

California Child Care May Revise Summary

May 17, 2010

The May Revise proposals will have massive human costs. The Governor as promised proposes “absolutely terrible cuts” to meet a projected \$19.9 billion deficit. The Governor does not propose new revenues, other than fees on Medi-Cal recipients and college students. While we must take the May Revise very seriously, it is important to remember that these are proposals. The Legislature will respond to the Governor’s proposals and develop their budget plan. As Assembly Speaker Perez promised, “The Assembly’s focus is on adopting a budget that promotes job creation and continues to fund the vital services California needs to ensure a strong and lasting economic recovery.” Senate Budget Chair Denise Ducheny said “This is just a sad budget day. We have a governor who says this reflects his vision and values, and if this reflects the vision and values of government in this state, we are in big trouble”.ⁱ

The following is a summary of child care proposals in the budget based on the materials available May 14 and a briefing by the DSS Staff after the May Revision was released. Over the next weeks we will see alternate proposals and gain more clarity on the impacts and policy choices as well as the interplay with other proposals including increased revenue, receipt of federal funds, the counties, Proposition 98 and CalWORKs. Parents, child care providers, representatives of agencies and local government, and other advocates will testify to the impacts and make alternate proposals as the Legislature develops their budget plan.

State General Fund Child Care Funds Cut by \$1, 913,656ⁱⁱ

All state general fund money is cut from CDE-administered child care with the exception of State Preschool and the After School Program. Proposition 98 is rebench by the amount of the child care CDE reduction. “As a result of the elimination of the child care program, the Proposition 98 guarantee is rebench downward by \$1.4 billion.”ⁱⁱⁱ According to the Senate Budget Committee summary, as a result of this elimination, 185,000 CalWORKs children would lose child care services, impacting over 62,000 child care providers and taking away the child care from over 85,000 working parents who cannot afford child care on their minimum-wage income.^{iv}

CalWORKs Child Care Programs Stage One, Two and Three Eliminated

The Governor’s proposed elimination of the CalWORKs program would mean California would be the only state in the country without welfare to work program for low-income families. All CalWORKs related child care is eliminated. Funding for Stage 2 and 3 is ended for the entire 2010-2011 FY, meaning the proposal is to eliminate all subsidies by the end of the current fiscal year. Stage 1 child care is funded at a level reflecting average monthly caseload for July to September 2010, and then the program is eliminated, as is the entire CalWORKs program October 2010.

Children currently in Stage 2 and Stage 3 child care programs can enroll in the Alternative Payment Program (AP) based on income eligibility and availability of funding. However, eligibility is reduced to 60% of SMI. The AP funding is “capped” meaning that if the

number of eligible families exceeds the funding available, the children will not receive a subsidy. Since the Centralized Eligibility List (CEL) is also proposed for elimination, they will not even receive a place on the CEL. Community Colleges will have the flexibility to use funds previously budgeted for CalWORKs child care for other purposes.^v

As the table at the end of this memo demonstrates approximately, 134,590 children will be pushed out of Stage 1, 2, and 3 and only 25,464 slots will be added to AP programs to meet the needs of those previously in Stage 1, 2 and 3.

General Child Care Reduced 84%

The Governor's proposal reduces funding for General Child Care, which includes Title 5 centers and family child care home networks, from \$797,196,000 in the 2009-10 Revised Budget to a proposed \$130,919,000 in 2010-2011. Maximum caseload is reduced by 72,484 children.

These centers and family child care home networks contract directly with the California Department of Education, Child Development Division. They operate under Title 5 licensing regulations and must meet more rigorous standards than other licensed programs including staff ratios and education requirements. Title 5 providers use the nationally recognized CDE Desired Results System and are an integral part of the school readiness system. These centers are already stretched thin as the Standard Reimbursement Rate by which they are reimbursed is below the market in many counties.

The Governor's proposal does not supply sufficient detail to analyze how this cut will be implemented. A portion of this reduction can be attributed to reduced eligibility levels. Nancy Remley of CDE testified at the April 13 Assembly Budget Hearing that this policy would have the greatest impact on child care centers. A disproportionate number of families in the 60-75% of SMI have their children in centers. These children will presumably join those cut from the CalWORKs child care programs in trying to access limited AP slots.

