Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 on Education

Subcommittee No. 1
Chair, Carol Liu
Member, Robert Huff
Member, Roderick Wright

Wednesday, February 2, 2011
12:00 p.m.
Room 3191, State Capitol

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ISSUE 1: Child Development Budget Overview

Speaker:

- Rachel Ehlers, Legislative Analyst's Office

Issue. The issue before the Subcommittee is an overview of the Governor's proposed budget for Department of Education child care. Please note that certain child care activities, such as CalWORKs Stage 1, are handled through the Department of Social Services budget and heard by Senate Budget Subcommittee 3.

BACKGROUND

Under current law, the state makes subsidized child care services available to:

1. Families on public assistance and participating in work or job readiness programs
2. Families transitioning off public assistance programs
3. Other families with exceptional financial need

CalWORKs Child Care. Child care services provided within the California Work Opportunity and Responsibility to Kids (CalWORKs) program are administered by both the California Department of Social Services (DSS) and the California Department of Education (CDE), depending upon the "stage" of public assistance or transition the family is in. Stage 1 child care services are administered by the DSS for families currently receiving public assistance, while Stages 2 and 3 are administered by the CDE.

Stage 2 Child Care. Families receiving Stage 2 child care services are either (1) receiving a cash public assistance payment (and are deemed "stabilized") or (2) in a two-year transitional period after leaving cash assistance. Child care for this population is an entitlement for twenty-four months under current law. The State allows counties flexibility in determining whether a CalWORKs family has been "stabilized" for purposes of assigning the family to either Stage 1 or Stage 2 child care. Depending on the county, some families may be transitioned to Stage 2 within the first six months of their time on aid, while in other counties a family may stay in Stage 1 until they leave aid entirely.

Stage 3 Child Care. If a family is receiving Stage 3 child care services, they have exhausted their two-year Stage 2 entitlement. The availability of Stage 3 care is discretionary and contingent upon the amount of funding appropriated for the program in the annual Budget Act.

Non-CalWORKs Child Care Programs. In addition to CalWORKs Stage 2 and 3, CDE administers general and targeted child care programs to serve non-CalWORKs low-income children at little or no cost to the family. The base eligibility criterion for these programs is family income at or below 75 percent of State Median Income (SMI) relative to family size. Because the number of eligible low-income families exceeds available child care slots, waiting lists for this care are common.

Child care providers are paid through either (1) direct contracts with CDE or (2) vouchers through the Alternative Payment Program.

- *Direct Contractors* receive funding from the state at a Standard Reimbursement Rate (SRR), which pays for a fixed number of child care "slots." These are mostly licensed child care centers but also include some licensed family child care homes (FCCH). These caretakers provide an educational component that is developmentally, culturally, and linguistically appropriate for the children served. These centers and FCCH also provide nutrition education, parent education, staff development, and referrals for health and social services programs.
- *Alternative Payment Programs (APs)* act as an intermediary between CDE, the child care provider, and the family, to provide care through vouchers. Vouchers provide funding for a specific child to obtain care in a licensed child care center, licensed family day care home, or license-exempt care (kith and kin). With a voucher, the family has the choice of which type of care to utilize. Vouchers reimburse care providers based on the market rates charged by private providers in their region.

BUDGET

Governor's Budget. The Governor proposes a total of $2.2 billion for Child Care and Development (CCD) programs in 2011–12, which is a reduction of $535 million, or 19 percent, compared to the current year. To achieve these savings, he proposes several significant changes to current policies, including reducing child care subsidies by 35 percent, lowering maximum family income eligibility from 75 percent to 60 percent of the state median income (SMI), and eliminating subsidized child care for 11- and 12-year olds. Offsetting these proposed savings is the Governor's plan to partially restore the vetoed California Work Opportunity and Responsibility to Kids (CalWORKs) Stage 3 child care program, beginning April 1, 2011. Each of the Governor's proposals will be discussed individually.

Although the Governor's budget would achieve $784 million in policy–related savings and recognize an additional $106 million in technical and caseload savings, the net reduction across all child care programs is only $535 million. This is because the Governor's package contains two notable augmentations: (1) $215 million in additional TANF funds to cover projected increases in Stage 1 caseload and (2) a net increase of $192 million to partially restore funding for the CalWORKs Stage 3 program.

