

SUBCOMMITTEE NO. 1

Agenda

Senator Marty Block, Chair
Senator Mark Wyland
Senator Roderick Wright



Thursday, May 23, 2013
11:00 a.m.
Room 3191, State Capitol

PART B: CHILD CARE AND PRESCHOOL: 2013-14 BUDGET MAY REVISION AND OPEN ISSUES

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Item 1 – CalWORKs Child Care

Previous Subcommittee Meeting. On May 2, 2013, this Subcommittee heard an overview of the Governor’s child care proposals. At this hearing the Subcommittee heard that county welfare agencies had made decisions that resulted in increased caseload and costs in CalWORKs Stage 2 child care in the current fiscal year. It is estimated that 1,200 cases were diverted from CalWORKs Stage 3 to CalWORKs Stage 2 in the current fiscal year. It was also reported that the Assembly had put forward \$13.5 million of their budget on a one-time budget to augment CalWORKs Stage 3 in the current year. As background, CalWORKs Stages 1 and 2 are entitlement for families on aid and for up to two additional years after the family leaves aid. CalWORKs Stage 3 is for families that have exhausted their Stage 2 entitlement.

May Revision. The Governor’s May Revision includes several proposals related to CalWORKs child care.

- **Caseload.** Reduce caseload in CalWORKs Stage 2 by \$511,000 and CalWORKs Stage 3 by \$15.1 million. (Issue 931)
- **Increased Federal Funds.** Apply \$7.1 million in one-time carryover federal funds and \$11.2 million in ongoing federal funds to offset General Fund spending on CalWORKs Stage 3.
- **Federal Sequestration.** After the onetime upward adjustments in federal funds referenced above the Governor would propose to reduce Stage 3 by approximately \$14.5 million based on the expected federal sequestration reduction of \$15.9 million expected for the budget year. The remaining \$1.4 million in federal sequestration would be allocated to reduce quality activities.
- **Realignment.** As part of the health care reform proposal and funding swap, funding for Stage 2 and Stage 3 would shift from the state to counties over a three year period. In 2013-14 and 2014-15, the state would continue to run the programs but counties would assume a growing share of the costs, likely through an MOU arrangement. Upon full implementation, counties would locally fund and administer all CalWORKs related child care. This proposal has no impact on non-CalWORKs child care programs which would remain funded and administered by the state.

Item 1 – CalWORKs Child Care

LAO Recommendation. The LAO has several recommendations related to the CalWORKs child care program. The recommendations are in the following categories:

- **Caseload.** The LAO finds that the Stage 2 is funded at \$59 million more than needed based on anticipated eligible caseload and proposes a commensurate reduction. Furthermore, LAO finds that Stage 3 is funded at \$59 million less than is needed to fund anticipated eligible caseload. This shortfall is made up of three components: (1) Administration’s caseload estimates are too low (\$28.5 million), (2) Administration applies the sequestration cut to Stage 3 (\$14.5 million) and (3) Administration does not account for Assembly’s current-year one-time backfill of \$13.5 million. The LAO recommends adjusting the Stage 3 caseload to accurately reflect anticipated caseload, which would require an increase of \$43 million for the budget year. This increase does not include backfilling for the sequestration cuts and the Assembly’s one-time funding.
- **Assembly Backfill.** The LAO notes that the Governor vetoed nine percent out of Stage 3 in the current fiscal year and the Assembly provided funds out of their budget to backfill this reduction on a one-time basis. This has resulted in the reduction not being implemented. The LAO notes that the Legislature faces a decision on whether to provide an ongoing backfill to Stage 3 in the budget year.
- **Sequestration.** The LAO recommends BBL directing DOF on how to allocate the sequestration reduction. Specifically, the LAO proposes to first apply the same rate of contract under-earnings in the budget year as was achieved in the current year. Second, the LAO recommends adopting the \$1.4 million reduction to quality activities. Third, the LAO recommends spreading the remaining reduction proportionately across all programs, not just CalWORKs Stage 3.
- **Realignment.** The LAO recommends separating the discussion of the financing of health care reform from child care realignment as there are other fiscal realignment mechanisms that can be pursued in the short time we have before the Legislature must pass a budget.

Staff Comments. Staff notes that the Governor’s realignment proposal related to CalWORKs child care would require counties to maintain current expenditure levels in the base year. Furthermore, the proposal would potentially provide CalWORKs childcare access to additional growth funds. The two sources of additional monies include growth funds dedicated to 1991 realignment established in 2011 realignment and savings from reduced CalWORKs caseload. Under the Governor’s May Revision proposal counties would be given the flexibility to redirect savings from CalWORKs caseload decline (CalWORKs caseload is at a high because of the recession) to augment child care programs. Staff recognizes that there are risks inherent to this proposal for the CalWORKs child care program, but there are also risks in remaining funded by State General Fund.

