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Overview of Governor's Child Care Proposals

LEGISLATIVE ANALYST'S OFFICE

Presented to:

Senate Budget and Fiscal Review Committee

Hon. Denise Moreno Ducheny, 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.



Governor Proposes Significant Reductions to Child Care Budget

| Governor's Proposed Changes to Child Care and Development Budget | | | | | |
|---|-----------------|----------------|------------------|---------------------|-------------|
| <i>(In Millions)</i> | | | | | |
| | 2009-10 Revised | 2010-11 | | Change From January | |
| | | January Budget | May Revision | Amount | Percent |
| CalWORKs Stage 2 and 3/Alternative payment | \$1,172 | \$963 | \$458 | -\$505 | -52% |
| General child care | 797 | 797 | 131 | -666 | -84 |
| CalWORKs Stage 1 | 547 | 444 | 120 ^a | -324 | -73 |
| Migrant child care | 39 | 36 | 5 | -31 | -85 |
| Handicapped program | 2 | 2 | — | -2 | -100 |
| Subtotal Child Care Programs | (\$2,558) | (\$2,243) | (\$715) | (-\$1,528) | (-68%) |
| State preschool | \$439 | \$439 | \$439 | — | — |
| Child care support programs ^b | 105 | 102 | 66 | -36 | -35% |
| Other | 9 | -2 | 4 | 6 | — |
| Totals | \$3,110 | \$2,782 | \$1,224 | -\$1,558 | -56% |
| Fund Source | | | | | |
| Proposition 98 | \$1,836 | \$1,677 | \$439 | -\$1,238 | -74% |
| Federal funds | 1,181 | 1,075 | 785 | -291 | -27 |
| Other | 93 | 29 | — | -29 | -100 |

^a Program would serve eligible children through October 1, 2010.

^b Support programs include Resource and Referral programs, centralized eligibility lists, and local child care planning councils.

- Eliminates all Proposition 98 funding for all child care programs except preschool. This includes eliminating CalWORKs Stage 2 and Stage 3 and shifting some funding/caseload to alternative payment programs.
- Eliminates all funding for CalWORKs Stage 1 as of October 1, 2010.
- Assumes state still receives all anticipated federal funding for child care (\$785 million).
- Assumes dramatically scaled back non-CalWORKs child care system remains in place, supported entirely with federal funds.
 - Would reduce child care slots by about 240,000, or about 75 percent, compared to 2009-10.



Proposed Budget Reductions

| Governor's Proposed Budget Reductions for Child Care Programs | |
|--|----------------|
| <i>(In Millions)</i> | |
| 2009-10 Revised | \$3,110 |
| January Governor's Budget | |
| Reduce RMR ^a reimbursement ceilings | -\$132 |
| Reduce CalWORKs Stage 3 caseload | -123 |
| Shift Stage 1 funding to county block grant | -47 |
| Other/technical | -26 |
| Subtotal | (-\$328) |
| May Revision | |
| Eliminate General Fund for child care | -\$1,200 |
| Eliminate CalWORKs Stage 1 ^b | -324 |
| Lower eligibility ceilings to 60 percent of SMI ^c | -54 |
| Erosion of RMR savings (CalWORKs Stage 2 and 3) | 22 |
| Adjustment to Stage 3 reduction | 32 |
| Shift Stage 2 and 3 to Alternative Payment Program | — |
| Other/technical | -35 |
| Subtotal | (-\$1,558) |
| Total Reductions | \$1,886 |
| 2010-11 Proposed | \$1,224 |
| ^a Regional market rate. ^b Proposal assumes maintenance of \$120 million in federal funding for first quarter of 2010, assumes elimination would take effect October 1, 2010. ^c State median income. | |



Governor's Specific Child Care Proposals

- In addition to dramatic program reductions, Governor proposes policy changes that would affect remaining, scaled-down programs (except state preschool).
 - **Lower Provider Reimbursement Rate Ceilings (January Proposal).** Would reduce the maximum rate for licensed providers from the 85th percentile of regional market rates (RMR) to the 75th percentile, using the 2005 RMR survey. For license-exempt providers, would further reduce the maximum reimbursement from 90 percent of the licensed rate to 70 percent.
 - **Lower Eligibility Criteria (May Proposal).** Would reduce eligibility ceiling from 75 percent to 60 percent of state median income.

- Governor also proposes trailer bill language to implement more aggressive actions to minimize and recover overpayments to child care programs.



LAO Recommends Taking a Different Approach

- ☑ ***Recommend Rejecting Governor's Proposal to Eliminate All General Fund Support for Child Care.*** Subsidized child care programs serve state's neediest families, help CalWORKs recipients and other low-income families maintain employment.
- ☑ ***Governor's Proposal Puts Some Federal Funds at Risk.*** Between \$100 million to \$200 million in federal funds could be lost if California does not increase state funding by like amount.
- ☑ ***Recommend More Modest Approach to Generating Savings.*** Recommendations would generate less savings than Governor but would preserve core programs.
 - Base reimbursement rate ceilings on 2009 RMR survey data, set rate ceilings at level state can afford.
 - Adopt Governor's proposal to lower license-exempt provider rates.
 - Lower eligibility criteria to generate savings but preserve services for state's neediest families.
- ☑ ***Recommend Making Targeted Reductions That Would Not Affect Child Care Slots.***
 - Reduce migrant child care program by \$4 million to reflect decreased participation.
 - Reduce funding for quality improvement activities by \$6.2 million to minimum federal requirement.
 - Redirect additional \$4.3 million in federal quality improvement funds to support child care licensing, to save like amount of non-Proposition 98 General Fund.