Child Care and Development Budget Summary

(Dollars in Millions)

	2009–10	2010–11 Revised	2011–12 Proposed	Change From 2010–11 Amount	Change From 2010–11 Percent
Expenditures					
CalWORKs Child Care					
Stage 1	$547	$494	$611	$117	23.7%
Stage 2[a]	485	440	255	–186	–42.2
Stage 3[b]	412	193	200	8	3.9
Subtotals	($1,445)	($1,127)	($1,066)	(–$61)	(–5.4%)
Non–CalWORKs Child Care					
General child care[c]	$797	$797	$480	–$317	–39.8%
Other child care[c]	321	305	173	–132	–43.2
Subtotals	($1,118)	($1,103)	($654)	(–$449)	(–40.7%)
State Preschool[c]	$439	$439	$438	–$1	–0.2%
Support programs	109	100	76	–24	–24.2
Totals	**$3,110**	**$2,768**	**$2,233**	**–$535**	**–19.3%**
Funding					
State General Fund					
Proposition 98	$1,836	$1,262	$1,087	–$175	–13.9%
Non–Proposition 98	29	29	29	—	—
Other state funds[d]	66	290	—	–290	–100.0
Federal funds					
CCDF	541	602	526	–77[e]	–12.7
TANF	528	475	592	117	24.6
ARRA	110	110	—	–110	–100.0

[a] Includes $9 million for Stage 2 program run by the California Community Colleges. Does not reflect any reduction based on the $10.7 million the Governor proposes to sweep in 2010–11.

[b] Does not include $52.6 million the administration has indicated setting aside pending legislation for CalWORKs Stage 3 in 2010–11.

[c] For 2010–11 includes funding from local reserves.

[d] Includes prior–year Proposition 98 carryover and, in 2010–11, $6 million non–Proposition 98 General Fund redirected from the Assembly's budget and $83 million from local reserves.

[e] Year–to–year decrease due mostly to the use of one–time funds in 2010–11.

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

Source: Legislative Analyst's Office

ISSUE 2: Reduction in Subsidy Levels

Speakers:

- Lynn Podesto, Department of Finance
- Rachel Ehlers, Legislative Analyst's Office
- Camille Maben, California Department of Education
- Sharon Taylor, California Department of Education
- Erin Gabel, California Department of Education

Issue. The issue before the Subcommittee is the Governor's proposed 34.6 percent reduction to the child care subsidy levels (excluding preschool).

Governor's Proposal. The Governor's Budget proposes to reduce the amount provided to all child development contractors, other than state preschool and CalWORKs Stage 1 contractors, by 34.6 percent, for a savings of **$577 million**. However, the Governor proposes not to allow contractors to absorb this reduction by serving fewer children. The Governor's proposal includes new local flexibility in setting the subsidy rate in order to achieve the required savings.

LAO Concerns. The LAO has raised concerns regarding how the Governor's proposal would be implemented, including the inconsistency of not applying the reduction to CalWORKs Stage 1 or state preschool, and the new authority it provides to local agencies (many of which are not public agencies), to allocate the reduction in different ways across the state. In whatever approach it ultimately employs, the LAO recommends the Legislature apply reductions more consistently across programs and regions.

<u>PROPOSAL DETAILS</u>

Local Decision Making. The administration proposes to grant some local discretion as to how the 35 percent cut is applied across families. Specifically, the proposal grants new authority to local child care contractors, both Alternative Payment (AP) agencies and Title 5 centers, to apply a larger or smaller subsidy reduction to families of different income levels, as long as the reduction across all the families they serve totals 35 percent. The AP agencies typically serve as the intermediary between the California Department of Education (CDE) and local child care providers, passing along state payments to child care providers, but not typically providing child care services themselves. Title 5 centers have contracts with CDE to serve children directly.

Decrease in Subsidy Level. The Governor's proposal would decrease the average annual amount provided per child care slot in child care programs by $2,604 compared to current-year subsidy levels (from $7,841 to $5,237 annually). The Governor assumes that families would find a way to pay the difference between the amount their child care providers currently charge and the reduced state subsidy. This reduction is about $217 per month per child, which the low-income families would have to cover themselves.

