California State Senate

COMMITTEE
ON
BUDGET AND FISCAL REVIEW

ROOM 5019, STATE CAPITOL
SACRAMENTO, CA 95814

SENATOR
MARK LENO
CHAIR

(916) 651-4103
FAX (916) 323-8386

Agenda

March 1, 2012
9:30 a.m. or Upon Adjournment of Floor Session
Room 4203

Governor's CalWORKs and Child Care
Proposals & Redesign

I. Setting the Context: The Economy, Employment & Poverty in California
- Sarah Bohn, Public Policy Institute of California
- Jean Ross, California Budget Project
- Professor Jill Duerr-Berrick, University of California, Berkeley School of Social Welfare

II. CalWORKs Today
- Brian Uhler, Legislative Analyst's Office

III. Administration's CalWORKs Proposals
- Will Lightbourne & Todd Bland, Director & Deputy Director, Department of Social Services (DSS)
- Brian Uhler, Legislative Analyst's Office

IV. Discussion and Comment on Administration's CalWORKs Proposals
- Bruce Wagstaff, Administrator of the Sacramento County Countywide Services Agency
- Mike Herald, Western Center on Law & Poverty
- James Matthews, CalWORKs recipient

V. **Child Care and Early Childhood Education Today**
- Rachel Ehlers, Legislative Analyst’s Office

VI. **Administration’s Child Care and Early Childhood Education Proposals**
- Sara Swan and Ryan Storm, Department of Finance
- Department of Social Services
- Rachel Ehlers, Legislative Analyst’s Office

VII. **Discussion and Comment on Child Care and Early Childhood Education Proposals**
- Tom Torlakson, Superintendent of Public Instruction
- Claire Ramsey, Child Care Law Center
- Daniella Scally, Child Care Recipient

VIII. **Public Comment**

California State Senate

COMMITTEE
ON
BUDGET AND FISCAL REVIEW

ROOM 5019, STATE CAPITOL
SACRAMENTO, CA 95814

SENATOR
MARK LENO
CHAIR

(916) 651-4103
FAX (916) 323-8386

Background Paper for March 1, 2012 Hearing

Governor's CalWORKs and Child Care Proposals & Redesign

<u>Issue</u> **<u>Page</u>**

I. INTRODUCTION

The Governor's budget includes proposals to dramatically reduce the benefits and services the CalWORKs program offers to low-income families with children (resulting in around $950 million General Fund savings) and to significantly change the structure of the program. The budget also proposes to restructure the state's subsidized child care program and to reduce its budget by $450 million (approximately 20 percent of total program funds). The Department of Finance estimates that this would result in 62,000 fewer child care slots in the budget year. Taken together, the Administration estimates that these changes would result in $1.4 billion General Fund (GF) savings in 2012-13.

These proposals come at a time when Californians, especially in low-income families, are facing high unemployment and rising poverty. According to the California Employment Development Department, unemployment rates for the state rose each year from 2007 to 2010, growing from 5.3 percent to 12.4 percent. Available monthly data for 2011 shows a seasonally adjusted unemployment rate of 11.8 percent in June and 11.3 percent in November. Research on the effects of economic recessions indicates that it takes several years after a recession for employment to rebound and families to return to pre-recession income levels.[1] Further, low-income families are more likely to be unemployed than the workforce as a whole, and during economic downturns less educated workers sustain bigger job losses than those with more educational attainment.[2] Recent reports additionally indicate that women are recovering from the recession more slowly than men are, and that the economic downturn reduced employment for single mothers far more than it did for married parents.[3]

According to the U.S. Census Bureau, nearly one in four children in California (23 percent) was impoverished in 2010. This represents an increase from a low of 16 percent in 2001. Los Angeles County has also documented a 110 percent increase since 2006 (from approximately 5,500 to 11,500) in the number of homeless families receiving CalWORKs there. Research indicates that children who live in poverty are at significantly higher risk for health problems, lower educational attainment, and other negative outcomes, well into their adulthood.[4]

This background paper provides overviews of the state's existing CalWORKs, subsidized child care, and early childhood education programs, as well as brief summaries of changes and

---

[1] *The Effect of the Recession on Child Well-Being: A Synthesis of the Evidence by PolicyLab, The Children's Hospital of Philadelphia* (Foundation for Child Development; November 2010).

[2] Wonho Chung, Phil Davies, and Terry J. Fitzgerald, *Degrees of Job Security* (Federal Reserve Bank of Minneapolis: December 2010); available online at: http://www.minneapolisfed.org/publications_papers/pub_display.cfm?id=4592.

[3] *Falling Behind: The Impact of the Great Recession and the Budget Crisis on California's Women and their Families* (California Budget Project; February 2012).

[4] *Turning Point: The Long Term Effects of Recession-Induced Child Poverty* (First Focus, May 2009); available online at http://www.firstfocus.net/library/reports/turning-point-long-term-effects-recession-induced-child-poverty.

reductions to those programs in recent years. The paper then outlines the Governor's proposals and raises critical issues, in addition to the economic context outlined above, to consider in reviewing the Governor's proposals.

II. BACKGROUND ON CALWORKS

California Work Opportunity and Responsibility to Kids (CalWORKs) provides cash assistance and welfare-to-work services to 587,000 eligible needy families with 1.2 million children [5]. The program supports these families by helping them to attain self-sufficiency and by providing a safety net so that children can have their most basic needs met. Absent the Governor's proposals, the CalWORKs budget would include $5.8 billion in combined federal, state, and local funds.

Some Information About CalWORKs Recipients:

- Nearly half (46%) of child recipients are under the age of 6.
- Around 27% of children who were served in the Child Welfare Services system were also served by CalWORKs.
- 92% of heads of recipient households are women. Two-thirds of them are single and have never married.
- Nearly half of these adults (41% of the 76% with data available) have 11th grade or less education, and 10-28% are estimated to have learning disabilities.
- Around 80% of these adults report experiencing domestic abuse at some point; and
- An estimated 19-33% have mental or emotional health problems.

Caseload and Spending Trends: Prior to federal welfare reform in the mid-1990s, California's welfare program aided more than 900,000 families. By 2000, the caseload had declined to 500,000 families. During the recent recession the caseload has grown; but at 587,000 cases, it has not returned anywhere close to the levels of the early 1990s. The caseload grew one percent in 2007-08, eight percent in 2008-09, ten percent in 2009-10, and six percent in 2010-11. Caseload growth has slowed to a projected two percent in 2011-12; and the Administration forecasts a small decline in 2012-13. According to the California Budget Project, welfare assistance represented 6.8 percent of the state's overall budget (including federal, state, and local resources) in 1996-97, compared with 2.9 percent in 2011-12.

