



The 2014-15 Budget: Child Care and Preschool Programs

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EXECUTIVE SUMMARY

In this brief, we assess the Governor's proposed 2014-15 budget for child care and preschool programs. The Governor's budget for these programs adjusts funding to account for changes in caseload and per-child costs of care but does not include any policy changes. Our review indicates that the Governor's budget overestimates caseload and underestimates per-child costs—on net leaving child care funding a few million dollars short of fully covering 2014-15 costs. The next major installment of data (in late April) will enable the Legislature to refine these estimates and finalize its 2014-15 budget decisions for child care.

INTRODUCTION

This brief provides background information on the state's child care and preschool programs, describes the Governor's related budget proposals, and analyzes those proposals. (We discuss the

Governor's proposal to create a Child/Parent Demonstration Pilot Project in our report *The 2014-15 Budget: Analysis of the Human Services Budget*.)

BACKGROUND

California Subsidizes Child Care Through a Variety of Programs. California traditionally has guaranteed subsidized child care for families that currently are participating or have participated in the California Work Opportunity and Responsibility to Kids (CalWORKs) program. For

CalWORKs families, the state subsidizes child care for several years, with Stage 1 care provided for families seeking employment, Stage 2 care provided for families who have gained stable employment and are transitioning off of cash assistance, and Stage 3 care provided for families who have been off

cash assistance for at least two years. Low-income, working families not currently or previously participating in CalWORKs may access subsidized child care through the General Child Care, Alternative Payment, and Migrant Child Care programs. (The state also operates a very small Handicapped Child Care program for children with disabilities in San Francisco.) State funding is sufficient to provide subsidies to only a portion of non-CalWORKs families, making waiting lists for non-CalWORKs child care common. The state also funds a part-day, part-year State Preschool program for three- and four-year-old children from low-income families. With the exception of CalWORKs Stage 1 child care, which is administered by the Department of Social Services, all child care and preschool programs are administered by the California Department of Education.

Families Qualify for Subsidized Child Care Based on Two Criteria. Under current law, families generally must meet two criteria to be eligible for subsidized child care. They must (1) display “need” for care and (2) earn less than 70 percent of the state median income. Need is defined as participating in welfare-to-work activities, working, or attending school or training. As long as families meet these two requirements, children can continue to receive services until they turn 13 years of age. (The State Preschool program is an exception in that parents do not need to be working and up to 10 percent of children served may come from families that earn up to 15 percent more than the income cap.)

Payment Rates Vary by Provider Type.

Three main types of providers—licensed child care centers, licensed child care homes, and license-exempt caregivers—provide subsidized child care. (License-exempt care is provided by neighbors, friends, or relatives of the family receiving the child care subsidy.) The state pays different reimbursement rates depending on the child care setting. Center-based care is reimbursed at the highest rate, while license-exempt care is reimbursed at 60 percent of the center-based rate.

State’s Budget Approach Varies by Program.

Funding for CalWORKs child care is based on two factors: estimates of (1) the eligible caseload and (2) the per-child costs of providing child care. The state traditionally funds all eligible caseload in the CalWORKs child care programs. In estimating per-child costs, the state typically considers the distribution of care across types of providers as well as the average hours of care provided per child. In contrast, funding levels for non-CalWORKs programs usually are based on whatever amount was provided in the prior year adjusted for projected changes in the overall population of children under five years of age in California. This statutorily required “growth” adjustment is intended to account for potential changes in demand for these programs. In addition to growth, funding for the non-CalWORKs programs typically is adjusted for changes in the cost of living, but this statutory adjustment is suspended through 2014-15.

GOVERNOR’S PROPOSALS

The Governor’s 2014-15 proposal for the state’s child care and preschool programs represents a “workload” budget. That is, the proposal funds

the Governor’s estimates for eligible caseload in the CalWORKs child care programs and makes statutorily required adjustments but does not

include any other augmentations. This section discusses the caseload and cost assumptions underlying the Governor’s 2014-15 budget.

Budget Includes Slight Changes to Federal and State Funding. A combination of federal and state non-Proposition 98 General Fund monies supports subsidized child care programs, whereas State Preschool is funded entirely with Proposition 98 General Fund. As shown in Figure 1, the Governor’s 2014-15 budget provides \$1.7 billion for child care programs and \$509 million for preschool. Funding for child care programs increases by \$64 million (4 percent) from the revised current-year level. The increase primarily is covered by additional federal funds, with a small

increase in General Fund support (\$7 million). Proposition 98 funding for State Preschool increases very slightly (\$2 million).