IMPACT ON FAMILIES

Families Possibly Impacted Differently. The proposed new local control would allow a contractor to reduce a very low-income family's subsidy by only 20 percent, but reduce another low-income family's subsidy--and increase their new copayment--by 50 percent. Alternatively, the agency could cut each of their families' subsidies by 35 percent across-the-board without regard to income and expect each family to make up the difference through higher copayments.

Impact on Families. Currently, families making below 40 percent of SMI (which for a family of three is about $2,010 a month) are not required to pay any fees. About two-thirds of the children served in the state's child care programs are from such families. While the amount the state currently pays for a family's child care services varies by county, age of child, and type of care, in many counties the reimbursement rate for a preschool-age child in full-time center-based care is roughly $650 a month. In this example, the Governor's proposal would reduce the state payment by about $220 a month, meaning families making 40 percent of the SMI would have to dedicate more than 11 percent of their incomes to maintain current child care arrangements. For the over 160,000 families making below 40 percent of the SMI and those that live in high-cost counties where child care is more expensive than in this example, absorbing this drop in state support could be prohibitive.

Reduction Likely Would Decrease Both Access to and Quality of Care. While some families and providers might be able to "meet in the middle" and accommodate the reduction through a combination of lower rates and higher copays, the magnitude of the cut still makes this implausible in most cases. If most families cannot afford significant new copays and most providers cannot afford to reduce their rates dramatically, most families would seek to accommodate the cut by looking for less expensive child care, including turning to a license-exempt provider. However, only about half of the children in the state's child care system, those in the voucher-based CalWORKs stages and AP program, currently have the option of selecting a license-exempt provider. In such cases, there would likely be a diminution in the quality of care provided.

LIKELY PROVIDER RESPONSE

The LAO anticipates the following potential responses to this proposal:

Licensed Providers Not Likely to Reduce Rates Dramatically. Assuming most families currently receiving subsidies could not afford to assume notably higher payments, the child care providers could choose to reduce their rates to make up for some or all of the lost state funding. However, many licensed child care providers would have few options for absorbing a revenue drop of the magnitude forced by the Governor's budget reduction. Issues that restrict provider ability to reduce costs are:

1. State licensing regulations require that licensed providers maintain specific adult-to-child ratios, which currently limit their ability to reduce staff to save money.
2. For many centers, local collective bargaining agreements may further limit their ability to accommodate the reduction by lowering salaries.

3. State law forbids providers from charging private-pay clients a higher rate than subsidized families, which would prohibit them from recapturing the lost revenue from other families.
4. The Governor's proposal would prohibit contractors from reducing the number of subsidized children served or hours of care offered.

It is unreasonable to expect providers could maintain the exact same level of care for 35 percent less revenue and continue to stay in business. A more likely scenario is that licensed providers would opt not to lower rates so substantially, effectively resulting either in a shift away from subsidized clients to private clients or in closure.

License-Exempt Providers Might Have an Easier Time Absorbing the Reduction. The shortage of licensed providers who would be affordable under the proposed drop in subsidies might lead to an increase in the number of families who opt for license-exempt care. License-exempt providers, who currently care for roughly 15 percent of all children in the state's subsidized care system, might be able to absorb the drop in state subsidies more easily than licensed providers. Because these "kith and kin" providers typically care for their own family members in their own homes and do not have the administrative or overhead expenses of running a formal business or meeting licensing requirements, they might continue caring for children even at a lower subsidy rate. However, if the child care payment represents the license-exempt provider's sole income, he or she likely also would struggle with a 35 percent reduction in pay and could opt instead to seek a higher salary in another vocation.

Lower State Subsidy Would Limit the Pool of Providers From Which Families Could Afford to Choose. Currently, the state provides eligible families in the AP program and all three CalWORKs stages with a funding voucher sufficient to cover entirely the rate charged by about 65 percent of the licensed providers in their county. (Title 5 child care centers, which serve families in the General Child Care program, charge one statewide standardized reimbursement rate.) If the family chooses one of the 35 percent of providers that charge above the state reimbursement ceiling, then the parent must pay the difference. Thus, families seeking fully subsidized care likely would face greater competition for licensed slots, countering the Governor's claim that his proposal maintains the same access to care.