Welfare-to-Work Caseload: In 270,000, or just under half of CalWORKs cases, families receive cash assistance for an adult (or adults) in addition to children. The adult's eligibility is subject to a lifetime

[5] Information about these families in the pull-out box comes from sample data collected by the Department of Social Services (DSS) & from studies in single or multiple counties, as summarized in *Understanding CalWORKs: A Primer for Service Providers and Policymakers*, by Kate Karpilow and Diane Reed. Published in April 2010; available online.

limit of 48 total months. The overall average grant for recipient families is currently $471 monthly (up to a maximum of $638 for a family of three in a high-cost county). In approximately seventy percent of these cases, aided adults must participate in work and other welfare-to-work activities[6]. To support that participation, the program offers these adults related services, such as childcare and transportation. In the other thirty percent of cases, the aided adult is exempt from work participation requirements for reasons such as disability or caregiving for an ill or incapacitated family member. Recipients who are exempt do not receive supportive services, and their time on aid does not count against the time limit.

Child-Only Caseload: In 315,000, or more than half of CalWORKs cases (called "child-only" cases), the state provides cash assistance on behalf of children only and does not provide adults with cash aid or welfare-to-work services. There is no time limit on aid for minors. The maximum grant for two children is $516 monthly. In most child-only cases (87 percent), a parent is in the household, but ineligible for assistance due to receipt of Supplemental Security Income, sanction for non-participation in welfare-to-work requirements, time limits, a previous felony drug conviction, or immigration status. In a minority of cases (13 percent), no parent is present, and the child is residing with a relative or other adult with legal guardianship or custody. According to the LAO, research suggests that families in the child-only caseload may face even more barriers to self-sufficiency than the average CalWORKs family (e.g., only 19 percent are headed by a parent with a high school diploma or General Education Development credential, as compared to 53 percent among recipient families more generally).

Federal Context: Federal funding for CalWORKs is part of the Temporary Assistance for Needy Families (TANF) block grant program. TANF was scheduled for reauthorization in 2010, but the federal government has since enacted several temporary extensions (the most recent through September 30, 2012). TANF currently requires states to meet a work participation rate (WPR) for all aided families or face a penalty of a portion of their block grant. States can, however, reduce or eliminate penalties by disputing them, demonstrating reasonable cause or extraordinary circumstances, or planning for corrective compliance. It is also important to note that federal formulas for calculating a state's WPR do not give credit if families partially meet requirements. For example, a single-parent family with a work requirement of 30 hours in which the parent is working 25 hours per week is not counted as participating at all. According to the County Welfare Directors Association in 2009, data showed that 65 percent of adults the state required to work were participating, including 50 percent of work-required families who had employment earnings. As federally calculated, the state's WPR was 22, 25, and 27 percent in federal fiscal years 2007, 2008, and 2009, respectively. As a result, California did not meet WPR requirements of 32, 29, and 29 percent for those years. The federal government did not assess a penalty for 2007. The state is, however, appealing penalties of $47 million and $113 million for 2008 and 2009.

Recent Reductions: From 2009-10 through 2011-12, the budgets included significant ongoing, annual savings from long-term changes to CalWORKs policy. These reductions have included:

[6] Based on data from 2008-09. Does not take into account short-term reforms enacted in 2009 and authorized through July 1, 2012.

Policy	GF savings (in 000s) [7]
Suspension of an annual cost of living adjustment (COLA) and a 4% grant cut in 2009-10	$226,000
Additional 8% grant cut in 2011-12	$314,000
Reducing adults' lifetime time limit from 60 to 48 months	$104,000
Changes to earned income disregard	$83,000

The eight percent grant reduction in 2011-12 was the largest one-time reduction in CalWORKs assistance levels since the program's inception. From July 1, 2009 until the scheduled sunset on July 1, 2012, short-term program changes have resulted in around $375 million additional General Fund savings each year. The changes include temporary exemptions from welfare-to-work requirements for additional parents of young children (i.e., one child between the ages of 12 and 23 months or two children under the age of six), and a corresponding reduction in costs for childcare and employment services. In 2011-12, the additional suspension of intensive case management services for pregnant and parenting teenagers through the CalLearn program resulted in $43.6 million more General Fund savings.

III. GOVERNOR'S PROPOSALS ON CALWORKS

The budget proposes to significantly reduce the cash assistance and/or services available to most recipient families (74 percent) and to restructure CalWORKs. The Administration estimates net savings of $946.2 million General Fund from its CalWORKs proposals.

Proposed Restructuring: The Governor proposes to create two new subprograms within CalWORKs--CalWORKs Basic and CalWORKs Plus--as well as a new Child Maintenance Program outside of CalWORKs. Effective October 1, 2012, the proposed **CalWORKs Basic** program would continue much of the current welfare-to-work program for eligible adults. However, assistance through CalWORKs Basic would be available for only 24 months in an adult's lifetime (compared with the current time limit of 48 months).

Adult recipients working sufficient hours (30 hours for single-parent families, 35 hours for two-parent families, and 20 hours for single-parent families with a child under the age of six) in <u>unsubsidized</u> employment would be eligible for 24 additional months (up to 48 months total) of cash assistance and some supportive services through **CalWORKs Plus**. With a more generous disregard of earned income, CalWORKs Plus would also allow recipients up to $44 more income per month before they would become ineligible. Children in these families would continue to qualify for this disregard after their parents time out of CalWORKs Plus. The Administration estimates that 25,500 families will qualify for CalWORKs Plus.

The proposed **Child Maintenance** program would include any families currently served in the

[7] Savings figures are annual in the first full-year of implementation. On an ongoing basis, exact savings will vary with caseload and other policy changes.

CalWORKs child-only caseload, as well as 109,000 families in which the adult would lose eligibility under the Governor's proposals. Child maintenance grants would not be time-limited for minors. Compared with current child-only policies, the Child Maintenance program would require families to undergo eligibility determinations less frequently (from quarterly to annually), but would newly require proof that parents or caregivers have taken recipient children to annual well-child exams. Families in the Child Maintenance program that include a work-eligible adult would be eligible for up to one month of child care to attend a job search program every six months. If the adult is working sufficient hours in an unsubsidized job and has time remaining on the 48-month time limit that applies to the CalWORKs Plus program, the family could also move to that program. If a sanctioned adult still has time remaining on the 24-month time limit for CalWORKs Basic, a family could move from Child Maintenance to that program after complying with a welfare-to-work plan for at least two months.