Item 1 – CalWORKs Child Care

Staff Recommendation. Staff recommends the following:

- Approve LAO adjustments to CalWORKs Stage 2 and Stage 3 child care caseload for overall savings of \$16 million.
- Backfill sequestration reduction in CalWORKs Stage 3 net of an estimated amount of unused contracts up to \$14.5 million.
- Augment CalWORKs Stage 3 by \$15 million GF to maintain funding at approximate current year levels, thereby avoiding further reductions to this program.
- Realignment to be handled by Senate Budget and Fiscal Review Committee on May 24, 2013.

MAY REVISE LETTER -- CHILD CARE & STATE PRESCHOOL							
#	Item	Issue	Description	Staff Recommendation	Language	(000's) above January Budget	Comments
1	6110-194-0001	<i>May Revise.</i> Child Care Growth, Local Assistance. (Issue 936)	Provides \$1,666,000 in GF (Non-98) to reflect a revised growth adjustment of 0.20 percent.	Approve	BBL	1,666	Issue heard on May 2, but held open for May Revise growth updates.
2	6110-194-0890	<i>May Revision.</i> Sequestration Quality Dollars.	Reduce Quality Improvement activities by \$1.4 million.	Approve.		1,400	The Governor' May Revision leaves decisions about implementation of federal sequestration reductions to DOF -- post budget -- via authority contained in a proposed budget Control Section.
3	6110-200-0890	<i>May Revise:</i> Child Care Federal Funds Adjustments, Race to the Top, Early Learning Challenge Grant, Local Assistance. (Issue 934)	Changes the date that the CDE must submit their annual report on the Race to the Top - Early Learning Challenge federal grant to the Legislature and the Administration. The date changes from March 1 to May 1, to align with the availability of federal reporting information.	Approve	BBL		New issue. Language only.

MAY REVISE LETTER -- CHILD CARE & STATE PRESCHOOL							
#	Item	Issue	Description	Staff Recommendation	Language	(000's) above January Budget	Comments
4	6110-196-0001	<i>May Revise:</i> Preschool Growth Adjustment, Local Assistance. (Issue 937)	Provides \$1,204,000 in Prop 98 GF to reflect a revised growth adjustment of 0.20 percent.	Approve	BBL		Issue heard on May 2, but held open for May Revise growth updates.
5	6110-197-0890	<i>May Revise.</i> Child Care Federal Funds Adjustments, 21st Century Community Learning Centers Program, Local Assistance. (Issues 943 and 944)	Provides a net increase of \$10,828,000 for the federal 21st Century Community Learning Centers Program to reflect the addition of \$10,700,00 in one-time carryover funds and an increase of \$128,000 to reflect updated federal grant amounts.	Approve	BBL		Carryover funds.
6	6110-001-0890 6110-200-0890	<i>April Letter:</i> Child Care Federal Fund Adjustments, Race to the Top, Early Learning Challenge Grant, Local Assistance. (Issues 921 and 922)	Requests that Item 6110-001-0890 be increased by \$3,875,000 and Item 6110-200-0890 be decreased by \$209,000 to more accurately reflect actual and projected expenditures for the federal Race to the Top (RTT) - Early Learning Challenge grant.	Approve	BBL		Issues heard on May 2, but held open pending receipt of CDE report on the RTT Early Learning Challenge Grant, which was due on March 1, but has not yet been received.

MAY REVISE LETTER -- CHILD CARE & STATE PRESCHOOL							
#	Item	Issue	Description	Staff Recommendation	Language	(000's) above January Budget	Comments
7	6110-196-0001	<i>LAO Proposal:</i> State Preschool Program Restoration, Local Assistance.	LAO recommends that in 2013-14, the Legislature begin to restore approximately \$120 million in recent Proposition 98 GF cuts to the State Preschool Program. This program provides preschool funding to low-income 3 and 4 year olds. The LAO's preschool recommendation aligns to the Governor's LCFE proposal which restores reductions for other Proposition 98 programs over a multi year period, with an emphasis on low-income students.	Approve \$30 million in Proposition 98 GF to begin multi-year restoration in 2013-14.	BBL	30,000	Staff recommends an initial augmentation of \$30 million augmentation in 2013-14, which restores funding lost as a result of the Governor's 2012-13 veto.