Current Regional Market Rate. The state's maximum reimbursement rates were set at the 85th percentile of the regional market rates (RMR) in 2005, meaning they were supposed to be sufficient to provide subsidized clients access to 85 percent of the licensed child care providers in their county in that year. However, since state rates have not been updated in the intervening years and the amounts most providers charge have increased, a reasonable estimate is that the state's rates are now effectively at about the 65th percentile of the RMR. While the data were not available to compare exactly how the Governor's proposed reduction would lower the state reimbursement rate with respect to RMR data, the LAO thinks it would be **well below the 50th percentile**. That is, fewer than 50 percent of licensed child care providers currently charge at or below the Governor's proposed level for state subsidies.

OTHER POTENTIAL OPTIONS

Lower Regional Market Rate. Rather than eliminating 35 percent of the total subsidy, the Legislature may wish to consider a more modest decrease in the child care subsidy rates for both licensed and unlicensed providers. For example:

- Reduce licensed provider reimbursement rate from 85th percentile to 75th percentile of the RMR: $19 million savings
- Reduce license-exempt provider reimbursement rate from 80 percent to 70 percent of the licensed rate: $56 million savings

Restrict Child Care for School-Age Children. Since school-age children are more able to attend after-school programs, the Legislature could consider restricting subsidies for school-age children to non-traditional hours of care and prioritizing these children for after-school programs. The LAO estimates that this option could create savings of $300 million.

Apply Lower Income Ceiling to Preschool. The Governor's budget proposal excludes preschool from the 60 percent SMI ceiling (keeping preschool at 75 percent of SMI). The Legislature may wish to consider lowering the income ceiling for state-subsidized preschool to 60 percent of SMI. The LAO estimates that this option could create savings of up to $60 million.

Parent Fees. Currently, families making less than 40 percent SMI do not pay the daily parent fees (which increase with income). The Legislature may wish to lower the income ceiling at which parent fees become mandatory. The LAO estimates that this option could create savings of up to $30 million, depending on how the fee schedule is changed.

Administration Funding. Currently, the APs are allowed 17.5 percent of their contracts for administration (which includes intake services of the families). If this percentage was reduced to 15 percent, the LAO estimates that this option could create savings of $15 million.

Simplify State Regulations. The complexity of child care program rules creates problems for local child care providers. This complexity permeates every aspect of the child care system. For example, different programs have different eligibility rules and different rate structures. Providers that operate under more than one program also have to negotiate separate contracts for each program. They must also follow complex rules regarding allowable expenditures and attendance accounting, and collect detailed administrative information on these factors. Most of the child care-related positions in CDE are devoted to assisting contractors and implementing the cumbersome rules and requirements. Savings from this proposal are unknown.

Combine Multiple Child Care Programs Into a Single Block-Grant for Locals. Instead of allocating funds for multiple child care programs, the state could divide funding between CalWORKs and all other child care. Then the funding for other child care could be provided to the locals as a block grant. This option relies on an increased role for local decision making, such as that provided by the Governor's proposal to have county offices of education take on a more active role in subsidized child care. Savings from this proposal are unknown.

Simplify Access and Case Management for Families Seeking Child Care. The Legislature could consider aligning AP contracts to Resource and Referral Service Areas in order to increase access for families to AP services.

One-Time Options Unlikely to Work. While past-year sweep funds were available in prior years for use in patching up child care funding, for 2011-12 these funds may not be available due to the aggressive use of such funds to restore vetoes in the 2010-11 budget and certain unexpected expenses within the Proposition 98 funded programs.

Suggested Questions:

1. Are there unspent one-time funds that could be used to cover some of the 35 percent cut to subsidy levels?
2. What would be some of the potential ramifications of combining child care programs into a single local block-grant?
3. What would it take to simplify state regulations around child care? About how long would a review of state regulations take? What possible savings could be captured from such a simplification of process?
4. What would be the impact on APs of reducing the administrative funding amount to 15 percent?
5. In real dollar terms, what does this mean for a mother with two children?