Eligibility Ceiling Lowered for Parents

Eligibility and reimbursement rates for State Preschool and the ASES Afterschool program remain unchanged. The eligibility ceiling for all other programs is cut to 60% of the State Median Income (SMI) from 75% of the SMI. Children referred by Child Protective Services continue to be exempt from the income ceiling. Sixty percent of the SMI is approximately \$3,350 per month for a family of four.^{vi}

Earlier the Governor and LAO had proposed eligibility ceiling reductions for Stage 3 and AP childcare. Parents in Stage 3 provided powerful testimony at the April 13 Assembly Budget hearing on the impact of the proposed changes to eligibility ceilings. Families recounted how Stage 3 was supporting their ability to work and how their children were thriving. An abrupt cut would mean many would have to choose either to face immediate job loss and then protracted unemployment and even homelessness or risk leaving children in unsafe situations, including care of infants by other siblings.

Child care will not be affordable for these families. As of October 2006 CDE reports the average monthly cost of fulltime child care in a Child Care Center in Alameda County is \$1,018 for a child birth to 24 months, \$708 for a child two to five and \$544 for a school age child. The average cost in Alameda County for a licensed family child care home is \$669 for a child birth to 24 months, \$627 for a child two to five and \$539 for a school age child. If a family at 60% SMI has an infant and four year old the average cost of a licensed family child care home would be \$1196 or 36% of their monthly income.^{vii}

Families with subsidies already contribute to the cost of care. Families pay increasing family fees as their incomes rise. Currently a family of four at the 60th percentile pays approximately \$11.70 per day (about \$250/month) for a full time slot as their portion of their child care expense.^{viii}

January Regional Market Rate Reimbursement Rate Proposal Retained

Child care provider's ability to stay in business will be dramatically impacted by the severe cuts to subsidies. In addition the reimbursement rate proposals in the January budget are retained. The Governor proposes to permanently lower the ceiling on rates that can be paid to child care providers serving families receiving subsidies by reducing the Regional Market Rate (RMR) cap from the 85th percentile to the 75th percentile and to reduce the reimbursement rate limits for licensed exempt (LE) child care providers from 90% of the ceiling for licensed providers to 70%.^{ix}

The Governor also proposes to continue using the RMR survey conducted in 2005. This means that RMR rates are actually not at the 85th percentile as they are based on a survey 5 years old. At the April 14 Assembly Budget Hearing, the LAO indicated that the current ceiling was probably closer to the 60th percentile based on 2009 rates. So, a reduction to the 75th percentile of the 2005 survey will reduce the reimbursement below the 60th percentile of 2009 rates.

The Regional Market Rate (RMR) is used to reimburse providers who serve both CalWORKs families and other low income working families eligible for child care vouchers. If the RMR cap is permanently lowered this will lead to reduced access to a wide range of providers for families in the subsidy system and may significantly reduce the income of many of these small child care business owners. We concur with the many providers and other advocates who testified April 14th that no permanent reductions should be made in the ceiling. It is not necessary to make permanent policy changes to achieve one year savings. As Dion Aroner testified April 14, such cuts are seldom revisited.

To support the dramatic cut to License Exempt child care, the Administration as well as the LAO relies on the argument that the costs for license-exempt providers are lower. However this remains only an assertion, we have not seen supporting data about the cost structure of providing care by licensed and license-exempt providers. While we agree that licensed providers do have costs associated with licensure, we have not seen evidence that the costs of providing care incurred by either licensed or license-exempt providers are covered by the current rates.

The proposal to cut LE rates has three critical problems. First, it undermines the guarantee that parents will be able to choose the type of care that is best-suited to their and their children's needs; second, it will have a significant negative impact on the most vulnerable families; and third licensed options are not necessarily available. In the BANANAS CalWORKs program it is estimated that 40% of the families that use LE care do so because they work odd hours or rotating shifts.

Child Care Infrastructure and Quality Investment is Cut

The Governor also proposes to decimate the child care infrastructure.

- Elimination of state funding for Resource and Referral Programs.