Proposed Changes to Time Limits and Services: In addition to the reduction from 48 to 24 months of the time limit for adults not working sufficient hours in unsubsidized employment, the Governor's proposal would narrow the scope of work activities that count toward meeting program requirements. Some activities that currently qualify under state, but not federal, definitions of work participation would no longer count. Those activities include, for example, adult basic education, higher education beyond 12 months of vocational training, and a longer time in which to participate in substance abuse, domestic violence, or mental health treatment. The Governor also proposes to apply the new 24-month time limit retroactively to all participating adults, as well as those whom the state previously exempted from work participation requirements and those whom the state stopped giving aid and services because they were sanctioned for non-participation. The Administration also proposes to eliminate state support for intensive case management that was formerly available through CalLearn. As a result of all of these proposed changes, in April 2013 (after six months of transitional services), the Administration estimates that 109,000 families in which the adult has reached the 24-month time limit for CalWORKs Basic without working a sufficient number of unsubsidized hours would transfer to the Child Maintenance program.

Proposed Reductions in Cash Assistance: The budget proposes a 27 percent reduction in the maximum level of child-only grants available under the proposed Child Maintenance program. For a family with two recipient children (no aided adults), the maximum monthly grant would drop from $516 to $375. For the 109,000 families moving from CalWORKs to the Child Maintenance program, the loss of the adult portion of their grants would result in an even steeper loss (41 percent if they had been receiving the maximum grant). In a high-cost county, the maximum grant would drop from $638 for a family with three recipients (including one adult) to $375 for a family with two child recipients. As a result of the proposed lower grant levels, 63,000 recipient families with 125,000 children would lose all aid because their incomes would be too high for the resulting new eligibility thresholds. Additionally, the new program would reduce Child Maintenance recipient families' incomes by capturing for the state 100 percent of the child support payments made by non-custodial parents. Under the current program, the first $50 is passed through to the recipient family before the state begins to capture the support payments.

The chart below summarizes the changes in structure and benefits outlined above:

As Estimated for April 2013

CalWORKs Today:

- 587,000 families with 1.2 million children
- 315,000 cases are child-only with max. grant for 2 children = $575/month
- Time-limit for adults is 48 months (no time-limit for children)

CalWORKs Basic: 128,938 families with adults and children aided; 24 month time-limit for adults

CalWORKs Plus: 22,445 families with adults and children aided; up to 24 additional months (48 total) for adults in unsubsidized jobs

Child Maintenance: 368,776 families with only children aided; max. grant for 2 children = $375/month

No longer assisted: 63,273 families with 125,000 children

New Nutritional Benefits: The budget also proposes changes to the Work Incentive Nutritional Supplement (WINS) program that is scheduled to take effect by October 1, 2013, with full implementation by April 1, 2014. WINS is designed to provide a supplemental food benefit to working families who are receiving CalFresh, but not CalWORKs, benefits. To the extent that the state relies on TANF or TANF Maintenance of Effort (MOE) funding for the program, the Administration indicates that recipient families can be counted in federal work participation calculations. WINS was originally scheduled to begin in 2009-10, but has been statutorily delayed in recent years. The Administration proposes to increase from $40 to $50 the monthly supplemental benefit provided by the program. The Administration also proposes to expand WINS to low-income working families who receive subsidized child care, but not CalWORKs benefits, in a program called WINS Plus. DSS estimates that monthly caseloads for WINS and WINS Plus would be 95,000 and 25,000 respectively, beginning in 2013-14 (growing to 144,000 and 60,000 ongoing). Funding for implementation of the programs would include $45.2 million and $15.4 million General Fund in 2013-14 (growing to $88.9 million and $36.1 million on an ongoing basis). The Department estimates that implementation of these programs will result in a 15-20 percent increase in the state's WPR.

Effects on Work Participation Rates: Aside from the positive impacts of WINS described above, the Administration's proposal to redesign CalWORKs would result in only a potential minimal WPR increase in 2012-13. The Administration indicates, however, that if a separate Child Maintenance program could eventually be funded without TANF or TANF MOE, there could be a positive impact on the WPR at that point.

Funding Transfer: To achieve the proposed savings, the Governor's budget would transfer $736 million in TANF funds to the Student Aid Commission to offset a like amount of General Fund support for Cal Grants. According to the Administration, this would be an allowable use of TANF funds because support for low-income, unmarried students age 25 or younger could prevent and reduce out-of-wedlock pregnancies, which is one purpose of TANF.

A. ISSUES TO CONSIDER

The proposed restructuring of CalWORKs is far-reaching and technically complex. As a result, it may present overwhelming implementation challenges on the ground at the same time that families and caseworkers are navigating the impacts of prior (and any potentially impending) reductions in benefits and services. Moreover, as the LAO indicates in its report, proposed reductions could be adopted and associated savings achieved without changing the structure of CalWORKs. The LAO goes on to conclude that in light of available research, the proposed redesign does not appear to create significant programmatic benefits in terms of efficiencies or effectiveness. As a result, the LAO recommends that the Legislature reject the proposed redesign and adopt a package of CalWORKs reductions based on its priorities. The LAO report begins to explore potential modifications to some of the Governor's reduction proposals, as well as other savings options.

The Governor's proposals change the rules retroactively and restrict the types of activities that adults can take advantage of to move from welfare to self-sufficiency. A significant number of adults who would lose CalWORKs eligibility after six transitional months are individuals whom the state previously exempted from work requirements (again, because of the age of their children, a disability, caregiving for an ill family member, etc.). During the time they were exempt, these individuals did not receive welfare-to-work services and supports. Nonetheless, the proposed changes would require counties to go back and newly count that time against shorter time limits retroactively. In addition, aspects of the proposal to align state and federal policies would restrict participants' ability to count certain educational and other services (such as mental health and substance abuse services) toward work participation. Some of these activities would remain countable for only the 24 months in which participants can utilize the CalWORKs Basic program; others would be available for less time during those 24 months or no longer count at any time. The state has previously opted to allow for the broader array of these services with the goal of helping participants to overcome barriers that may otherwise prevent them from working.