Overall Caseload Also Increases Slightly. As shown in Figure 2 (see next page), the Governor estimates about 206,000 children would be served in the state’s child care programs in 2014-15, an increase of nearly 3,300 slots (2 percent) compared to 2013-14. This increase primarily is due to anticipated caseload growth in the CalWORKs Stage 1 program. For the State Preschool program, the Governor estimates total slots would grow by nearly 600 to almost 137,000, an increase of 0.4 percent.

**Figure 1
Child Care and Preschool Budget**

(Dollars in Millions)

	2012-13	2013-14 Revised	2014-15 Proposed	Change From 2013-14	
				Amount	Percent
Child Care Expenditures					
CalWORKs Child Care					
Stage 1	\$289	\$337 ^a	\$385	\$48	14%
Stage 2 ^b	419	358 ^c	364	6	2
Stage 3	162	183 ^c	186	3	2
Subtotals	(\$870)	(\$878)	(\$935)	(\$57)	(6%)
Non-CalWORKs Child Care					
General Child Care	\$465	\$473 ^d	\$479	\$6	1%
Alternative Payment	174	177 ^d	179	2	1
Other child care	28	28 ^d	28	—	1
Subtotals	(\$666)	(\$678)	(\$687)	(\$9)	(1%)
Support Programs	\$76	\$74	\$73	-\$2	-2%
Totals	\$1,612	\$1,630	\$1,694	\$64	4%
Child Care Funding					
State Non-Proposition 98 General Fund	\$779	\$776	\$783	\$7	1%
Other state funds	14	—	—	—	—
Federal CCDF	549	541 ^d	556	15	3
Federal TANF	372	313 ^a	355	42	13
State Preschool(Proposition 98)	\$481	\$507	\$509	\$2	—

^a Reflects LAO funding estimate based on administration’s adjusted Stage 1 caseload estimate.

^b Does not include \$9.2 million provided to California Community Colleges (CCC) for Stage 2 child care. Governor’s budget documents display this cost in CCC’s budget.

^c Does not reflect midyear augmentation of \$9.4 million for Stage 2 and \$12.1 million for Stage 3.

^d Differs from administration’s estimate due to reflecting both the assumed federal sequestration cut and the associated General Fund backfill. CCDF = Child Care and Development Fund and TANF = Temporary Assistance for Needy Families.

Figure 2
Child Care and Preschool Slots^a

	2012-13	2013-14 Revised	2014-15 Proposed	Change From 2013-14	
				Amount	Percent
Child Care					
CalWORKs Stage 1	34,849	37,774	42,719	4,945	13%
CalWORKs Stage 2 ^b	63,379	56,593	55,943	-650	-1
CalWORKs Stage 3	25,448	32,784	30,830	-1,954	-6
Subtotals	(123,676)	(127,151)	(129,492)	(2,341)	(2%)
General Child Care	46,036	46,835	47,429	594	1%
Alternative Payment	24,854	26,218	26,515	296	1
Migrant	2,491	2,534	2,567	33	1
Handicapped	143	144	145	1	1
Subtotals	(73,524)	(75,731)	(76,656)	(952)	(1%)
Total Child Care	197,200	202,882	206,148	3,266	2%
State Preschool	129,511	136,182	136,755	573	—^c

^a Reflects average monthly slots. For 2012-13, reflects actual caseloads. For 2013-14 and 2014-15, reflects administration's caseload estimates for the three stages of CalWORKs child care. All other caseloads reflect LAO estimates.
^b Does not include 1,781 Stage 2 community college child care slots, consistent with the display in Figure 1.
^c Less than 1 percent.

Stage 2 costs will average 2 percent more per child and Stage 3 costs will average 1 percent more per child in 2014-15 compared to what was assumed for the current year in the 2013-14 Budget Act. The Governor includes these increases because recent data suggests per-child costs in 2013-14 are trending higher compared to prior years, resulting in a combined shortfall of about \$22 million for Stage 2 and Stage 3 in 2013-14. (A process is

Governor’s Budget Proposals for CalWORKs

Child Care Driven Partly by Caseload Estimates. . .

