Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator Carol Liu, Chair
Senator Ted Gaines
Senator Roderick D. Wright

Thursday, April 12, 2012
9:30 a.m. (or upon adjournment of session)
Room 3191

Consultants: Kim Connor and Keely Martin Bosler

OUTCOMES
Issue #3 –Page 19

Item **Department** **Page**

6110 **California Department of Education**

Education

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling 916-324-9335. Requests should be made one week in advance whenever possible.

6110 California Department of Education

Child Care and Early Childhood Education

Background. 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 cash 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 to provide care. 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 of funding 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 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 coordinate and deliver 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 the 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 (CalSAFE) 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 CCC's have not made use of this flexibility.

In addition, the Community College Districts have contracted directly with the California Department of Education to develop and deliver critical early childhood education coursework that has improved the quality and professional development of early childhood education providers.

1. Budget Reductions

Background. The State has faced a persistent budget deficit since 2001. These budget deficits have resulted in difficult budget decisions including reductions across most state programs. Child care and early childhood education programs have been reduced by over one-third since 2007-08 and are proposed to contract nearly 50 percent in the budget year. State funding has been reduced by about one-fourth since 2007-08 and would be reduced by 53 percent under the Governor's proposed budget. In other words – over $1 billion of state and federal investment in child care and early childhood education has been cut from the state budget over the past five years, which has resulted in 95,000 fewer subsidized child care slots.

Governor's Budget. 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 (this total includes Preschool slots). This is in addition to the 95,000 slots lost over the past five years.

Child Care 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 (SMI). 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.

- **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.

Administration Overstates Savings. The LAO has found that the Administration's savings estimates related to the stricter work requirements and reduced time limits for CalWORKs recipients are overstated by $50 million. The Administration has clarified that the 7,000 children that receive child care services because they are under the care of child protective services or living with an incapacitated caretaker would retain current eligibility. Therefore, instead of the $293.6 million in savings from this proposal, the LAO estimates that there would be only $250 million in savings from these policy changes.

LAO Offers Options. Recognizing the difficult budget situation, the LAO has offered several options for generating child care savings that are different from the Governor's proposal. These options include the following:

Work Requirements.

- **Current Law.** Families are eligible for subsidized child care if they are engaged in work, looking for work, training, or education. The part-day State Preschool Program does not have a work requirement.

- **Governor's Proposal.** The Governor's proposal would limit eligibility to families working at least 30 hours in subsidized or unsubsidized employment (20 hours for parents of young children). Savings: $250 million.

- **LAO Option.** The LAO has offered an alternate way to limit eligibility for budget savings of approximately **$50 million**. Instead of the Governor's strict work requirements, the LAO has suggested that the Legislature could limit education/training to two years. The CDE has indicated that it would need to modify their data collection requirements in order to fully implement this sort of eligibility change. Staff notes that there are numerous variations to limit eligibility that could be explored to achieve savings.

Income Eligibility.

- **Current Law.** Families are eligible for subsidized child care if family income is less than 70 percent of SMI.

- **Governor's Proposal.** Limits eligibility to families making less than 200 percent of federal poverty level (about 62 percent of SMI). Savings: $44 million.

- **LAO Option.** The LAO has offered an alternative for additional budget savings by lowering income ceilings below the Governor's level to 50 percent of SMI for savings of an additional **$100 million**. The LAO reviewed income eligibility in other states and found that only California and ten other states set maximum income eligibility for child care at or above 70 percent of SMI. In contrast over half of all states set income ceilings at or below 62 percent of SMI.

  Furthermore, the LAO points out that 62 percent of SMI is the maximum amount a family can earn to receive TANF-funded (Temporary Assistance for Needy Families) services. This harmonization of the income eligibility of the child care program with federal TANF-funded programs would aid in the implementation of a new WINS Plus (Work Incentive Nutritional Supplement) program the Administration is proposing to implement. WINS Plus is a new $50 a month food stamp benefit that would be made available to families receiving subsidized child care that are not in the CalWORKs program or receiving CalFresh food stamp benefits.

  This new WINS Plus benefit would allow the State to count child care recipients in the calculation of the State's Work Participation Rate (WPR). Currently, the State is likely to fall short of its federal WPR by as much as 20 to 25 percentage points. The LAO has indicated that the implementation of an additional WINS basic benefit provided to current CalFresh families that are not in the CalWORKs program could result in a 10 percentage point improvement in the State's WPR. The implementation of the WINS Plus program could further improve the WPR.

