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Overview of Child Care and Development Budget

LEGISLATIVE ANALYST'S OFFICE

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Senate Budget and Fiscal Review Committee
Hon. Mark Leno, Chair





Overview of State's Child Care and Development (CCD) Programs

- ☑ ***Subsidized CCD Services Are Targeted for Needy Families.*** Families must be low income and display “need” to be eligible for care.
 - Over 90 percent of current child care cases need care because parents are engaged in work, vocational training, or pursuing an education.
 - The part-day state preschool program does not have a need eligibility requirement.

- ☑ ***Child Care Provided to Families Both as Part of, and Apart From, CalWORKs Program.*** The state traditionally has guaranteed child care services for current and former California Work Opportunity and Responsibility to Kids (CalWORKs) recipients. Waiting lists are used to prioritize care for low-income families not participating in CalWORKs.

- ☑ ***State Has Two CCD Systems.*** State currently operates CCD programs using multiple standards, contracting practices, payment rates, and types of providers.



State Has Two CCD Systems

State Has Two Subsidized Child Care Systems		
	Voucher-Based System	Direct Contractor System
Description	The California Department of Education (CDE) allocates funding to local Alternative Payment (AP) agencies. ^a The AP agencies issue vouchers to families, who in turn choose their own child care providers.	The CDE contracts directly with child care providers for a certain number of slots. Eligible families enroll in these subsidized slots.
Programs and Estimated Number of Slots	<ul style="list-style-type: none"> • CalWORKs Stage 1 (45,000) • CalWORKs Stage 2 (65,000) • CalWORKs Stage 3 (25,000) • AP Program (33,000) 	<ul style="list-style-type: none"> • State preschool (145,000^b) • General Child Care (33,000) • Migrant child care program (3,000) • Severely Handicapped Program (200)
Types of Providers	<ul style="list-style-type: none"> • Licensed centers and family child care homes (FCCHs) • Relatives or friends providing child care without a license (“license-exempt”). 	<ul style="list-style-type: none"> • Licensed centers and FCCHs
Standards	Licensed providers must meet basic health and safety standards and adhere Title 22 regulations.	Must meet health and safety standards and adhere to more rigorous Title 5 regulations.
Payment Rates	<ul style="list-style-type: none"> • Maximum voucher amounts are based on Regional Market Rates (RMR) and differ by county and age of child, with higher rates for infant/toddler care. • Current maximum rates for licensed providers are set at the 85th percentile of RMR, based on 2005 data. License-exempt providers can earn up to 60 percent of the region’s licensed rate. • Maximum monthly voucher rates for a preschool-age child in full-time licensed care range across counties from about \$650 to about \$1,110. 	<ul style="list-style-type: none"> • Contractors are paid at a daily Standard Reimbursement Rate (SRR) for each eligible child they serve. • The SRR is the same in all regions of the state, with additional funds provided to centers that care for infants/toddlers and children with special needs. • The monthly rate for a preschool-age child in full-time care is about \$715.
<p>^a CalWORKs Stage 1 child care is funded through the Department of Social Services, not CDE, and is administered locally by county welfare departments.</p> <p>^b Includes about 45,000 children funded through General Child Care program budget.</p>		



CCD Programs Have Experienced Notable Reductions in Recent Years



Since 2008-09, the State Has Reduced Funding for CCD Programs by About 25 Percent. Specific reductions include:

- Eliminated funding for approximately 20 percent of slots.
- Reduced maximum payment rates for license-exempt providers from 90 percent to 60 percent of licensed rates.
- Lowered income eligibility thresholds from 75 percent to 70 percent of state median income (SMI).
- Eliminated the “Latchkey” after school program.
- Reduced administrative allowances for Alternative Payment (AP) agencies.
- Reduced reserve balances for Title 5 centers.
- Eliminated funding for the state’s Centralized Eligibility List.
- Reduced or eliminated several of the state’s quality improvement projects.



Governor Proposes to Cut CCD Funding by About \$450 Million



Governor proposes to reduce:

- Total funding for child care programs by \$391 million, or 19 percent.
- Proposition 98 funding for part-day state preschool by \$58 million, or 16 percent.