Relative to measurements of poverty and to the level of support the state has historically provided to needy families with children, the proposed reductions would result in a dramatic shrinkage of benefits and services. For a family of three with no other income, the proposed maximum Child Maintenance grant of $375 per month ($4,500 annually) would result in an income equivalent to 24 percent of the federal poverty line (which is currently $1,591 per month or $19,090 annually for a family of three). [8] At $638 per month for a family of three in a

[8] The Administration combines this income with maximum CalFresh (food stamp) benefits to instead conclude that families would have income equivalent to 64 percent of the poverty level. However, the inclusion of those non-cash benefits is not generally accepted as a stand-alone adjustment for calculating poverty levels. While several researchers have suggested that in-kind benefits like nutritional assistance should offset calculations of families' costs of living, they also generally recognize other needed adjustments, potentially including an adjustment for varying costs of housing (which may cut the other direction to reduce many Californians' effective incomes relative to the federal measure).

high-cost county, maximum CalWORKs grants (the grant level available for families without any other income and in which an adult is aided) are the same in actual dollars today as they were in 1987. After adjusting for inflation, the California Budget Project calculates that the purchasing power of these grants is already less than half of what it was in 1989-90. Said another way, if the slightly higher 1989-90 maximum grant of $694 had been adjusted for inflation every year, it would be $1,368 in 2012-13. As discussed above, the proposed reductions would also lower eligibility thresholds so that 63,000 families with around 125,000 children would lose all assistance.

B. QUESTIONS FOR THE ADMINISTRATION AND LAO

1) Overall, how many additional families are expected to become self-sufficient as a result of the Administration's proposed changes to CalWORKs?

2) What is the policy rationale for allowing recipient families to receive aid after 24 months (and up to 48 months) only if they are participating in a sufficient amount of <u>unsubsidized</u> work (as opposed to continuing to support education, training, therapeutic or subsidized work activities that may help them attain self-sufficiency)?

3) Does the Administration's proposal implicitly assume that unsubsidized jobs are readily available and that recipients can quickly become prepared to succeed in obtaining and keeping them? How do those assumptions square with widely accepted research on high rates of unemployment statewide and the slower recovery of low-income families and individuals with lower levels of educational attainment? How do they account for the significant barriers to employment that many CalWORKs recipients face?

4) A significant number of families with adults who were exempted from welfare-to-work requirements would lose all services after a six-month grace period (after those previously exempted months would be retroactively counted). For some of these families, doesn't this effectively create a six-month lifetime limit on welfare-to-work assistance (because they received no supportive services up to that time)? What options will exist for people who have been exempted for reasons such as disability, advanced age, or caregiving for an ill family member?

5) How are families expected to fare in light of such historically large grant reductions (up to 27 or 41 percent) that would come on top of other recent grant reductions? What are the anticipated human consequences of an increased number of the state's children living farther below the federal poverty line? What pressures on other state and local systems, such as Child Welfare Services, might result?

IV. BACKGROUND ON CHILD CARE AND EARLY CHILDHOOD EDUCATION

There are many different programs that invest in child care and early childhood education. Direct child care and early childhood education services are currently funded by every level of government (federal, state, and local), including local school districts and the First 5 County Commissions. These programs have developed through separate efforts to achieve a variety of goals, including but not limited to, providing the child care necessary so that parents can work, and providing an educational environment that helps prepare young children for success in school.

State Funded Programs. Historically, the state has funded the following programs:

- CalWORKs Child Care (Stages 1, 2 and 3) – recipients of CalWORKs assistance are eligible for subsidized child care. This care is administered in three stages and recipients are currently entitled to two years after a family is transitioned off aid. All CalWORKs providers are paid through a voucher reimbursement system based on regional market rates (RMR).

- Non-CalWORKs Child Care (General Child Care [Title 5 Centers and Family Child Care Homes], Alternative Payment programs, and Migrant and Severely Handicapped programs) – low-income families not receiving CalWORKs assistance also are eligible for subsidized child care, though demand typically exceeds funded slots. The General Child Care Program is comprised of centers and homes that directly contract with the State. The Alternative Payment program providers are paid through vouchers similar to CalWORKs child care programs.

- State Preschool – early childhood education programs for three to five-year old children from low-income families. This is the only program that does not require the parents to be working or engaged in some other qualifying activity.

These state-funded programs are primarily administered by the State Department of Education (CDE) with the exception of Stage 1 CalWORKs Child Care, which is administered by the Department of Social Services (DSS). Until the 2011-12 fiscal year, the vast majority of these programs were funded from within the Proposition 98 Guarantee for K-14 education. Currently, all of these programs are supported by non-98 General Fund spending and federal funds, with the exception of part-day/school-year State Preschool which continues to be funded from within Proposition 98.

The portion of the General Child Care Program that was serving three and four-year old children in center-based settings was consolidated with the State Preschool program in 2009 after the passage of Chapter 308, Statutes of 2008 (AB 2759, Jones). Over one-half of the funding for the General Child Care program is now supporting preschool programs and many of them are run by school districts.

In 2011-12, around $1 billion was allocated for CalWORKs Child Care, $933 million for Non-CalWORKs Child Care, and $374 million for State Preschool. These programs were funded with a mix of Proposition 98 General Fund (State Preschool only), Non-Proposition 98 General Fund ($1 billion), and federal funds ($941 million).

Head Start Programs. The federal government invests directly in Head Start programs around the State. These programs serve preschool-age children and their families. Many Head Start programs also provide Early Head Start, which serves infants, toddlers, pregnant women, and their families who have incomes below the federal poverty level.

Head Start programs offer a variety of service models, depending on the needs of the local community. Programs may be based in:

- Centers or schools that children attend for part-day or full-day services;
- Family child care homes; and/or
- Children's own homes, where a staff person visits once a week to provide services to the child and family. Children and families who receive home-based services gather periodically with other enrolled families for a group learning experience facilitated by Head Start staff.

The federal Administration for Children and Families reports that nearly $860 million was expended on Head Start in California in 2009 and nearly 98,000 children were served.

California First 5 and County First 5 Commissions. The California Children and Families Program (known as First 5) was created in 1998 upon voter approval of Proposition 10, the California Children and Families First Act. There are 58 county First 5 commissions as well as the State of California and Families Commission (State Commission), which provide early development programs for children through age five. Funding is provided by a Cigarette Tax (50 cents per pack), of which about 80 percent is allocated to the county commissions and 20 percent is allocated to the State Commission. This Act generates about $475 million in new revenues annually.

The First 5 programs are generally directed by the State and County Commissions. Both the State and County Commissions have made early childhood education a priority for expenditure. According to the latest annual report available from First 5 California from 2009-10, the State Commission has invested in the following efforts:

- Power of Preschool - $15.2 million to fund Power of Preschool demonstration projects in certain counties. Power of Preschool provides free, voluntary, high-quality, part-day preschool to assist three- and four-year old children in becoming effective learners with a focus on developing preschool in underserved and high-priority communities.
- School Readiness - $51.7 million to counties for the School Readiness Program that strives to improve the ability of families, schools, and communities to prepare children to enter school ready to learn. Services are provided to focus on family functioning, child development, child health, and systems of care with a specific target to children and their families in schools with an Academic Performance Index score in the lowest three deciles.