Provider Payments.

- **Current Law.** The maximum state voucher rate for licensed providers is set at the 85th percentile of regional market rates (RMR) based on 2005 data. License-exempt providers get 60 percent of licensed voucher rate. Direct contract Title 5 centers and family child care homes receive a State Reimbursement Rate (SRR) that in some areas of the state is actually lower than the RMR voucher rate.

- **Governor's Proposal.** Reduces licensed rate to 50th percentile of RMR, based on 2009 data. Equates to average reduction of between 12 percent and 14 percent. Maintains current dollar amounts for license exempt providers, which would end up at 73 percent of the newly lowered voucher rates for licensed providers. Reduces the SRR for Title 5 centers and family child care homes by 10 percent from $34.38 to $30.94 for full-day programs and $21.22 to $19.10 for part-day programs. Savings: $17 million related to RMR reductions and $68 million related to SRR reductions.

- **LAO Option.** The LAO has surveyed many other states and has found that the Governor's proposed RMR voucher rates are comparable and in some cases exceed reimbursement rates for providers in other states. The LAO also proposes as an option further lowering license exempt rates to 60 percent of the new lowered voucher rate for licensed providers for savings of about **$20 million**. The LAO goes on to reject the Governor's SRR rate reduction since Title 5 centers have more stringent operations requirements and in some cases are currently provided a lower rate than the RMR for voucher-based centers. Furthermore, current law surrounding Title 5 operations leaves providers with few opportunities to achieve these savings because providers are prohibited from collecting fees from parents and also are required to maintain prescriptive staffing ratios.

Age Limits.

- **Current Law.** A child is eligible to receive state subsidized child care through age 12 (with some exceptions for children with special needs).

- **Governor's Proposal.** The Governor does not have a proposal related to age limits, but last year the Legislature considered and adopted a proposal to prioritize child care slots to children under the age of 11. Ultimately, this proposal was later reversed and other reductions were adopted.

- **LAO Option.** The LAO has offered as an alternative eliminating child care for older school-age children during traditional hours because there are more supervision options available for school-age children. Furthermore, child care for infants and toddlers is generally more costly and more difficult to find. The LAO estimates that prioritizing child care for children under the age of 11 would generate savings of **$65 million**. The LAO indicates that an additional **$50**

million could be saved if child care is prioritized for children under the age of 10. The State is currently required to spend approximately $550 million on the After School Education and Safety (ASES) that was approved by the voters in 2002 (Proposition 49). Furthermore, an additional $130 million in federal funds are provided annually for 21st Century Community Learning Centers. There are also additional resources in some communities provided through non-profit organizations such as the Boys and Girls Club that provide other alternatives for school-age youth.

Parent Fees.

- **Current Law.** Families must pay a child care fee if their income is at or above 40 percent of SMI. Family fees range from $2 to $19 per day and are capped at 10 percent of total family income. These fees partially offset state reimbursement.

- **Governor's Proposal.** The Governor does not have a proposal related to parent fees.

- **LAO Option.** The LAO has offered a menu of options for changing the current parent fee structures that could generate **tens of millions** in savings depending on the ultimate structure. Specifically, the Legislature could (1) reduce the income level at which parents must begin paying a fee; (2) increase the amount of fee required for families at each existing income level; and/or (3) charge fees per child rather than per family. The LAO indicates that cross comparison of California's family fees are difficult with other states because states structure fees in various ways. However, the LAO points out that California's current sliding scale seems generally lower than most other states.

Time Limits.

- **Current Law.** Families can receive subsidized child care as long as they meet income and child age eligibility. There are no maximum time limits for receiving care.

- **Governor's Proposal.** The Governor does not have a proposal related to time limits.

- **LAO Option.** The LAO has provided as an option for the Legislature to consider for achieving budget savings implementing overall time limits for the child care benefit. The LAO estimates that implementing a time limit of six years could ultimately generate approximately **$100 million** in savings. However, the LAO points out that the data collection efforts of CDE would need to be enhanced to fully implement this option. A time limit would enable families on waiting lists to access care quicker since a time limit would free up slots currently used by families that have been receiving subsidized care for many years.