ISSUE 3: Children Aged 11 and 12

Speakers:

- Lynn Podesto, Department of Finance
- Rachel Ehlers, Legislative Analyst's Office
- Camille Maben, California Department of Education
- Sharon Taylor, California Department of Education
- Erin Gabel, California Department of Education

Issue. The issue before the Subcommittee is the Governor's proposal to eliminate child care subsidies for 11- and 12-year-olds.

Governor's Proposal. The Governor's budget proposes to eliminate child care subsidies for 11- and 12-year-olds, for savings of $93 million total ($59 million Proposition 98 General Fund and $34 million in federal funds). This proposal would eliminate 10,000 child care slots in CDE administered child care (plus additional slots in CalWORKs Stage 1 not included here).

Care for Children Ages 11 and 12. Under CalWORKs, a child can receive child care services until his or her 13th birthday as long as the family's income remains below the maximum allowable level. Nearly half of the children in this age group are receiving licensed-exempt care. The children aged 11 and 12 who are receiving care through licensed child care centers are more able to move to other child care alternatives, such as afterschool programs funded with ASES or 21st Century federal funds, because the afterschool programs take place during traditional hours of care.

LAO Recommendation. The LAO thinks that the Governor's proposal to lower the state's age eligibility threshold and prioritize services for younger children merits consideration, perhaps in modified form, because there are more supervision options available for school-age children. California funds an extensive before and after school program in which slots could be prioritized for 11- and 12-year olds (and even younger school-age children) displaced from CDE child care programs.

Specifically, the state annually spends almost $550 million on the After School Safety and Education (ASES) program and an additional $130 million in federal funds for the 21st Century Community Learning Centers. Many schools and communities also run a multitude of other locally based after-hours programs for school-age children. Taking better advantage of existing school-age care programs could allow the state to prioritize limited child care funds for infants and toddlers, for whom care typically is more costly and harder to find.

While the LAO knows of no other state that sets its age limit for subsidized child care as low as age 10 (the LAO's review suggests other states set maximum age at 12 or 13), there are no federal prohibitions against prioritizing services for younger children.

Federal Requirements. The CDE has informed staff that federal regulations for the Child Development Block Grant (CDBG) require that subsidized care be made available to all eligible children through the age of 12. Thus 11- and 12-year olds cannot be explicitly eliminated from the child care programs without California falling out of compliance with federal regulations.

Staff Comment. California can still prioritize child care for children 10 and under without being out of compliance with federal regulations. Prioritizing care for younger children would in effect push older children out of subsidized care because the number of child care slots is restricted based on the amount of funding provided (except for Stage 2, which is an entitlement program). There are 3,446 11- and 12-year olds in Stage 2, who cost $19.6 million to serve. So excluding Stage 2 for the savings, prioritizing care for children 10 and under would provide savings of about $73.4 million.

Suggested Questions:

1. Does this elimination only apply to CalWORKs kids?
2. What other care is available to children ages 11 and 12?
3. How many children ages 11 and 12 currently receiving child care subsidies receive center-based care? For those children currently not in center-based care, are after school programs a feasible option?
4. If children ages 11 and 12 are prioritized for after school programs, will other children currently in those programs lose their slots?

ISSUE 4: Reducing Income Eligibility Ceiling

Speakers:

- Lynn Podesto, Department of Finance
- Rachel Ehlers, Legislative Analyst's Office
- Camille Maben, California Department of Education
- Sharon Taylor, California Department of Education
- Erin Gabel, California Department of Education

Issue. The issue before the Subcommittee is the Governor's proposal to reduce the income eligibility ceiling from 75 percent of State Median Income (SMI) to 60 percent of SMI.

Governor's Budget. The Governor proposes to reduce the income eligibility for subsidized child care programs, excluding preschool, from 75 percent of SMI to 60 percent of SMI. This proposal would create savings of $79 million in Proposition 98 funds.

Impacted Population. The Governor's proposed income eligibility ceiling reduction would disqualify 13,597 children from the State's child care programs. The majority of these children are in General Child Care and in CalWORKs Stage 3 child care.

LAO Recommendation. The LAO believes the Governor's proposal to lower the income eligibility ceiling from 75 percent to 60 percent of SMI is reasonable, because it prioritizes service for the most needy families. Moreover, the LAO has reviewed other states' eligibility policies for subsidized child care, and findings indicate the Governor's proposed level would be more comparable to policies in other states. Like California, all states set maximum income eligibility thresholds for subsidized child care based on their SMI. The LAO's review indicates that only 15 other states set maximum income eligibility at or above California's current SMI threshold. In contrast, about half of all states set income ceilings at or below 60 percent of their SMI.