- Low Income Investment Fund Constructing Connections - $600,000 to support Constructing Connections that coordinates and delivers technical assistance, training, knowledge, and facility financing information to support child care facilities development through local lead agencies. The Commission indicates that it leveraged more than $86 million in resources to create and renovate child care facilities and spaces.

There is considerable variation county to county; but, on a whole, County Commissions invested $265 million in 2009-10 to improve child development. The County Commissions predominantly invested these funds in Preschool for three and four-year olds and State school readiness programs.

Local School Districts. Local school districts have also made considerable investments in early childhood education. Many elementary schools have preschool programs and child care programs on site. In some cases these programs are those described in earlier sections (State Preschool, Head Start, or First 5 funded programs). However, in some cases these programs are funded directly by school districts using other funds, including local property tax and parent fees. In addition, school districts have flexibility to use some of their major funding streams on early childhood education. The Title I federal funding that is dedicated to improving the academic achievement of disadvantaged students can be used to support early childhood education. In addition, federal special education funding can also be used to support children demonstrating special needs prior to entering school. The State also has a categorical program called California School Age Families Education (Cal SAFE) that provided money specifically for child care and other supports for parenting students. This program was added to categorical flexibility in 2008-09 and the funds allocated to districts are no longer restricted to the CalSAFE program. The State also provides local school districts with After School Educational and Safety (Proposition 49) funding of about $680 million annually.

Furthermore in 2010, legislation was enacted to create a two-year kindergarten program for all students who turn five between September 1 and December 1. The 2012-13 fiscal year is the first year that this two-year program is required to be offered for students that have a birthday between November 1 and December 1. School districts have had the option to offer this early Transitional Kindergarten program on a pilot basis prior to this year and districts have varied greatly in their implementation of this program. Kindergarten (whether one year or two year) is not compulsory in California.

In summary, local school districts have invested in early childhood education, but there is no easy way to quantify the investments that they have made.

Community College Districts. There is also a small amount of funding allocated to the Community College Districts to support subsidized child care for students. This includes funding for the following programs:

- CalWORKs - $9.2 million for subsidized child care for children of CalWORKs recipients. This program is proposed to be part of the Governor's categorical reform and would no longer be restricted for this purpose.

- CARE (Cooperative Agencies Resources for Education) - $9.3 million to provide eligible students with supplemental support services designed to assist low-income single parents to succeed in college. Child care is one of many supports funded by this program. This program is proposed to be part of the Governor's categorical reform and would no longer be restricted for this purpose.

- Child Care Tax Bailout - $3.3 million for certain districts to provide assistance for child care. This program was included in the categorical flex item adopted in the 2009-10 budget, but there has been no change to this program since that time.

V. GOVERNOR'S PROPOSALS ON CHILD CARE

Overall Funding. The Governor's budget proposes $1.9 billion in funding for child care programs. This includes $1.5 billion in funding for programs administered by CDE and $442 million in funding for Stage 1 child care administered by DSS. This reflects a reduction of $450 million General Fund or approximately 20 percent of the total program when compared to 2011-12. The Department of Finance (DOF) estimates that this will result in 62,000 fewer child care slots in the budget year.

Child Care and Preschool Program Reductions. The Governor's budget proposes the following reductions to the state funded child care reductions in 2012-13:

- **Stricter Work Requirements and Reduced Time Limits for CalWORKs Recipients -** $293.6 million in savings in non-Proposition 98 General Fund by reducing time limits on CalWORKs for adults not meeting work participation requirements and applying stricter work participation requirements for all families receiving child care services. Specifically, single parent families with older children would be required to work 30 hours per week. New eligibility criteria would not provide subsidized child care for training and education activities. This change will eliminate services for 109,000 families as of April 2013. This reduction will eliminate about 46,300 child care slots.

- **Reduce Income Eligibility -** $43.9 million in non-Proposition 98 General Fund savings and $24.1 million in Proposition 98 General Fund savings by reducing the income eligibility ceilings from 70 percent of the state median income to 200 percent of the federal poverty level or 62 percent of state median income. This level equates to a reduction in the income ceiling for a family of three from $42,216 to $37,060. This reduction will eliminate about 8,400 child care slots and 7,300 state preschool slots.

  The Administration has indicated that this reduction would make the income eligibility consistent with the federal maximum for receiving TANF-funded services. Furthermore, the Administration proposes to offer a food stamp benefit of $50 to subsidized child care recipients in an effort to improve the State's Work Participation Rate (WPR). Currently, California does not meet federal benchmarks related to the WPR and sanctions by the federal government are pending.

- **Reduce Provider Payments.** The Governor has several proposals that would have the effect of reducing the payments to providers of child care and early childhood education services. These reductions include the following:

  - ✓ **Eliminate COLA -** $29.9 million in non-Proposition 98 General Fund savings and $11.7 million in Proposition 98 General Fund savings by eliminating the statutory COLA for capped non-CalWORKs child care programs.

  - ✓ **Reduce Reimbursement Market Rate (RMR) Ceilings and Update Survey Data -** $11.8 million in non-Proposition 98 General Fund savings by reducing the reimbursement rate ceilings for voucher-based programs from the 85th percentile of the private pay market, based on 2005 market survey data, to the 50th percentile based on 2009 survey data. Per the Administration, to preserve parental choice under lower reimbursement ceilings, rates for license-exempt providers will remain comparable to current levels, and these providers will be required to meet certain health and safety standards as a condition of receiving reimbursement. (A corresponding $5.3 million General Fund decrease is made to Stage 1 in the Department of Social Services budget to reflect the lower RMR rate.)

  - ✓ **Reduce State Reimbursement Rate (SRR) for Title 5 Contracts -** $67.8 million in non-Proposition 98 General Fund savings and $34.1 million in Proposition 98 General Fund savings by reducing the standard reimbursement rate for direct-contracted Title 5 centers and homes by 10 percent.

Child Care Program Redesign and Realignment. The Governor also proposes major changes that would restructure the administration of the child care programs over two years. These changes are purported to focus state funding on providing work supports for low income families. The Administration proposes to replace the three-stage child care system for current and former CalWORKs recipients and programs serving low-income working parents with a work-based child care system administered by county welfare departments starting in 2013-14. The Governor is proposing a two year process to implement these changes.