Child Care and Development Budget Summary					
<i>(Dollars in Millions)</i>					
	2010-11	2011-12 Revised ^a	2012-13 Proposed	Change From 2011-12	
				Amount	Percent
Child Care					
Expenditures					
CalWORKs child care					
Stage 1	\$486	\$429	\$482	\$54	13%
Stage 2	458	442	292 ^b	-151	-34
Stage 3	288	152	121 ^b	-30	-20
Subtotals	(\$1,232)	(\$1,023)	(\$895)	(\$-127)	(-12%)
Non-CalWORKs child care					
General Child Care ^c	\$785	\$675	\$470	-\$205	-30%
Alternative Payment	271	213	158 ^b	-55	-26
Other child care	28	30	26	-4	-13
Subtotals	(\$1,083)	(\$918)	(\$654)	(\$-264)	(-29%)
Support programs	\$100	\$76	\$76	—	—
Totals	\$2,415	\$2,017	\$1,626	-\$391	-19%
Funding					
State General Fund					
Proposition 98	\$856	—	—	—	—
Non-Proposition 98	29	\$1,069	\$609	-\$460	-43%
Other state funds	350	8	—	-8	—
Federal funds					
CCDF	602	533	548	15	3
TANF	467	406	468	62	15
ARRA	110	—	—	—	—
Part-Day State Preschool					
Expenditures ^d	\$397	\$368	\$310	-\$58	-16%

^a Includes midyear trigger reductions totaling \$23 million across all programs. Also includes \$8 million midyear augmentation to Stage 3.

^b Governor's proposal would combine funding for Stage 2, Stage 3, and Alternative Payment into one program.

^c Funding totals include about \$400 million used for the California State Preschool Program.

^d All funding for part-day preschool program is from Proposition 98.

CCDF = Child Care and Development Fund; TANF = Temporary Assistance for Needy Families; and ARRA = American Recovery and Reinvestment Act.



Governor Would Generate Savings From Three Major Changes

Applying Stricter Work Requirements

Only Working Parents Would Be Eligible for Care. Governor's proposal would:

- Limit care to parents working at least 30 hours of subsidized or unsubsidized employment (20 hours for parents with young children).
- Eliminate eligibility for parents engaged in training or attending educational programs.

Savings Estimates:

- Governor estimates proposal would eliminate eligibility for about 46,000 slots and yield savings of \$294 million.
- Based on updated data, we believe the Governor's estimates are overstated, with the proposal likely to eliminate about 39,000 slots and yield savings of \$250 million.

Consider Modified Version of Proposal. For purposes of receiving subsidized child care benefits, the Legislature could limit parents' educational or training activities to two years. Would yield roughly \$50 million in savings.



Governor Would Generate Savings From Three Major Changes *(Continued)*

Reducing Income Eligibility Ceiling



Would Reduce Maximum Allowable Family Income to Receive Subsidized Benefits. Governor's proposal would:

- Drop income eligibility for child care benefits from 70 percent of SMI to 200 percent of federal poverty level (about 62 percent of SMI).
- Eliminate about 8,400 child care slots and generate \$44 million in savings.
- Apply lower ceiling to Proposition 98-funded part-day state preschool program, eliminating an additional 7,300 preschool slots and yielding additional savings of \$24 million.



Governor's Proposal Merits Consideration. Governor's proposal prioritizes service for lowest-income families. Proposed level would be comparable to income eligibility policies in almost two-thirds of other states. Could also consider lowering to 50 percent of SMI (to save an additional \$100 million).



Governor Would Generate Savings From Three Major Changes *(Continued)*

Reducing Reimbursement Rates

- Would Lower Maximum Rates for Licensed Providers Paid Through Voucher System.*** Would reduce from 85th percentile of 2005 Regional Market Rate (RMR) survey to 50th percentile of 2009 survey. Because of the updated survey, there would be an average reduction of 12 percent to 14 percent compared to current rates.
- RMR Proposal Merits Consideration.*** Still would assure families access to half of all licensed care providers in their region. Comparable to policies in many other states.
- Would Lower Standard Reimbursement Rate (SRR) for Title 5 Direct Contractors.*** Would reduce by 10 percent.
- Recommend Rejecting SRR Proposal.*** State rate for these centers already is low. State requirements limit Title 5 providers' ability to accommodate such a reduction. Proposal could lead many centers to close.
- Would Maintain Current Funding Rates for License-Exempt Providers.*** Would shift from 60 percent of current licensed rates to 73 percent of newly lowered rates, leaving actual dollar amounts essentially flat.
- Could Consider New License-Exempt Rate Reduction.*** Could set rate at 60 percent of lowered licensed rate to save roughly \$20 million. However, rates for these providers already have been notably reduced in recent years.



Legislature Has Options for Making CCD Reductions

Options for Generating Child Care Savings

Work Requirements

Current Law: Families are eligible for subsidized child care if they are engaged in work, training, or education.

Governor's Proposal: Limits eligibility to families working at least 30 hours in subsidized or unsubsidized employment (20 hours for parents of young children). Savings: \$294 million.

Option: Could limit child care for parents engaged in education/training to two years. Savings: Roughly \$50 million, though precise data are not currently available.

Income Ceilings

Current Law: Families are eligible for subsidized child care if income is less than 70 percent of state median income (SMI).

Governor's Proposal: Limits eligibility to families making less than 200 percent of federal poverty level (about 62 percent of SMI). Savings: \$44 million.