The LAO questions the Governor's policy of exempting state preschool from the proposed change to income eligibility. Besides leaving the income ceiling at 75 percent of SMI for state preschool, the Governor also does not propose changing current statute that allows these programs to enroll up to 10 percent of their caseload from families that make 15 percent more than 75 percent of SMI. In addition to the administrative complication that different eligibility ceilings would create for centers that run blended preschool and General Child Care programs for 3- and 4-year olds, preserving access to subsidized preschool for higher income families while lower income families remain on waiting lists does not prioritize service for the neediest children. The LAO estimates that including preschool in the income ceiling reduction could save the state an additional $60 million (for a total savings of $150 million from the reduction).

Suggested Questions:

1. How many children would lose state subsidized child care if this lower income ceiling was extended to preschool?

ISSUE 5: Quality Improvement Activities

Speakers:

- Lynn Podesto, Department of Finance
- Rachel Ehlers, Legislative Analyst's Office
- Camille Maben, California Department of Education
- Sharon Taylor, California Department of Education
- Erin Gabel, California Department of Education

Issue. The issue before the Subcommittee is a reduction to quality improvement programs.

Governor's Proposal. The Governor's Budget proposes to reduce federally funded quality improvement programs by $16 million. In 2010-11, the state spent $88 million in federal funds ($69 million in child care block grant monies and $19 million in ARRA funds) on about 40 different quality improvement programs. Due to the expiration of the ARRA grant, the Governor's 2011-12 budget proposal reduces overall spending on quality improvement activities by $16 million. Under the proposal, CDE would decide which of the 18 quality activities, including the California Preschool Instructional Network, California Early Childhood Mentor Program, and support for young English language learners, would be reduced or eliminated.

Quality Improvement Programs. As a condition of receiving federal child care block grant funds, the state must spend a certain amount on quality improvement activities. These activities typically include professional development, stipends for child care providers, and activities related to health and safety.

LAO Recommendation. The Governor's proposal not to backfill $16 million for quality improvement projects that were funded with ARRA funds seems reasonable given the $69 million that would remain for these activities under the Governor's budget. Nonetheless, the LAO thinks the Legislature could improve upon the Governor's proposal by coming up with its own list of quality projects to maintain, reduce, or eliminate. The LAO recommends taking a careful look at which quality initiatives are most effective, of highest priority, and complementary, then developing a package of initiatives strategically designed to work together in a concerted effort to improve the quality of the overall child care system.

Staff Comment. Staff has requested a list of the quality improvement activities from the CDE. Some of these activities have spending mandated in state statute, so the department does not always have discretion over how much funding to provide for an activity. Staff will work with the department to develop a list that utilizes the $69 million in the most effective way possible, and provide that list for the Budget Committee for a vote at a later date.

Suggested Questions:

1. Which quality improvement programs provide the most benefit for the child care programs? Has the effectiveness of these programs ever been examined?

ISSUE 6: Elimination of the Centralized Eligibility List

Speakers:

- Lynn Podesto, Department of Finance
- Rachel Ehlers, Legislative Analyst's Office
- Camille Maben, California Department of Education
- Sharon Taylor, California Department of Education
- Erin Gabel, California Department of Education

Issue. The issue before the Subcommittee is the elimination of the Centralized Eligibility List and the redirection of the savings to other child care activities.

Governor's Proposal. The Governor's Budget proposes to eliminate funding for the CELs beginning in 2011-12 and to redirect the $7.9 million to child care programs to help offset other proposed reductions.

Centralized Eligibility List Background. The Centralized Eligibility Lists (CELs) serve as master waiting lists for all eligible non-CalWORKs families in the county seeking subsidized child care. The lists rank families by income to help ensure the neediest families get first priority when providers have child care slots available. Since 2005-06, the state has provided a total of $7.9 million annually to the 58 counties to maintain countywide CELs. As of June 2010, there were almost 188,000 children on county CELs waiting for care.