Interactions Between Individual Savings Proposals Exist. It is important to note that all of these proposals have interactive effects and may not result in the full amount of savings if approved with other savings options. Ultimately, the work requirements adopted in the CalWORKs program will have a significant impact on the child care savings level. This is the main reason the child care policies were reviewed with the CalWORKs policies at the March 1 hearing of the Senate Budget and Fiscal Review Committee. There are significant issues that were raised at the March 1 hearing related to the Governor's work requirements in the CalWORKs program and thus the child care program.

First, the Governor's proposal would terminate welfare to work benefits for CalWORKs recipients with young children that were previously given an exemption from participating in welfare to work activities (and therefore requiring child care) because of prior budget actions to eliminate funding for welfare to work services provided by the counties. This would essentially change the rules for these families midstream and would provide for only six months of services (including child care) before the adult portion of their grant and service supports (child care) would be eliminated if they were not fully meeting the federal work requirements.

Second, the Governor's proposal would significantly limit services (child care) to CalWORKs families and other child care families not engaged in unsubsidized work. Currently, California allows CalWORKs families to receive welfare to work services if they are engaged in education or other programs that California has historically invested in that remove barriers to employment. Under the Governor's proposal substance abuse and mental health programs would not count as a work activity and thus would limit access to services like child care. Furthermore, child care is currently extended to 31,000 children whose parents are involved in education or training activities. This policy change would have a significant impact on these families.

Other Options for Making Reductions. Last year the Legislature adopted an across-the-board reduction to child care programs of 11 percent to generate approximately $177 million in savings. The CDE implemented these savings by reducing each Alternative Payment provider (including Stage 3) contract and direct Title V contract by 11 percent. Stages 1 and 2 were not reduced since these programs are currently entitlements. Many in the child care community have indicated that across-the-board is the preferred method for making cuts because it limits disruption to clients currently served and allows local entities to make decisions that are best for their agencies. While the across-the-board reduction option may be the least disruptive option to the child care community, it may not result in targeting child care resources to those that are most in need since most child care providers would likely continue services to the families currently being served and stop intake of new families. While this provides for continuity for the families in the program it has the effect of increasing the waiting lists of qualified families waiting for access to services. However, under most reduction scenarios the waiting list for qualified families will grow.

Staff Comments. There are no cut scenarios in which $450 million in budget savings is achieved in the child care program area that does not have a significant impact on the number of available child care slots. Furthermore, there is some evidence that the reductions made to subsidized slots have further reduced the general availability of child care for unsubsidized consumers in communities where centers have closed. Therefore, all reductions in this area will have an effect on access to care.

The Legislature will need to carefully consider the Governor's proposal and weigh the options the LAO has put forward as it works towards closing the budget gap. The Legislature may also want to consider what role Proposition 98 carryover funds can play in helping to cover the costs of the General Child Care program, which primarily funds the State Preschool Program which remains funded by the Proposition 98 guarantee.

Furthermore, the Legislature will need to coordinate policy decisions made regarding work requirements in the CalWORKs program with work requirements for the child care program. Ultimately the size of the budget gap will be determined at the May Revision when additional information is received about caseloads and revenues projections. This will provide an updated framework for evaluating what options are available for bridging the budget gap with the least disruption possible to direct child care services.

Staff Recommendation. Staff recommends that the Subcommittee:

- Hold these items open pending additional information at the time of the May Revision.
- Direct staff to continue to evaluate options for achieving savings that have the least impact on direct care.

2. State Preschool

Background. The California State Preschool Program provides center-based, early childhood education programs to low-income children, generally ages three and four years. Until recently, all funding for this program came from Proposition 98 funds. However, in 2011-12, most all funding for child care and development programs – except part-day preschool funding -- was shifted to state General Fund. As a result, the 2011-12 budget act provides two separate budget act appropriations and funding sources for the State Preschool Program. The Department of Education administers both of these program appropriations -- as follows -- through direct state contracts with local providers:

- **Part-Day Preschool Program (Proposition 98 Funds).** Item 6110-196-0001 of the Budget Act appropriates **$368 million** in Proposition 98 Funds for part day/part-year preschool services for low-income three and four year olds.

