

February 24, 2011

Child Care and Development (CCD) Budget: Overview of Conference Issues

L E G I S L A T I V E A N A L Y S T ' S O F F I C E



Overview of CCD Approaches

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| Summary of Proposition 98 Child Care Packages | | | | |
|--|-------------------|-------------------|-------------------|---|
| <i>(In Millions)</i> | | | | |
| | Governor | Senate | Assembly | Comments |
| Ongoing Solutions | | | | |
| Make across-the-board reduction | -\$577.5 | -\$165.0 | -\$178.0 | In contrast to Governor, both houses would reduce slots and prioritize by income. (A) reduces by 10 percent and includes preschool, (S) reduces by 13 percent and excludes preschool. |
| Lower income eligibility ceiling | -79.2 | -150.0 | -40.0 | Governor and (S) reduce from 75 percent to 60 percent of state median income (SMI), but (S) also includes preschool. (A) reduces to 70 percent SMI and includes preschool. |
| Eliminate services for 11- and 12-year olds | -59.3 | -41.0 | — | (S) preserves funding for care during non-traditional hours. Also assumes additional \$19 million in non-Proposition 98 General Fund savings. |
| Use Temporary Assistance for Needy Families funds (not General Fund) | — | -100.0 | — | Conforms to revenue action. |
| Reduce administrative allowance | — | -15.0 | — | (S) reduces from 17.5 percent to 15 percent of contract amount. |
| Reduce license-exempt provider rates to 60 percent of licensed rates | — | -54.0 | -54.0 | Not in Conference. Also assumes additional \$45 million in non-Proposition 98 General Fund savings. |
| Subtotal—Ongoing Solutions | <u>(-\$716.0)</u> | <u>(-\$525.0)</u> | <u>(-\$272.0)</u> | |
| One-Time Solutions | | | | |
| Defer CCD payments | — | — | -\$150.0 | |
| Use one-time Proposition 98 funds | — | -\$122.8 | -216.9 | |
| Subtotal—One-Time Solutions | <u>(—)</u> | <u>(-\$122.8)</u> | <u>(-\$366.9)</u> | |
| Totals | -\$716.0 | -\$647.8 | -\$638.9 | |

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- ☑ **Compared to Governor, Both Houses Achieve Less Ongoing Savings.** Both houses modified the Governor's proposals, but in different ways, and for a lesser amount of ongoing savings.
- ☑ **Both Houses Rely Heavily on One-Time Solutions to Support Ongoing CCD Programs.** Senate relies on \$123 million and Assembly relies on \$217 million in one-time funds for ongoing CCD programs. Assembly also defers \$150 million in CCD payments until 2012-13.
- ☑ **Both Houses Achieve Additional Savings From K-12 Education.** Given both houses make fewer CCD reductions, they make additional K-12 cuts in order to tie to the Governor's overall Proposition 98 spending level of \$49.3 billion.

LAO Guiding Principles for Building CCD Packages

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In Approaching Reductions to CCD Budget:

- Balance Access and Quality.**
- Prioritize Services for the Neediest Families and Children.**
- Prioritize Direct Services for Children Over Administrative and Support Activities.**

In Reconciling Legislative Packages:

- Maintain Transparent, Consistent Statewide CCD Program.*** Across-the-board reductions may have unintended consequences by creating different *de facto* eligibility criteria across contractors. That is, despite both houses taking action to set the statewide income eligibility ceiling at a specific level, an unallocated reduction could result in maximum family income levels that vary by contract—potentially creating notable inconsistency across the state in who benefits from the program.
- Ensure Solutions Are Achievable.*** Both packages include one-time funds that have not yet been identified. Also, deferral might not be feasible for some child care contractors to manage.
- Prioritize Reductions That Yield Ongoing Savings.*** Minimize need for additional cuts in subsequent year.

LAO-Recommended CCD Package

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| LAO Compromise | | | | | |
|--|-------------------|-------------------|-------------------|-------------------|---|
| <i>(In Millions)</i> | | | | | |
| | Governor | Senate | Assembly | LAO | Comments |
| Ongoing Solutions | | | | | |
| Make across-the-board reduction | -\$577.5 | -\$165.0 | -\$178.0 | — | LAO Alternative (see below). |
| Lower income eligibility ceiling | -79.2 | -150.0 | -40.0 | -150.0 | Senate. |
| Eliminate services for 11- and 12-year olds | -59.3 | -41.0 | — | -41.0 | Senate. |
| Use Temporary Assistance for Needy Families (TANF) funds | — | -100.0 | — | -70.0 | Senate with updated estimate, conforming to actions on revenues. Would include \$30 million additional Proposition 98 and \$40 million from TANF. |
| Reduce licensed provider rates | — | — | — | -35.0 | LAO Alternative. Reduce licensed provider rates from 85th to 75th percentile of market rates. Would yield additional \$30 million savings in non-Proposition 98 General Fund. |
| Reduce administrative allowance | — | -15.0 | — | -15.0 | Senate. |
| Reduce license-exempt provider rates to 60 percent of licensed rates | — | -54.0 | -54.0 | -54.0 | Not in Conference. |
| Subtotal—Ongoing Solutions | <u>(-\$716.0)</u> | <u>(-\$525.0)</u> | <u>(-\$272.0)</u> | <u>(-\$365.0)</u> | |
| One-Time solutions | | | | | |
| Defer CCD payments | — | — | -\$150.0 | — | Senate. |
| Swap with one-time Proposition 98 funds | — | -\$122.8 | -216.9 | -\$83.5 | LAO Compromise. Reflects identified funds. |
| Subtotal—One-Time Solutions | <u>(—)</u> | <u>(-\$122.8)</u> | <u>(-\$366.9)</u> | <u>(-\$83.5)</u> | |
| Totals | -\$716.0 | -\$647.8 | -\$638.9 | -\$448.5 | |

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- Funds Ongoing Level Between Senate and Assembly.*** Makes \$365 million in ongoing CCD reductions.
- Relies Only on Identified One-Time Funds.*** Use \$83 million in one-time funds certain to materialize.
- Identifies Additional Savings in K-12 Budget to Substitute for Unidentified One-Time Funds.*** Makes \$267 million in additional K-12 cuts in order to tie to same overall Proposition 98 funding level.

California Work Opportunity and Responsibility to Kids (CalWORKs) Stage 3 Child Care Funding

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- Governor's Budget Proposal Did Not Include Funding to Restore CalWORKs Stage 3 Veto in Current Year.*** Governor indicated willingness to provide \$53 million for reduced service level in April through June after implementing policy changes, but January proposal did not directly authorize the funding.
- Administration Subsequently Submitted a Section 26 Letter to Provide \$62 Million for Services Offered January Through March.*** Based on recent JLBC action, the funds will be released by mid-March.
- Both Houses Approved One-Time Proposition 98 Funds to Provide Services in April Through June.*** The Assembly provided \$60 million, the Senate provided \$50 million.
- Assembly Amount More Closely Aligned to Current Caseload Estimates.*** If the Legislature wishes to fully restore the CalWORKs Stage 3 program for April through June, recent estimates suggest it will require \$60 million.