Impact on Families. The effect of the proposal would be that eligible families once again have to sign up on multiple waiting lists at multiple child care centers rather than in one centralized location, and providers with available slots would only consider families that had signed up on their individual lists.

LAO Recommendation. The LAO recommends the Legislature adopt the Governor's proposal to redirect $7.9 million from supporting the CELs to child care programs because it prioritizes direct services for children over administrative activities. While the county-based CELs help facilitate and streamline the registration and enrollment process for eligible families waiting for care, in this fiscal climate keeping children off the waiting lists is a more important state-level priority than tracking how many children are on the waiting lists.

Suggested Questions:

1. Why was the centralized eligibility list created to begin with? What were the problems the CEL was intended to overcome and what problems will be solved by dismantling the list?

ISSUE 7: Stage 3 Child Care

Speakers:

- Lynn Podesto, Department of Finance
- Rachel Ehlers, Legislative Analyst's Office
- Camille Maben, California Department of Education
- Sharon Taylor, California Department of Education
- Erin Gabel, California Department of Education

Issue. The issue before the Subcommittee is the funding gap in CalWORKs Stage 3 child care.

Governor's Budget. Though the Governor's Budget proposes to restore CalWORKs Stage 3 for the 2011-12 fiscal year, it provides funding for this partially-vetoed program only from April 2011 on. This leaves Stage 3 without funding for the months of January, February, and March. Beginning April 1, 2011, the Governor proposes to fund Stage 3 child care at a reduced level of $52.6 million. This is a lower level of funding because of the policy changes proposed by the Governor, including the 35 percent decrease in subsidy levels.

Impact on Families. The Governor's proposal to delay restoration of the CalWORKs Stage 3 program until April 1, 2011, raises questions as to how affected families will manage child care needs during the three-month gap in services.

LAO Concerns. The LAO believes the Legislature should reconsider the priority of the CalWORKs Stage 3 program compared to other child care services. The justification for giving continued priority for child care to former CalWORKs participants over other working poor families, who may have lower incomes, is not particularly strong. While there may be a risk of former CalWORKs recipients going back on CalWORKs aid if they suddenly lose their child care, other working poor families are continually grappling with the same challenges, with the primary difference being they have not received cash assistance in the past. Moreover, the LAO has not been able to find an example of another state that guarantees child care to former welfare recipients for such an extended period of time.

If the Legislature were to restore Stage 3 based instead on current law and provide sufficient funding to cover the January-through-June 2011 period, the LAO estimates it would cost roughly $135 million, or about $85 million more than the Governor has set aside.

Staff Comment. The Legislature has always been very supportive of families receiving Stage 3 child care. If there are options for ensuring continuity of services for these at-risk families those should be explored.

Suggested Questions:

1. Are there funds from prior years that could be directed to cover the gap in Stage 3 funding?

ISSUE 8: Stage 2 Caseload

Speakers:

- Lynn Podesto, Department of Finance
- Rachel Ehlers, Legislative Analyst's Office
- Camille Maben, California Department of Education
- Sharon Taylor, California Department of Education
- Erin Gabel, California Department of Education

Issue. The issue before the Subcommittee is a proposed current year (2010-11) sweep of Stage 2 funds.

Governor's Proposal. Based on the administration's assessment of underlying demographics and caseload trends, the Governor also assumes the CalWORKs Stage 2 program will not need the full 2010–11 Budget Act appropriation. The Governor proposes to sweep $11 million from the program and use it for other Proposition 98 purposes in the current year.

LAO Recommendation. The LAO recommends the Legislature reject the Governor's proposal to sweep and reallocate $11 million from the current-year CalWORKs Stage 2 program. The LAO believes it is premature to assume savings will materialize in this program, particularly given the current-year veto of the Stage 3 program. Due to unused Stage 2 eligibility and some counties' creative use of the CalWORKs Diversion program, the LAO believes several thousand former Stage 3 children have reentered Stage 2 care, hence increasing current-year Stage 2 caseload.

Staff Comment. The department has informed staff that the latest caseload numbers indicated about 7,500 children transferred from Stage 3 to Stage 2, thus increasing the number of children in Stage 2. The department estimates that, without changes to eligibility policy, Stage 2 may be underfunded by as much as $12 million in the current year.