- **General Child Care Program (State General Fund).** Item 61109-194-0001 of the Budget Act appropriates $675 million in state General Fund for the General Child Care program, which provides center based child care services to low-income children from working families ages birth to age 12 years. Following enactment of Chapter 208 in 2008, local providers can utilize these funds -- together with part-day preschool funds -- to provide part-day/part-year preschool programs or full-day/full-year preschool programs for three and four year olds to improve coverage for working families. The Legislative Analyst's Office estimates that roughly **$400 million** of total General Child Care funds (about 60 percent) were being provided for preschool services for three and four year olds.

According to the LAO, data from CDE suggest that in 2011-12, local providers "blended" the **$368 million** in Proposition 98 funds for part-day preschool with about **$400 million** in state General Fund for General Child Care to offer State Preschool Program services to approximately **145,000 low-income preschool age children**. Of these, two-thirds were served in part-day programs and one-third in full-day programs.

State Preschool Program Funding in 2011-12	**Funding Appropriations**	**Funded Slots**
Part Day Preschool (Proposition 98 Funding)	$368 million	100,000
General Child Care – Preschool Expenditures (State General Fund)	$400 million (Estimated)	45,000 (Estimated)
Total	**$768 million**	**145,000**

Governor's Budget Proposals for Part-Day Preschool.

Budgetary Reductions. The Governor proposes to reduce funding for the Proposition 98 portion of the State Preschool Program by **$58 million**, or 16 percent, in 2012-13.

	2010-11	**2011-12**	**2012-13 (Proposed)**	**Amount Change**	**Percent Change**
Part-Day State Preschool (Proposition 98 Funds)	$397 m	$368 m	$310 m	-$58 m	16%

As outlined by the LAO, these savings would be achieved through two major changes presented below:

1. **Provider Rate Reductions.** The Governor proposes to reduce provider rates by 10 percent, which achieves Proposition 98 savings of **$34 million** in 2012-13. Specifically, the part-day per-child Standard Reimbursement Rate (SRR) would drop from $21.22 to $19.10 and the full-day per child SRR would drop from $34.38 to $30.94.

2. **Family Income Eligibility Criteria Lowered.** The Governor proposes to reduce program eligibility criteria by lowering the amount a family can earn and still participate in the program. Specifically, the maximum monthly income threshold would drop from 70 percent of the State median income (SMI), which equates to $3,518 per month for a family of three, to 200 percent of the federal poverty level, which equates to about 62 percent of SMI, or $3,090 per month. The Governor would achieve **$24 million** in Proposition 98 savings from this change by defunding the estimated number of part-day preschool slots currently associated with children from families that exceed the new eligibility threshold – about 7,300 slots.

In addition, the Governor does <u>not</u> propose to fund a statutory cost-of-living adjustment (COLA) increase for part-day preschool, which would have resulted in additional Proposition 98 costs of **$11.7 million** in 2012-13.

As expressed by the LAO, all of the Governor's proposed reductions and savings proposals for part-day preschool "mirror" the Governor's proposals for other child care programs -- including General Child Care -- discussed earlier in the agenda.

LAO Comments. The LAO offers the following comments on the Governor's preschool proposals from its recent budget publication entitled *The 2012-13 Budget*: *Proposition 98 Education Analysis* (February 6, 2012):

- **Governor's Proposed Rate Reduction Problematic.** The LAO is concerned that many preschool providers have few options for absorbing the Governor's proposed 10 percent reduction to the State Reimbursement Rate (SRR), and might close or drop out of the State program as a result. State mandated adult-to-child ratios and instructional day requirements, combined with local bargaining agreements – which frequently are embedded within larger K-12 school district contract agreements -- mean that providers have limited flexibility to generate local savings. Moreover, the state rate for these centers is already somewhat low – in several areas in the State, the SRR currently is lower than the rates charged by the majority of other preschool providers in the county.

- **In 2013-14, Governor Proposes to Revert to Part-Day/Part-Year Preschool Program.** As part of his proposed changes for non-Proposition 98 funded child care, beginning in 2013-14 the Governor would eliminate the existing General Child Care program and shift the associated funding to a child care voucher system to be administered by county welfare departments. This would abolish the blended State Preschool Program and revert the state's direct-funded center-based preschool program to only a Proposition 98 funded part-day/part-year program for about 91,000 children (a reduction of roughly 54,000 compared to how many children were served in the State Preschool Program in 2011-12).

  Preschool providers' ability to serve additional children or offer full-day/full-year services to meet the needs of working families would depend upon how many enrolled families could afford to pay out of pocket or obtain a state-subsidized voucher from the county welfare department. (Under the Governor's proposal, low-income families not receiving CalWORKs cash assistance would have more limited access to these vouchers).