Beginning in 1976 California has provided funding for local Resource and Referral programs. This system of locally based programs is administered by the CDE Child Development Division. The California Resource and Referral agencies are key to making the entire child care system work for parents and child care providers as well as to supporting low income families in the subsidized system. They are the key community agency providing training and support to parents and providers. Child Care Resource and Referral services are the only piece of the subsidized child care system available to parents and providers regardless of income. Thirty years ago the local programs formed the California Resource and Referral Network, a private nonprofit which works to support local Resource and Referral agencies in the provision of services and works to document child care need and supply. The Network's recognized success helped launch the national network of Resource and Referral Agencies known as NACRRA.

In a time of economic downturn and uncertainty for families and child care providers, their services are absolutely critical to keep parents working and to maintain the child care businesses that contribute to our economy. California's programs have long been a national model and leader. The California State Plan outlines the functions assigned to Resource and Referral Agencies:

- Administering the TrustLine fingerprint screening application process
- Maintaining up-to-date databases that include information about all licensed providers offering child care in each R&R program's service delivery area
- Making referrals for child care services that best meet families' needs
- Educating parents about the components of quality child care and disseminating consumer education materials
- Developing, gathering, and reporting data from callers and child care providers to the CDE regarding the supply and demand for child care services in the local areas
- Carrying out other activities that support center-based, family child care, and license-exempt providers, such as recruiting and training child care providers and offering technical assistance to enhance child care provider skills^x

- Reduction of funding for local Planning Councils from \$6.637 million to \$1.75 million

Additional detail is needed to understand the intent of this reduction and which current responsibilities are being cut.

- Reduction of funding for Quality Services from \$68 million to \$64.5 million

The Federal government mandates a set -aside for Quality, further information is needed to see which activities are cut and which retained.

- Eliminates funding for the Centralized Eligibility List (CEL)

This is another cut that will make accessing child care more difficult for low income families. The intent of the CEL is to make it easier for families to access a subsidy and also to capture the actual need providing valuable information to policy makers.

- Reduces funding for TrustLine and other non-direct child care services from \$7.99 million to \$1.927 million^{xi}

- Eliminates State Matching Funds for the Child Care Initiative Project (CCCIP)

The project is conducted by the California Child Care Resource and Referral Network. State general funds are matched on a 2:1 basis with private corporate or foundation funds. \$500,000 in private funds could be lost by reducing the \$250,000 state matching funds. To date the Project has raised nearly \$11 million dollars from public and private funders. The funds from the project are used to build the supply of family child care. This is an example of a cut to a highly successful program that is compounded if private funds are lost.

The Governor Proposes New Waste and Overpayment Initiatives

The Governor has proposed Trailer Bill Language “to implement more aggressive actions to minimize waste and seek collection of overpayments.”^{xiii} This does not include a cost or savings. The Administration has attempted previously to impose new policies in this area. Contrary to the Department of Finance’s portrayal of the issue, the state of California does not have a significant problem with waste or improper payments in subsidized child care. CDE through its various reviews of contractors and provision of technical assistance is appropriately and cost-effectively addressing errors that may lead to improper payments. This proposal will need to be analyzed in terms of what problem needs to be addressed, federal requirements, cost effectiveness, and whether it impose further barriers for families and child care providers.

State Preschool Can Not Stand Alone

The only early care and education program that is not cut is State Preschool. We can be very proud of our high quality state preschool programs, but it is important to note that State Preschool only serves 3 and 4 year-olds, meaning the shortage of child care for infants and toddlers will increase dramatically. A conclusion of the recent RAND study of California's preschool program made numerous recommendations including the following: "advancing preschool access and quality cannot be expected to eliminate existing achievement gaps. To raise achievement for all students, particularly for more disadvantaged children, it is vital that preschool programs be considered part of a continuum of services for children and families from birth to age three, as well as school-age services to support continued learning."^{xiii}

In addition, as many programs are part-day part-year, they must be integrated with other programs or subsidies to make them accessible to the majority of low-income parents. In 2008-2009 113,273 children were enrolled in part day state preschool and 6,477 in full day state preschool programs.^{xiv}

As is discussed above it is not accurate to characterize State Preschool as the only early care and education program contributing to school readiness. California policy makers have a long standing commitment to ensuring that state subsidized programs have a dual purpose-children learning and parents earning.

Child Care Policy and the Economic Downturn

We are in the midst of the first major economic downturn since CalWORKs was initiated. As Senator Ducheny often reminds us "Budgets are about people and policies not about numbers." We need to look at the people and policies that will be impacted by the current budget proposals.