- **Year 1—2012-13 Structure.** The Governor proposes to consolidate all funding for Stages 2, 3 and non-CalWORKs Alternative Payment (AP) programs into one block grant to the AP contractors. First priority for this block grant would be child care for families whose children are recipients of child protective services, or at risk of being abused, neglected or exploited, and cash-aided families meeting work requirements. However, other income eligible families meeting the new work requirements would also be eligible for the subsidy regardless of whether they had ever been on cash aid. Priority would be based on income and the previously listed factors.

  In Year 1, CDE would continue to contract directly with Title 5 centers and Title 5 family child care homes, which comprise the State Preschool program and General Child Care program. They would also continue to contract for the smaller Migrant and Severely Handicapped Programs. The counties would also continue to administer Stage 1 contracts for CalWORKs. The diagram on the next page illustrates the changes proposed to the child care structure in 2012-13.

Proposed Child Care Structure for 2012-13

DSS**: CalWORKs Child Care Stage 1** will continue to be administered by County Welfare Directors subject to the new work participation requirements. Program funding of $442 million to support 60,313 slots.

CDE: **CalWORKs Child Care Stage 2** is an entitlement for families for two years after the family stops receiving a CalWORKs grant.

CDE: **CalWORKs Child Care Stage 3** is for families that have exhausted the time limit in Stage 2 and are otherwise eligible for child care. Stage 3 is a capped program.

CDE: **Alternative Payment Programs** provide low income families with vouchers for care in a licensed center, family child care home, or by a licensed-exempt provider.

CDE: **New consolidated block grant** to the Alternative Payment contractors to provide vouchers to serve eligible families with priority given to families whose children are recipients of child protective services, or at risk of being abused, neglected, or exploited, cash-aided families meeting work requirements, and other income eligible families meeting work requirements. Program funding of $571 million to support 82,834 slots.

CDE: Administration of the **General Child Care** program which funds Title 5 centers through direct contracts with the State would not change in the budget year, except for the reduction in income eligibility and reimbursement rate, which would reduce the size of this program considerably. Program funding of $470 million to support 52,809 slots.

- **Year 2—2013-14 Structure.** In Year 2 of the redesign, larger fundamental changes occur regarding the oversight and management of the child care programs. In Year 2 all of the child care funding at CDE (except part-day Preschool) would be consolidated with Stage 1 (administered by DSS) to provide a new consolidated block grant to the counties. Furthermore, all families, including those currently enrolled in Title 5 centers, would receive vouchers for a payment to a provider of their own choice.

  The Administration has indicated that in Year 2 the county will be responsible for eligibility (currently the AP does eligibility for some programs), but the AP would continue to be responsible for administering and paying the network of child care providers.

Proposed Child Care Structure 2013-14

DSS: **CalWORKs Child Care Stage 1**

CDE: **New Consolidated block grant** (formerly CalWORKs Stages 2 and 3 and Alternative Payment Programs)

CDE: **General Child Care** program.

DSS/Counties: **Consolidated child care block grant** to serve eligible families with priority given to families whose children are recipients of child protective services, or at risk of being abused, neglected, or exploited, and cash-aided families meeting work requirements, and other income eligible families meeting work requirements. Counties would have authority to continue to contract with Alternative Payment contractors locally like 27 counties currently do with the Stage 1 program. The DSS would oversee this consolidated program, including the federal Child Care Development Funds.

- **Future of Quality and Other Child Care Activities Uncertain**. The Governor continues the expenditure of $76 million in quality and other child care activities that provide support, development, and referral networks for the child care network through CDE in the budget year. The Administration has indicated that it plans to have DSS and CDE work together on a new plan on how to allocate the quality dollars in 2012-13. Furthermore, the Administration was recently awarded a multi-year Race to the Top federal grant of $53 million to develop locally based quality rating systems of child care programs. Administration of these grants would be shifted to DSS starting in 2013-14. Generally, the Administration seems to still be developing a long-term plan for the quality and other child care funding components that have historically been administered by CDE.

- **Preschool and AB 2759.** The CDE will continue to administer part-day Preschool under the Governor's proposal. However, as mentioned in the background, over one-half of the funding in the General Child Care program is currently funding Preschool. In 2009, after the implementation of AB 2759 (Jones), some of the contracts with Title 5 centers funded with General Child Care program funding were consolidated with State Preschool contracts. The Governor has proposed to unwind this relationship over the next year and realign the General Child Care funding along with other funding to the counties as part of the block grant.

- **Oversight.** The Governor's proposal centers oversight and design of the child care system with the counties starting in 2013-14 and has proposed legislation to provide counties and Alternative Payment agencies with the tools needed to identify and collect overpayments and to impose sanctions on providers and families that commit intentional program violations. Any savings identified would be reinvested in child care slots.

Transitional Kindergarten. The Governor's January 10 budget proposed to eliminate a new two-year Kindergarten program (known as Transitional Kindergarten) to save **$223.7 million** in Proposition 98 funding in the budget year. This program would have commenced a new, early childhood education program for children no longer eligible for Kindergarten due to the roll back of the Kindergarten start date from December 2 to September 1. Unlike other early childhood programs, funding would not be needs-based. For example, funding would not be targeted on the basis of income, as is the case with most other child development programs, such as state preschool. Instead, program funding would be provided to all children with birthdays that fall within a three month range.

The Governor's most recent proposal – reflected in proposed trailer bill language -- would still eliminate the new Transitional Kindergarten program authorized in current law. However, the new proposal would expand existing law to authorize full-year funding for children who are not eligible for Kindergarten when they enter school. (Current law allows school districts to admit children to Kindergarten who are not age eligible through a local waiver process. However, school districts only receive funding for the part of the year the child is five years old.) Coupled with current law that allows up to one additional year of Kindergarten, the Governor's proposal, would not authorize the new Transitional Kindergarten program, but would authorize a full two years of Kindergarten for children who are not eligible when they enter school.

As a result of these changes, the Department of Finance has revised its savings estimates to reflect (1) savings offsets for school districts with declining enrollment, and (2) additional costs resulting from districts that grant early admission "waivers" to children who do not meet the new age requirements when they enter school. As a result of these factors, the Department of Finance has indicated that their original savings estimates could drop by up to $100 million in 2012-13, which would result in savings **of $124.7 million.**

The Governor proposes additional trailer bill language to increase the eligibility age for the part-day State Preschool program in order to cover four-year old children who are no longer eligible for Kindergarten due to the eligibility age rollback, but who turn five years old during the school year. (Current law limits eligibility for state preschool funding to children who turn three and four years old by December 2nd.) The Governor's proposal would give eligible five-year olds first priority for part-day State Preschool funding; however, the Governor does not provide additional funding for the program to cover a potential increase in caseload. In fact, the Governor proposes a $58 million (16 percent) reduction for part-day state preschool funding in 2012-13.