- **Governor's Proposal for 2013-14 Ignores Reality of State's Current Preschool Program.** The Governor's proposal for 2013-14 treats the Proposition 98 preschool budget item and General Child Care budget item as two separate programs – preserving one and eliminating the other. However, in reality these funding sources have been supporting one uniform preschool program. **By redirecting all General Child Care funding into vouchers, the Governor's proposal would reduce the existing State Preschool Program by roughly 40 percent.** Moreover, the dismantling of the blended State Preschool Program would notably limit local providers' ability to provide a full-day/full-year preschool program, which is often the only way children from working low-income families are able to access services.

LAO Recommendations.

1. **Reject Proposal to Reduce Preschool Provider Rates by 10 Percent.** The LAO recommends the Legislature reject the Governor’s January budget proposal to reduce preschool provider rates by 10 percent and save **$34 million** in 2012-13. According to the LAO, this cut would be untenable for many preschool providers. If reductions are needed, the LAO recommends eliminating preschool slots.

2. **Reject Proposal to Lower Family Income Thresholds and Instead Eliminate Slots.** The LAO recommends that the Legislature reject the Governor’s January budget proposal to lower income eligibility thresholds from 70 percent of the state median income (SMI) to 200 percent of the federal poverty level (about 62 percent of SMI) and eliminate associated slots, for savings of **$24 million** in 2012-13. If reductions are needed, the LAO recommends that the Legislature eliminate preschool slots, as enrollment priority

already is reserved for the lowest income applicants. (Providers already are required to select first from the families furthest below the existing ceiling of 70 percent of the SMI.)

3. **Fund Entire State Preschool Program within Proposition 98.** The LAO recommends that the Legislature shift **$400 million** from non-Proposition funded General Child Care program into Proposition 98 to accurately reflect the existing California State Preschool Program beginning in 2012-13. This action will fully reflect the existing State Preschool Program budget and align all funding for the program within Proposition 98.

   As part of this alignment, the LAO recommends a comparable adjustment to the Proposition 98 minimum guarantee to avoid the need for a corresponding reduction to K-12 programs. Specifically, the LAO recommends the Legislature reduce non-Proposition 98 General Fund for General Child Care by $400 million (the amount of General Child Care spent for preschool services in 2011-12) and increase the Proposition 98 funding for preschool by a like amount.

4. **Prioritize Preschool Funding for Four Year Olds No Longer Eligible for Kindergarten During Transition Period**. The LAO recommends that the Legislature adopt the Governor's proposal to prioritize slots in the state preschool program for low-income children affected by the change in the Kindergarten start date during the transition years. (See following issue on Transitional Kindergarten.)

Staff Recommendation. Staff recommends that the Subcommittee:

- Hold these items open pending additional information at the time of the May Revision.

3. Transitional Kindergarten

Background.

Kindergarten Eligibility. Kindergarten is not compulsory in California. Per current law, parents and guardians are not required to enroll children in Kindergarten (EC Section 48200). If parents choose to enroll their children, schools must admit children who are of legal age (EC Section 48000). School districts must admit age eligible children at the beginning of the school year or whenever the student moves into the districts.

In 2011-12, students are eligible for Kindergarten if they turn five years old on or before December 2nd. However, Chapter 705, Statutes of 2010, will raise the Kindergarten entrance age by one month each year over a three year period commencing in 2012-13. More specifically, students will need to be five-years old by November 1st in 2012-13, by October 1st in 2013-14, and by September 1st in 2014-15 in order to be eligible for Kindergarten.

Local Options for Under-Age Children. Current law allows school districts to admit children to Kindergarten who are not age eligible – essentially through a local waiver process. However, the child may only attend and school districts only receive funding for the part of the year the child is five years old. According to the Department of Education, this is a rarely utilized process, and districts that admit these children to kindergarten prior to the time they turn five "jeopardize their apportionments, as auditors may take fiscal sanctions through an audit process." The Department of Education further states that "districts that base early admissions on test results, maturity of the child, or preschool records may risk being challenged by parents/guardians whose children are denied admission."