In California 21% of children birth to five live below the poverty line and 45% live in low income households.^{xv} The difficulties these children and their families face is compounded by the fact that the percentage of those in poverty receiving cash aid has fallen from 50% in 1985, to 35 % in 2000 to 22.3% in 2008.^{xvi} The California Budget Project released three Budget Briefs on the impact of the recession on women this month which document that the unemployment rate for California's women doubled from 5 to 10% between 2006 and 2009 with the jobless rate for unmarried women with children rising to 14.8%^{xvii}

In this environment, state policy should be supporting children and their families to keep their jobs and move out of poverty and towards self sufficiency. Child care subsidies increase the probability that families leaving welfare will stay employed and decrease the chances of families returning to welfare.^{xviii} In addition these cuts put untold numbers of child care providers and center staff out of work. Given our fragile economic recovery, these proposals could have negative impacts on our entire economy as well as the children and families who will lose their access to child care subsidies and their safety net.

The Governor's May Revise Proposal makes the following program cuts and changes:^{xix}
 Dollars are in thousands.

Program	Maximum Enrollment 2009-2010 Revised Budget	Maximum Enrollment 2009-2010 Revised Budget	Children Losing Access	Funding 2009-2010 Revised Budget	Funding 2010-2011 May Revise Proposals
State Preschool	116,832	116,847	15 gain access	\$438,913	\$438,913
General Child Care	86,169	13,685	72,484 lose access	\$797,196	\$130,919
AP Programs	37,186	62,650	25,464 transferred to AP from Stage 2 and 3	\$274,554	\$457,768
Stage 1	66,316	49,437	16,897 lose access- no child has access after October 1, 2010	\$539,373	\$118,557
Stage 2	61,854	0	61,854	\$475,892	0
Stage 3	55,839	0	55,839	\$412,278	0
Other	10,180	1215	8,965	\$46,344	\$5,411

This memo was prepared by Nancy Strobl who takes full responsibility for all recommendations and any errors or omissions. She can be contacted at nstrobl@comcast.net with questions. Her work to analyze the child care aspects of the state budget is being supported by BANANAS and the California Budget Project. Due to the rapid pace of developments neither organization had the opportunity to review specific proposals or points of analysis.

ⁱ Sacramento Bee Capitol Alert May 14, 2010 accessed at www.sacbee.com

ⁱⁱ Department of Finance Spreadsheet *California Child Care Programs Local Assistance- All Funds* 2010-11 May Revision

ⁱⁱⁱ Governor's May Revise Budget Summary page 36

^{iv} Senate Committee On Budget & Fiscal Review *May Revision Highlights* May 14, 2010 Page 34

^v Department of Finance Spreadsheet *California Child Care Programs Local Assistance- All Funds* 2010-11 May Revision

^{vi} Assembly Budget Subcommittee on Education Finance Hearing Agenda April 13, 2010 page 9

^{vii} California Department of Education Reimbursement Ceilings for Subsidized Child Care (Effective 10/01/2006) accessed at www.cde.ca.gov

^{viii} CDE Family Fee Schedule November 1, 2007

^{ix} Governor's Budget Summary 2010-2011 page 60-61

^x Child Care and Development Fund Plan for California FFY 2010-2011 page 60 accessed at www.cde.ca.gov

^{xi} Department of Finance Spreadsheet *California Child Care Programs Local Assistance- All Funds* 2010-11 May Revision

^{xii} Governor's May Revise Budget Summary page 40

^{xiii} RAND Corporation *Strategies for Advancing Preschool Adequacy and Efficiency in California* 2009

^{xiv} California Department of Education *Child Care Annual Aggregate Report* created February 11,2010 accessed at www.cde.ca.gov

^{xv} National Center for Child in Poverty State Demographics accessed 5/12/10 at www.nccp.org

^{xvi} California Budget Project *Searching for Balance February* 2010 page 48

^{xvii} California Budget Project *How the Other Half Fared, The Impact of the Great Recession on Women* May 2010 pages 2 and 3

^{xviii} Pamela Loprest, Use of Government Benefits Increases among Families Leaving Welfare Urban Institute, 2003.

^{xix} Department of Finance Spreadsheet *California Child Care Programs Local Assistance- All Funds* 2010-11 May Revision