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# Overview of Governor's Child Care and Preschool Proposals

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LEGISLATIVE ANALYST'S OFFICE

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Hon. Carol Liu, Chair





## Governor Proposes Notable Changes to Subsidized Child Care Policies

Overview of Governor's Subsidized Child Care Proposals		
Policy	January	May
Work requirements	<ul style="list-style-type: none"> <li>Limits care to parents working at least 30 hours (20 hours for parents with young children).</li> <li>Eliminates eligibility for parents attending training or educational programs.</li> <li>Eliminates 46,000 slots.</li> </ul>	<ul style="list-style-type: none"> <li>Maintains same hourly requirements for working parents as proposed in January.</li> <li>Allows up to two years of eligibility for parents attending training or education programs.</li> <li>Eliminates 21,000 slots.</li> </ul>
Maximum voucher rates for licensed providers	<ul style="list-style-type: none"> <li>Reduces from the 85<sup>th</sup> percentile of the 2005 regional market rate (RMR) survey to the 50<sup>th</sup> percentile of the 2009 RMR survey.</li> <li>Average reduction of 12 percent to 14 percent compared to current rates.</li> </ul>	<ul style="list-style-type: none"> <li>Reduces to the 40<sup>th</sup> percentile of the 2005 RMR survey.</li> <li>Average reduction of at least 30 percent compared to current rates.</li> </ul>
Maximum voucher rates for license-exempt providers	<ul style="list-style-type: none"> <li>Maintains current funding rates.</li> <li>Increases from 60 percent to 73 percent of lower licensed rates to leave dollar amounts flat.</li> </ul>	<ul style="list-style-type: none"> <li>Reduces to 71 percent of even lower licensed rates.</li> <li>Average reduction of at least 10 percent compared to current rates.</li> </ul>
Standard Reimbursement Rate for Title 5 centers	<ul style="list-style-type: none"> <li>Reduces by 10 percent.</li> </ul>	<ul style="list-style-type: none"> <li>Maintains January proposal.</li> </ul>
Income eligibility threshold	<ul style="list-style-type: none"> <li>Lowers from 70 percent of state median income (SMI) to 200 percent of federal poverty level (or about 62 percent of SMI).</li> <li>Eliminates 8,400 slots.</li> </ul>	<ul style="list-style-type: none"> <li>Maintains January proposal.</li> </ul>



## May Revision Maintains Same Magnitude, Different Mix of Reductions

<b>Proposed Funding Changes for Subsidized Child Care Programs</b>			
<i>(In Millions)</i>			
	<b>January</b>	<b>May</b>	<b>Change</b>
<b>Revised 2011-12</b>	<b>\$2,017</b>	<b>\$2,017</b>	<b>—</b>
Limit eligibility to families meeting new work requirements	-\$294	-\$113	\$180
Reduce Standard Reimbursement Rate for Title 5 centers	-68	-68	—
Reduce income eligibility ceiling	-44	-40	4
Reduce maximum rate for child care vouchers	-17	-207	-189
Technical/caseload adjustments	-9	-21	-16
CalWORKs Stage 3 caseload increase	5	19	15
County “ramp-up” for child care restructuring <sup>a</sup>	35	26	-9
<b>Total Changes</b>	<b>-\$391</b>	<b>-\$404</b>	<b>-\$13</b>
<b>Proposed 2012-13</b>	<b>\$1,626</b>	<b>\$1,613</b>	<b>-\$13</b>

<sup>a</sup> In CalWORKs Stage 1 budget.



### Two Major Policy Changes Have Offsetting Fiscal Effects

- Overall reduction remains roughly \$400 million.



## LAO Assessment of May Revision Proposal

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### **Acknowledges Importance of Education and Training**

- Adopts LAO suggestion to expand eligibility criteria and preserve opportunities for low-income families to pursue education, but for a limited term.



### **Cuts Voucher Rates Too Deeply**

- Magnitude of rate cut would severely restrict families' access to child care providers.
- Lack of available data likely to delay implementation and erode Governor's savings estimates.
- Recommend adopting more moderate reductions to voucher rates.