Option: Could reduce the maximum allowable income level for families eligible for subsidized child care to 50 percent of SMI. Savings: Additional \$100 million.

Voucher Rates

Current Law: The maximum state voucher rate for licensed providers is set at the 85th percentile of regional market rates (RMR) based on 2005 data. License-exempt providers get 60 percent of licensed rate.

Governor's Proposal: Reduces licensed rate to 50th percentile of RMR, based on 2009 data. Equates to average reduction of between 12 percent and 14 percent. Maintains current dollar amounts for license-exempt providers, increasing percentage of licensed rates from 60 to 73. Savings: \$17 million.

Option: Could reduce the maximum voucher rate for license-exempt providers. Savings: About \$20 million if licensed-exempt rate set at 60 percent of lowered licensed rate.



Legislature Has Options for Making CCD Reductions

(Continued)

Options for Generating Child Care Savings	<i>(Continued)</i>
Age Limits	
<p>Current Law: A child is eligible to receive state subsidized child care through age 12 (with some exceptions for children with special needs).</p> <p>Governor's Proposal: None.</p> <p>Option: Could provide subsidized care for school-age children ages 6-12 only during nontraditional hours, while prioritizing slots in school-based programs for displaced children. Savings: Approximately \$65 million for 11- and 12-year olds and additional \$50 million for 10-year olds.</p>	
Parent Fees	
<p>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.</p> <p>Governor's Proposal: None.</p> <p>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 and/or charge fees per child rather than per family. Savings: Tens of millions depending on how fee schedule changed.</p>	
Time Limits	
<p>Current Law: Families can receive subsidized child care as long as they meet income and child age eligibility. There are no maximum time limits for receiving care.</p> <p>Governor's Proposal: None.</p> <p>Option: Could institute time limits for the total number of years a family is eligible to receive subsidized child care. Savings: Uncertain; data not currently available. Over time, limit of six years could yield at least \$100 million.</p>	



Recommend Legislature Adopt A Package of Reductions Based on Its Priorities



Budget Package Will Depend Upon Magnitude of Savings Sought.

In light of recent reductions to CCD programs, the Legislature may wish to cut CCD programs less than the Governor. We recommend that any package of CCD reductions balance the twin goals of serving as many children as possible while ensuring their care is of reasonable quality.

Illustrative Child Care and Development Budget Packages

Savings of Approximately \$100 Million

Subsidize child care only during nontraditional hours for 12-year olds.
 Reduce income ceilings from 70 percent to 60 percent of state median income (SMI).
 Raise parent fees.

Savings of Approximately \$250 Million

All items above.
 Subsidize child care only during nontraditional hours for 11-year olds.
 Reduce income ceilings from 60 percent to 50 percent of SMI.
 Reduce licensed voucher rates to 50th percentile of 2009 regional market rates.

Savings of Approximately \$400 Million

All items above.
 Subsidize child care only during nontraditional hours for 10-year olds.
 Set license-exempt voucher rates at 60 percent of lowered licensed rates.
 Limit eligibility for child care for parents engaged in training or education to a total of two years.
 Limit eligibility for child care to total of six years (achieves saving in future years).



Governor's Restructuring Proposal

Restructuring Child Care System



Governor Would Consolidate Child Care Programs and Funding Into One Unified System.

- ***Begins by Consolidating Some Funding, Eliminating Some Program Distinctions in 2012-13.*** Combines CalWORKs Stage 2 and Stage 3 with the non-CalWORKs AP program into one voucher-based block grant. The Title 5 programs would continue to contract directly with the California Department of Education (CDE).
- ***Consolidates All Child Care Programs and Shifts Administration in 2013-14.*** The CDE would continue to administer the part-day/part-year Proposition 98-funded state preschool program, but the Department of Social Services would oversee all child care funding and services. All child care programs would be collapsed into one voucher-based program to be locally administered by county welfare departments.



Recommend Adopting Governor's Restructuring Proposal, With Important Modifications

Modifications to Restructuring Proposal

- Shift \$400 Million State General Fund Into Proposition 98 to Accurately Reflect Existing Preschool Services.*** Large component of preschool program currently budgeted as part of General Child Care program, which the Governor would merge into voucher-based grant.
- Preserve Child Care Funding as Separate County Block Grant.*** Do not include child care funds within county's single funding allocation for all other CalWORKs services.
- Maintain Legislative Oversight Over Federally Required Quality Improvement Activities.*** Help ensure funded projects and activities support a high-quality CCD system.
- Recommend Adopting Governor's Proposal Not to Initiate Transitional Kindergarten (TK) Program. Instead, Serve Needy Four-Year Olds Through State Preschool Program.*** Preserve and prioritize slots in existing state preschool program rather than initiating new TK program. Would utilize existing infrastructure, stretch dollars further, and focus limited resources on children who most need services—regardless of birth month.