A. ISSUES TO CONSIDER:

Child Care and Early Childhood Education Critical to Reducing Achievement Gap. The Governor has proposed a significant redesign of the current state-funded child care programs. However, ultimately the reduced number of child care and early childhood education slots (62,000) will have real impacts on the access to child care, the ability of families to work, and the reduced school readiness for low-income children. Furthermore, recent studies have found that child care and early childhood education efforts have returns on investment to the public ranging from $2.69 to $7.16 per dollar invested. Studies have found that investments in child care and early childhood education have consistently found substantial savings derived from reduced need for remedial and special education, reduced incarceration, and lower rates of teen pregnancy, among many other factors.

While the economy has started to improve, the budget continues to be extremely constrained. Ultimately, the Legislature will need to weigh options for balancing the budget. However, it will be important to focus these reductions in an effort to minimize impacts to direct services and preserve key infrastructures that would be difficult to rebuild.

Current System is Education, Work Support, and Everything In Between. The current state-funded child care and early childhood education programs provide a wide range of services and supports to children and their families. Until last year all of these programs were funded within the Proposition 98 guarantee for K-14 education, even though some of the programs arguably do not primarily support early childhood education goals. However, in budget negotiations in 2011, all child care and early childhood education programs were removed from the Proposition 98 guarantee with the exception of part-day/school year State Preschool programs. This division did not neatly organize education programs from non-education programs since a significant portion of the remaining programs support education. Furthermore, the LAO has proposed transferring approximately $400 million from the General Child Care program that is currently serving low-income three and four-year olds in the State Preschool program back in to the Proposition 98 guarantee to consolidate all expenditures for the State Preschool program.

Even after the transfer proposed by the LAO, there are still educational benefits to many of the remaining child care programs, especially the remaining Title 5 centers and Family Child Care Homes that are required to follow curriculum and have child development assessments in place. In summary, because of decades of work on improving the quality of child care, there is not a clear demarcation between pure child care and early childhood education. In fact, many low-income children can and do receive quality education outside of the State Preschool program.

It is also important to note that the State Preschool program has one other important distinction that makes it different from other early childhood education programs. Specifically, eligibility for the part-day program is based solely on income and families are not required to demonstrate need for child care because of work or other activities. Early childhood education has further been complicated by a new Transitional Kindergarten program that could take the place of preschool for four year olds born in the fall months. This new program has no income or work eligibility requirements.

What About the Impacts of the Governor's New Work Requirements? The single largest reduction in the Governor's child care proposal is related to the CalWORKs stricter work requirements and reduced time limits for services like child care. The Governor's proposal would require that a parent without small children be working 30 hours per week in unsubsidized employment after two years of services in the CalWORKs program, with minimal exceptions, in order to be eligible for child care. This explicitly excludes parents who need child care based on participation in education activities or training. Because the Governor's proposal drops services for current families who do not meet these criteria after a six month period, the number of families losing child care services is especially high in the budget year. In summary, the child care proposal is intertwined with the Governor's larger CalWORKs proposal and these reductions will need to be evaluated together. The Governor's proposal would have a significant impact on low income families not meeting the stricter work requirements because in addition to losing child care services they also would have significantly lower grants.

The new CalWORKs work requirements that exclude education and training activities extend to the non-CalWORKs child care programs as well. This is a significant policy change that would impact around 31,000 children. The LAO has offered an alternative savings proposal to place a time limit on the number of years of child care that a family could receive based on educational activities. This alternative could save approximately $50 million.

Income Eligibility Issues to Consider. The Governor has proposed reducing the income eligibility for child care subsidies and State Preschool from 70 percent of state median income to 62 percent of state median income (or 200 percent of the federal poverty level). This change brings the income eligibility for child care more in line, while remaining higher than most other low-income social and health care benefits and would mean most child care beneficiaries could be eligible for a new food stamp benefit (WINS plus). While this food stamp benefit would undoubtedly help to supplement family food budgets of child care beneficiaries, they would also allow the State to count their work participation towards the state's WPR, thereby improving its WPR and avoiding federal penalty.

The Governor has proposed to reduce slots in both child care and State Preschool reflecting the number of children currently receiving these services that are above the proposed lower income eligibility level. However, there are still many low income children and families in California that are currently not receiving benefits and would meet the lower income criteria for both child care and State Preschool. Therefore, lowering the income eligibility by itself does not require a commensurate reduction in slots, but would prioritize funding to the lowest income children and have other benefits cited above related to the state WPR. However, lowering the income eligibility without eliminating slots would not result in any budgetary savings. The LAO also recommends that the Legislature consider the Governor's proposal to reduce income eligibility and finds that the proposed income level is more in line with other states' eligibility standards. The LAO finds that only 10 other states set their income ceilings at 70 percent of state median income or above, but that almost two-thirds of states set their income eligibility requirements at or below 62 percent of state median income.

Weighing Provider Payments and Access. The Governor has proposed adjustments to the rates paid to providers of child care and early childhood education programs. The Governor proposes a 12 to 14 percent reduction, on average, to the regional market rate (RMR) paid to licensed providers in the Alternative Placement (AP) voucher system. This would represent the 50th percentile of current regional rates. For example, in Los Angeles, this would drop daily voucher rates from $43.27 to $37.79. This reduction would ultimately force providers to reduce costs or charge clients an additional fee. In the latter case, parents who could not afford a higher copayment might have to seek providers who charge less. However, in some cases providers may opt to take fewer voucher clients, thereby reducing the availability of child care providers that take vouchers. This may be especially acute of a problem for infant care, which is already scarce. However, the LAO has reviewed reimbursement rates in other states and found that the Governor's proposed lower rates are similar to and, in some cases, still exceed reimbursement policies in other states. The LAO recommends that the Legislature consider adopting the Governor's proposed RMR rate reduction.

The Governor also proposes a 10 percent reduction to the state reimbursement rate (SRR), which is the rate that the state pays to contract directly with the Title 5 centers and family child care homes. This rate reduction would drop payments for full-day services from $34.38 to $30.94 and part-day preschool services from $21.22 to $19.10. Given the strict state guidelines for these centers and homes it is likely that many of these centers would find it difficult to maintain their programs under these reductions. Furthermore, these reimbursement rates are in some cases lower than RMR reimbursement rates even though they are required to provide lower adult-to-child ratios and face other programmatic requirements. Furthermore, current law prohibits Title 5 centers from charging parents copayments to make up for reduced state rates. Given all the constraints placed on these centers by the state, the LAO recommends that the Legislature reject the SRR proposal because it likely lead to many Title 5 centers closing.