### **Continues Problematic January Proposals Affecting Title 5 Centers**

- Proposal continues to treat preschool program inconsistently, drawing false distinction between Proposition 98 and non-Proposition 98-funded services. We continue to recommend funding all preschool slots within Proposition 98.
- Proposed Standard Reimbursement Rate (SRR) reduction would be untenable for many providers. We continue to recommend rejecting this reduction.



### **Legislature Has Additional Options for Making Reductions**

- Eliminate care for older school-age children during traditional hours.
- Increase parent fees.
- Impose time limits for child care services.



## May Revision Increases Funding for Preschool

<b>Proposed Changes to Proposition 98-Funded Preschool Program</b>			
<i>(In Millions)</i>			
	<b>January</b>	<b>May</b>	<b>Difference</b>
<b>Revised 2011-12</b>	<b>\$368</b>	<b>\$368</b>	<b>—</b>
Reduce Standard Reimbursement Rate by 10 percent	-\$34	—	\$34
Reduce income eligibility ceiling	-24	-\$24	—
Increase slots	—	57	57
Technical adjustments	1	-1	-2
<b>Total Changes</b>	<b>-\$58</b>	<b>\$33</b>	<b>\$90</b>
<b>Proposed 2012-13</b>	<b>\$310</b>	<b>\$400</b>	<b>\$90</b>

- ☑ **Provides Additional \$90 Million Compared to January Level**
  - Restores SRR reduction.
  - Maintains January proposal to lower income eligibility threshold to 200 percent of federal poverty level.
  - Funds additional 7,900 slots compared to 2011-12.
  - Draws explicit linkage between Transitional Kindergarten proposal and preschool funding restoration.
  
- ☑ **Unclear Rationale for Maintaining Lower Income Eligibility Criteria**
  - Priority for preschool slots already reserved for lowest-income applicants. Proposal might affect some communities disproportionately.
  
- ☑ **Recommend Considering Preschool Expansion in Larger Budget Context**
  - Consider interaction with preschool slots currently funded under General Child Care, as well as potential reductions to Proposition 98 funding level.



## Transitional Kindergarten (TK)

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- May Revision Maintains January TK Proposal**
  - Would maintain change in kindergarten entrance date and repeal TK provisions, but allow districts to serve underage children in kindergarten on a case-by-case basis for the full year.
  
- Lowers Savings Estimates From \$224 Million to \$92 Million**
  - Erosion in savings based on (1) holding districts harmless from funding losses associated with decline in average daily attendance (ADA) and (2) assuming districts that currently run TK programs would continue to do so under new waiver policy.
  
- Savings Unlikely to Materialize Due to Proposed Waiver Policy**
  - Governor's waiver proposal would allow districts to expand TK programs for underage kindergarteners, thereby eliminating potential savings and possibly leading to *increased* costs if districts opt to enroll more four-year olds.
  
- Recommend Adopting More Consistent Kindergarten Policy**
  - Recommend repealing TK, eliminating hold harmless provision for ADA decline, and limiting waiver eligibility only to *traditional* kindergarten for students born shortly after date cut-off.
  - Estimate only \$75 million savings in 2012-13, because assume many districts will opt to serve November-born children in kindergarten this fall.



## May Revision Refines Child Care Restructuring Proposal

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### **Still Would Consolidate Child Care Programs and Funding Into One Unified System**

- Begins by consolidating funding for the California Work Opportunity and Responsibility to Kids (CalWORKs) Stage 2 and Stage 3 programs with the non-CalWORKs Alternative Payment program in 2012-13.
- Consolidates all child care programs and shifts administration to County Welfare Departments (CWDs) in 2013-14. Department of Social Services (DSS) would oversee all subsidized child care funding and services.



### **Makes a Number of Refinements to 2013-14 Proposal**

- Specifies that child care funding for former and non-CalWORKs participants would be maintained in a separate county-level block grant, not part of counties' single funding allocation for CalWORKs services.
- For three years, would require each CWD to maintain contracts with Title 5 centers for the same number of slots that were funded in that county in 2012-13.
- Would allow for possibility of midyear transfer of some funding and responsibilities from the California Department of Education to DSS and CWDs in 2012-13.