunity and Responsibility to Kids (CalWORKs) and some non-CalWORKs child care providers are reimbursed—via vouchers—up to the 85th percentile of rates charged by all child care providers in the region. Rates are based on RMR survey conducted every two years.
- Governor Proposes to Lower Reimbursement Rate Ceilings, Save \$132 Million (\$77 Million Proposition 98).*** Governor would lower maximum rate for licensed providers from 85th percentile of RMR to 75th percentile, based on 2005 survey data.

 - Would further lower rate for license-exempt providers from 90 percent of licensed rate to 70 percent.
- Using Outdated Survey Data Underestimates Actual Costs of Child Care.*** The 2005 RMR survey does not reflect current market rates, overstates access that vouchers provide.
- LAO Recommends Using More Recent Survey Data and Aligning Rate Ceilings With Current Reimbursement Levels.*** Use 2009 RMR survey, keep rate ceilings roughly comparable to current-law amounts. We estimate this would be about the 60th percentile of the RMR.
- Recommend Adopting Governor’s Proposal for License-Exempt Providers to Save \$80 Million (\$45 Million Proposition 98).*** Maximum reimbursement would drop from 90 percent to 70 percent of licensed rate but would still be higher than under Governor’s proposal.



Child Care Slots

- Governor Proposes to Cut CalWORKs Stage 3 Child Care by \$123 Million.** Would eliminate 18,000, or about one-third, of all Stage 3 slots.
- Proposal Would Displace Some of State's Neediest Families.** Roughly 11,000 children from families transitioning out of Stage 2 would lose option for Stage 3. Extensive waiting lists for non-CalWORKs care mean displaced families might not find care.
- Recommend Rejecting Governor's Proposal, Lowering Eligibility Ceilings, and Preserving Services for Neediest Families.** Recommend lowering eligibility criteria from 75 percent of state median income (SMI) to 60 percent of SMI. We estimate this would displace about 4,000 children, save about \$15 million.
- Also Recommend Lowering Eligibility Ceilings for Non-CalWORKs Programs and Redirecting Portion of Savings to Expand Access for Neediest Families.** Would keep eligibility criteria consistent across various programs, help address unmet demand from very low-income families.

 - Estimate would save about \$115 million. Recommend capturing \$60 million in savings and redirecting \$55 million to increase slots for most needy families.



Additional LAO Recommendations for CCD

- Reject Governor's Cost-of-Living Adjustment (COLA) Proposal.*** Governor proposes to apply -0.38 percent COLA to CCD programs to save \$6 million. Adjusting for negative COLA after two years of not providing positive COLAs seems unreasonable.

- Make Technical Adjustment to Capture \$3.5 Million in Unused Funds From Migrant Child Care.*** As a result of declining participation, funding can be reduced without affecting services or slots.

- Make After School Education and Safety (ASES) Program More Flexible.*** Ask voters to repeal certain provisions of Proposition 49 and allow state/districts to make ASES decisions within context of overall budget.



Activities Designed to Enhance CCD Quality

- Federal Government Requires That State Spend Portion of Federal Child Care Grant on “Quality” Activities.** In 2010-11, the requirement equates to **\$81.9 million**.

 - Of this amount, \$63.1 million is minimum ongoing requirement and \$18.8 million is one-time requirement associated with American Recovery and Reinvestment Act funding.

- State Currently Exceeds Spending Requirement.** Governor’s 2010-11 budget proposal includes **\$96.7 million** for quality activities, or **\$14.8 million** more than the federal requirement.

- State Currently Funds 40 Quality Projects.** The federal government “earmarks” portion of quality spending to support infants/toddlers, school age children, and resource and referral activities. Funds generally support the following types of activities:

 - **Professional Development:** including training and technical assistance for child care providers.
 - **Stipends for Providers:** including tuition assistance for college coursework and financial bonuses for taking additional classes, continuing to work in the child care field, or serving as a mentor.
 - **Activities Related to Health and Safety:** including licensing inspections of facilities, criminal background checks, and health advice provided via a toll-free phone line.
 - **Materials and Facilities:** including curriculum materials for providers and children, and renovation and repair of child care facilities.

- Given Scarce Resources, Are Quality Projects More Important than Serving Children?** Legislature may want to consider discontinuing some quality activities and redirecting \$14.8 million in “excess” quality dollars to offset proposed cuts to child care slots.