LAO Identifies Other Options For Budget Savings. The LAO has identified other options for the Legislature to consider as it tries to balance priorities within the framework of a constrained budget. Specifically, the LAO has recommended that the Legislature consider **prioritizing subsidized child care to younger children** since school age children have more options for supervision through school-based programs funded by the After School Education and Safety (ASES) Program and 21st Century Community Learning Centers, as well as other non-profit programs like the Boys and Girls Club. The LAO recommends that exceptions be made for children that need nontraditional hours of care in the evening or on weekends and for children with special needs. The LAO indicates that the state could save $65 million if child care subsidies were limited to children under the age of 11 (currently child care subsidies are available until a child is 13). An additional $50 million could be saved if child care subsidies were limited to children under the age of 10.

The LAO has also recommended considering **increasing family fees** to generate savings. It is important to note that there are significant interactions between family fees and the income eligibility requirements. Under the Governor's proposal, lowering the income ceiling will have the effect of reducing, significantly, the fee revenues from family fees. Therefore, the LAO is recommending that the Legislature consider adjusting the family fee policy to do one or all of the following: (1) lower the income threshold at which families must begin to pay fees; (2) increase the fee amount required per family, and/or (3) charge fees on a per child basis rather than a flat fee per family. The LAO indicates that raising family fees could result in tens of millions of dollars in savings and suggests that fees in California are generally lower than in most other states. The Legislature may want to review the family fee schedules when they consider the income eligibility policy because lowering the income threshold will likely have a significant impact on the fees providers are collecting and will need to be considered in the overall impact to providers.

The LAO has also suggested considering a **general time limit** for child care services. Currently, the state does not have a time limit for child care services as they do for other social supports like cash assistance. The LAO suggests that a time limit of six years could generate $100 million in savings. It is important to note that CDE does not track information on the length of time in care outside of the CalWORKs program so additional data elements would be required to fully implement this proposal.

Who Should Administer Child Care Funding? The Governor has proposed a major shift in the allocation of the child care funding from a program primarily administered by CDE to a program mainly administered by the counties with some oversight from DSS. Nevertheless, it is important to note that the vast majority of the child care programs (CalWORKs and Alternative Placement programs) are currently run by locally based Alternative Payment agencies and in 27 counties the Alternative Payment agency also manages the Stage 1 contract for child care, which is allocated to the counties by DSS.

In summary, a large portion of the current system is managed locally with some variation from county to county. The exception to this is the Title 5 centers and the Family Child Care Homes, that directly contract with the State through the General Child Care program. This program has the potential to change significantly under the Governor's proposal as the state requirements related to Title 5 would presumably become optional and counties would not be required to contract with these centers. Furthermore, the Governor's proposal would provide vouchers for all programs in the second year of implementation and given the considerable fixed per classroom costs associated with running a Title 5 center it is unlikely that these centers could continue without the certainty of a contract or other partnerships with a local school district.

Generally, programs that are good candidates for realignment are programs that would benefit from local innovation and are programs where the State can tolerate some variation in the delivery of services. A large portion of the child care programs fit these qualifications. However, this is not the case with the Title 5 centers and Family Child Care Homes that are currently directly contracting with the State and adhere to State standards for operation and reimbursement. The Legislature will need to evaluate and determine what role the State will play in preserving the current network of Title 5 centers.

The LAO generally recommends that the Legislature adopt the Governor's proposed restructuring plan. They find that a streamlined system would treat similar families and similar providers similarly and hold all to the same set of requirements. Furthermore, they find that the proposal offers opportunities for child care to become part of a coordinated and integrated system of local services as counties oversee eligibility for most other social and health services that support low income families. As mentioned earlier, the LAO also recommends that the Legislature fully recognize the State Preschool budget that is currently budgeted in the General Child Care program by transferring approximately $400 million back to the Proposition 98 guarantee that would otherwise be realigned to the counties under the Governor’s proposal. The LAO is also concerned about the Governor’s proposal to convert all funding to vouchers and the impact that will have on the network of Title 5 centers.

How Do We Maximize Coordination? There have been significant efforts at the state and federal levels of government to reduce the achievement gap of low-income children before they enter school. Furthermore, the voters also passed the First 5 initiative that specifically focuses resources to children ages zero-to-five and their families. Also, the state currently funds numerous separate programs for child care and early childhood education. The Governor’s proposal has taken significant steps to streamline and consolidate the state child care programs into a block grant to the counties. This could help to enhance coordination among child care programs and the different early childhood education efforts that are generally locally driven (local First 5 Commissions, local school districts, and others). The Legislature will want to examine ways in which we can maximize the use of existing child care and early childhood education funding given the numerous funding sources and separate efforts in this area.

Furthermore, the current system of health and social services offered to low-income families centralizes eligibility with the counties. The Governor’s proposal would add child care to the menu of other programs available. This could help to improve access to child care services for some families (notwithstanding the Governor’s proposed reductions to the system.)

Quality and Education Components. The Governor’s proposal related to the $72 million proposed to be expended on federally required quality improvement projects is not well developed. The Governor has proposed that DSS and CDE work together on a joint plan for expenditure of these funds. However, this plan, as currently articulated, does not provide for legislative oversight of the expenditure of these funds. The LAO has recommended that the Legislature continue to take an active role in encouraging and overseeing activities that support a high-quality child care and early childhood education program. The LAO finds that a large majority of states administer their federal child care funds through their state social services agencies, and many have well-respected early childhood education systems. Therefore, claims that shifting oversight from CDE to DSS would discontinue the “educational focus” are not valid as evidenced in other states. Furthermore, the LAO finds that many of the 27 quality improvement projects historically funded by CDE might be worthwhile, but have not been rigorously evaluated. Therefore, the LAO recommends that the Legislature provide specific guidelines and priorities for the quality improvement activities that are outcome based. The LAO also recommends regular reports to the Legislature related to the expenditure of the $53 million multi-year federal Race to the Top grant that was recently awarded to the state to develop locally based quality rating systems for child care and early childhood education programs.

B. QUESTIONS FOR THE ADMINISTRATION AND LAO

1) Does the Administration propose to maintain the educational emphasis of the programs that currently have educational components?

2) What changes is the Administration proposing to how the quality improvement dollars are expended and will those changes be made available to the Legislature for review?

3) Can you provide further details on the rationale behind the income eligibility changes?

4) Can you provide additional background on your proposal to centralize eligibility for child care with the counties?