As shown in Figure 2, the Governor estimates average monthly Stage 1 caseload will increase by almost 5,000 slots in 2014-15. Correspondingly, Figure 1 shows a \$48 million increase in funding for Stage 1 in 2014-15. This increase is based on the assumption that recent policy changes in CalWORKs work requirements will result in greater numbers of CalWORKs families engaging in welfare-to-work activities and therefore needing child care. Based on multiyear caseload trends, the Governor estimates average monthly caseload will decline by 650 slots for Stage 2 and by nearly 2,000 slots for Stage 3 in 2014-15.

. . . And Partly by Per-Child Cost Estimates.

Despite the projected decreases in Stage 2 and Stage 3 caseload, the Governor’s budget assumes funding increases for both stages (\$6 million and \$3 million, respectively) from the revised current-year levels. This is because the Governor projects an increase in the per-child costs of providing child care in these stages. Specifically, the proposal assumes

underway to make a midyear funding adjustment to account for this shortfall.) Data suggest these higher costs primarily have resulted from a larger portion of families opting for care in licensed child care centers rather than by license-exempt providers. The rise in costs also may partially be related to the economic recovery, with more families attaining full-time—rather than part-time—work and therefore requiring more hours of care. (Based upon its review of available data, the administration does not project higher per-child costs for Stage 1 in 2014-15.)

Governor’s Budget Slightly Increases Funding for Non-CalWORKs Child Care Programs. . .

The Governor proposes to increase funding for non-CalWORKs child care programs by \$9 million (1 percent). This additional funding would support about 950 additional non-CalWORKs child care slots compared to the current year. A majority (\$6 million) of the overall increase is due to various accounting adjustments. The remaining increase (\$3 million) is due to 0.4 percent statutory growth

in the number of children birth through four years of age.

. . . **And State Preschool.** The Governor's only proposed change for the State Preschool program

is to provide the statutory 0.4 percent growth adjustment (\$2 million), which equates to 573 additional part-day slots.

ASSESSMENT

We have some concerns with certain assumptions underlying the Governor's budget for CalWORKs child care. In particular, the Governor's proposed funding levels do not align with expected caseload in CalWORKs Stage 2 and per-child costs in both Stage 2 and Stage 3, as discussed below.

Governor Likely Overestimates CalWORKs Stage 2 Caseload. We believe Stage 2 caseload in 2014-15 will be approximately 3,000 cases lower than the Governor's estimates for two reasons. First, existing Stage 2 caseload levels are almost 2,000 cases below the administration's caseload estimate for 2014-15. Second, data suggest a large number of families will reach the end of their Stage 2 eligibility and transition to Stage 3 in the budget year. Due to the administration's reliance on multiyear trends for estimating caseload, the Governor's budget and caseload estimates do not account for these factors. We believe a more accurate estimation approach incorporates data recently submitted by child care contractors, the anticipated effects of recent policy changes, and the expected transition of caseload across CalWORKs stages of care.

Governor Likely Underestimates Per-Child Costs for CalWORKs Stage 2 and Stage 3. We believe the Governor's per-child cost estimates

for the Stage 2 and Stage 3 programs are too low. While the Governor increases his per-child cost estimates compared to the *2013-14 Budget Act* cost assumptions, they still are lower than the actual costs being reported for 2013-14. Specifically, 2013-14 per-child costs currently are averaging about 4 percent higher in Stage 2 and about 2 percent higher in Stage 3 compared to the Governor's estimates for 2014-15. (These increases are double those assumed in the Governor's budget.) We believe these current-year increases in per-child costs very likely will continue into 2014-15.

Budget Currently Looks Short but Better Estimates Will Be Available in Late April. Based on the most recent available data, we believe the Governor has overestimated Stage 2 caseload and underestimated per-child costs for Stage 2 and Stage 3—the net effect of which would leave the Governor's CalWORKs child care funding levels a few million dollars short of fully covering 2014-15 costs. More information will be available in late April (when data from the first three-quarters of 2013-14 are released). The next major installment of data will enable the Legislature to develop more accurate caseload and cost estimates for child care programs in 2014-15.

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This brief was prepared by Carolyn Chu and reviewed by Rachel Ehlers. The Legislative Analyst's Office (LAO) is a nonpartisan office that provides fiscal and policy information and advice to the Legislature.

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