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# Child Care Realignment

LEGISLATIVE ANALYST'S OFFICE

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# Governor's "Realignment" Proposal

- ☑ The centerpiece of the Governor's budget is a realignment of 12 percent of state General Fund program obligations.

- ☑ The budget would raise a net of $8.2 billion in new taxes to fund the shift of a like amount of primarily health and social services responsibilities, including child care, to local governments.

- ☑ The tax increases consist of:

  - One cent increase in the sales tax.
  - New personal income tax rates on high-income earners.
  - $1.10 per pack increase in the excise tax on cigarettes.

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# Realignment and the Proposition 98 Minimum Guarantee

- ***Revenues Excluded From Proposition 98 Calculation.*** The Governor's proposal assumes that the realignment revenues would not affect the Proposition 98 minimum guarantee. This is because the new revenues would flow directly into a new special fund, and therefore would not count as General Fund tax revenues. If the $8.2 billion revenues were considered General Fund proceeds of taxes, Proposition 98 would require the state to provide an additional $3.5 billion in appropriations for K-14 education.

- ***"Rebenching" Proposition 98 to Reflect Transfer of Child Care Programs.*** As part of transferring most child care programs out of Proposition 98, the Governor proposes to rebench the minimum guarantee downward by the amount of Proposition 98 funds provided to these programs in 2002-03. This in effect lowers the minimum guarantee in 2003-04 by about $879 million.

# California's Subsidized Child Care System

- ☑ The state's child care system is currently administered primarily through the State Department of Education and the Department of Social Services.

- ☑ The 2002-03 budget, as revised by Chapter 4x, Statutes of 2003 (SB 18x, Chesbro), allocates about $3.1 billion—$1.6 billion from the General Fund and $1.5 billion in federal funds—for over 15 different child care and development programs.

- ☑ About half this amount is spent on programs restricted to current and former California Work Opportunity and Responsibility to Kids (CalWORKs) recipients. All other programs, however, are also open to former CalWORKs recipients after they leave CalWORKs-funded child care, depending on space availability and income eligibility.

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# Problems With the Current Child Care System

## ☑ Child Care System Is Unnecessarily Complex

- The state's child care programs generally are funded from different sources, use separate eligibility criteria, use different points of entry, and maintain separate waiting lists.
- The uncoordinated manner in which the programs have been designed and administered impedes families' access to the system.

## ☑ Administration of Child Care Contracts Is Cumbersome and Expensive

- The complexity of child care program rules creates problems for local child care providers.
- Providers that operate under more than one program also have to negotiate separate contracts for each program.

## ☑ Stage 3 Child Care Costs Are Growing

- Legislative practice to date has been to fully fund the estimated child care needs of former CalWORKs recipients.
- According to the administration, the cost to fully fund Stage 3 in the budget year is $451.4 million.

## ☑ Current System Treats Similar Families Differently

- Families who have been on CalWORKs and subsequently leave the program can continue to receive child care under Stage 3.
- However, working poor families that have never been on CalWORKs receive care only if space is available. (Typically, there are long waiting lists for non-CalWORKs child care.)

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# Child Care Realignment Merits Consideration

- ☑ We believe the Governor's proposal to realign child care programs deserves legislative consideration.

- ☑ This realignment would give counties the flexibility to use child care funds as part of an integrated county strategy to serve low-income families and to tailor their child care programs to meet the needs of their communities' working poor.

- ☑ It would also reduce administrative complexity in the state's existing child care system by allowing counties to provide child care under their own set of program rules.

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# Fiscal Impact of Not Realigning Child Care

- ☑ If the Legislature rejects realignment, it will have to provide an additional $879 million to meet the Proposition 98 minimum guarantee. This would make less funds available for non-Proposition 98 programs.

- ☑ In order to continue funding the existing programs and the estimated growth in CalWORKs Stage 3 child care, the Legislature would need to provide $1,170 million in Proposition 98 funds. This is $291 million more than the $879 million increase in the minimum guarantee because of cost pressures to (1) "backfill" one-time funds currently used to support CalWORKs child care and (2) fund estimated caseload increases in Stage 3.

- ☑ This assumes that the state will receive $858 million from the federal government to support $2,028 million in total child care costs.