

Overview of the Child Care and Development Budget

LEGISLATIVE ANALYST'S OFFICE

Presented to:

Assembly Budget Subcommittee No. 1

On Health and Human Services

Hon. Holly Mitchell, Chair

Assembly Budget Subcommittee No. 2

On Education Finance

Hon. Susan Bonilla, Chair





California Has Relatively Complex Child Care and Development (CCD) System

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.



CCD Budget Shrinks Under Governor's Plan

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.					



Governor proposes a total of \$2.2 billion for CCD programs in 2011-12—a reduction of \$535 million, or 19 percent.



State funding would decrease by \$465 million whereas federal funding would decrease by \$70 million.



Governor's CCD Plan Includes Several Notable Changes

Major Proposed Changes to Child Care and Development Spending

(In Millions)

	Proposition 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.

- 

Package Achieves Savings From Several Significant Policy Proposals. Saves \$750 million (\$716 million Proposition 98 and \$34 million non-Proposition 98) from three major policy proposals: reducing state subsidies, lowering income eligibility ceilings, and eliminating subsidized care for 11- and 12-year olds.
- 

Proposed Savings Offset by Augmentations, Also Need to Backfill for Temporary Solutions. Package restores vetoed California Work Opportunity and Responsibility to Kids (CalWORKs) Stage 3 program, covers projected increases in CalWORKs Stage 1 caseload, and mostly backfills for one-time 2010-11 actions.



LAO Recommended Approach

- Build CCD Package Based on Legislative Priorities.*** Could cut by greater or lesser amount than Governor, could use different approach.

- Base CCD Reductions on Three Guiding Principles:***
 - Balance access and quality.
 - Prioritize services for the neediest families and children.
 - Prioritize direct services for children over administrative and support activities.

- Use These Principles to Help Assess Governor's Proposals:***
 - Reject proposal to reduce state subsidies by 35 percent.
 - Reconsider proposal to restore CalWORKs Stage 3 child care program.
 - Approve—perhaps in modified form—proposals to change eligibility criteria and reduce administrative and support activities.



Various Options for Generating CCD Savings

Options for Generating Savings in Child Care Budget

Age Limits

Current law: A child is eligible to receive state subsidized child care through age 12 (with some exceptions for children with special needs).

Governor's proposal: Eliminates services for children ages 11 and 12. (Savings: \$93 million.)

Option: Could further reduce the maximum age at which a child is eligible to receive subsidized child care. (Savings: Between \$70 million-\$100 million for each additional year of denied eligibility.)

Alternative option: Could provide subsidized care for school-age children ages 6-12 only during non-traditional hours, while prioritizing spots in school-based programs for displaced children. (Savings: Approximately \$300 million.)

Income Ceilings

Current law: Families are eligible for subsidized child care if income is less than 75 percent of state median income (SMI). Up to 10 percent of children served in state preschool program can come from families that make slightly more than this level.

Governor's proposal: Limits eligibility to families making less than 60 percent of SMI, with the exception of preschool. (Savings: \$90 million.)

Option: Could further reduce the maximum allowable income level for families eligible for subsidized child care. (Savings: \$250 million if reduce to 50 percent of SMI.)

Additional option: Could also apply to preschool eligibility. (Savings: \$150 million at 60 percent of SMI, \$370 million at 50 percent of SMI.)

Maximum Provider Reimbursement Rates

Current law: The maximum state reimbursement rate for licensed providers is set at the 85th percentile of regional market rates (RMR) based on 2005 data. License-exempt providers get 80 percent of licensed rate.

Governor's proposal: No explicit proposal to change maximum RMR levels, however 35 percent subsidy reduction would equate to defacto lowering of state's reimbursement.

Option: Could reduce the maximum reimbursement rate for licensed and/or license-exempt providers. Could base rates on updated 2009 data, as 2005 data no longer reflect current market rates. (Savings: Approximately \$20 million if reduce licensed rate to 75th percentile of 2005 RMR. \$40 million for each 10 percent reduction compared to licensed rate. Additional savings if adopt both proposals.)

Parent Fees

Current law: Families must pay a child care fee if their income is at or above 40 percent of SMI. Family fees range from \$2 to \$19 per day and are capped at 10 percent of total family income. These fees partially offset state reimbursement.

Governor's proposal: No explicit changes to family fee schedule; however, would have families pay providers directly to make up for 35 percent reduction in state subsidies. Would provide local agencies some discretion over how to change.

Option: Could reduce income level at which parents must begin to pay fee and/or increase amount of fee required for families at each existing income level. (Savings: Up to \$30 million depending on how fee schedule changed.)

Funding for Administration

Current law: State provides Alternative Payment (AP) agencies with an administrative allotment equal to 17.5 percent of original contract amount.

Governor's proposal: None.

Option: Could reduce amount state provides to AP agencies for administration and support. (Savings: \$15 million if reduce to 15 percent, \$50 million if reduce to 10 percent.)