Kindergarten Continuance. According to the Department of Education, continuance is defined as more than one school year in Kindergarten. Current law requires a child who has completed a year of Kindergarten to be promoted to first grade, unless the parent or guardian and the school district agree that the child may continue Kindergarten for not more than one additional year. (EC 48011) If agreement is reached, parents or guardians must sign the Kindergarten Continuance Form. Per the Department, failure to have signed forms on file may jeopardize audit findings and result in loss of apportionment.

The Department of Education reports that a total of 22,894 Kindergarten students were enrolled in a second year of Kindergarten statewide in 2011-12. This represents about 4.7 percent of the 487,446 Kindergarten students enrolled statewide in 2011-12.

Transitional Kindergarten. Chapter 705 requires local school districts - as a condition of funding – to provide a new Transitional Kindergarten program for students who are no longer eligible for regular (or traditional) Kindergarten beginning in 2012-13. On fully implemented, this new program will offer an additional year of public school for children with birthdays between September 1st and December 2nd of each year.

According to the Department of Education, "Transitional Kindergarten is the first year of a two-year Kindergarten program that uses a modified Kindergarten curriculum that is age and developmentally appropriate." Per the Department, "each elementary or unified school district must offer Transitional Kindergarten classes for all children eligible to attend. A child who completes one year in a Transitional Kindergarten program, shall continue in a Kindergarten program for one additional year."

Unlike other early childhood programs, funding for the Transition Kindergarten program would not be needs-based. For example, funding would not be targeted on the basis of income, as is the case with most other publicly funded child development programs, such as state preschool. Instead, program funding would be provided to serve all children with birthdays that fall within a three month range.

Governor's Budget Proposals:

1. **Eliminate New Transitional Kindergarten Program.** According to the Administration, the Governor believes this is a time for reinvestment and reform of core programs, not for program expansions. As such, the Governor's January 10 budget proposed to eliminate the new, two-year Transitional Kindergarten -- pursuant to Chapter 705 -- in order to save **$223.7 million** in Proposition 98 funding in the budget year.

   The Governor's most recent proposal – reflected in proposed trailer bill language -- would still eliminate the new Transitional Kindergarten program authorized by Chapter 705. However, the latest proposal would expand existing law to authorize full-year funding for children who are not eligible for Kindergarten when they enter school if the district authorizes early admittance with a waiver. 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 districts that choose to admit children who are not age-eligible for Kindergarten.

   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 $123.7 million.**

2. **Extend Preschool to Children No Longer Eligible for Kindergarten.** 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 by December 2. (Current law limits eligibility for state preschool funding to children who turn three and four years old by December 2.) 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. Alternatively, the Governor proposes a $58 million (16 percent) reduction for part-day state preschool funding in 2012-13, as outlined earlier in the agenda.

LAO Comments. The LAO offers the following comments on the Governor's Transitional Kindergarten (TK) proposal from its recent budget publication entitled *The 2012-13 Budget*: *Proposition 98 Education Analysis* (February 6, 2012):

- **Governor Would Not Initiate New TK Program, Saving $224 Million in 2012-13.** The Governor proposes not to initiate the new TK program. Because he would maintain the date change for kindergarten eligibility, this proposal would save an estimated $224 million in 2012-13 from districts enrolling a smaller cohort of kindergarteners—that is, not enrolling children who will turn five after November 1. (The state would need to make a corresponding change to the "declining enrollment" adjustment in the state revenue limit formula to capture these savings in 2012-13.) The Governor's plan redirects these savings to fund other existing K-12 activities. The savings would grow to roughly $675 million annually by 2014-15, when the TK program otherwise would have been fully implemented.

- **Governor Would Make Slight Modification to Existing Waiver Process for Underage Kindergarteners.** As under current law, parents of children born after the cutoff could request a waiver to have their children begin kindergarten early. The Governor is proposing to modify current law, however, so these children could begin kindergarten at the beginning of the school year, rather than waiting to enter in the middle of the year after they turn five. The administration clarifies that as under current law, the waiver option would continue to pertain to early admittance to traditional kindergarten programs, as TK programs would no longer be funded. Districts could choose to admit four-year old children to kindergarten early on a case-by-case basis if they believed it was in the best interest of the child. To the extent many parents request and districts grant these waivers, it would increase the 2012-13 kindergarten cohort, thereby reducing the amount of savings generated by the change in cutoff date**.**

- **Governor's Proposal Not to Initiate New TK Program Is Reasonable for Budgetary Reasons.** Given the major funding and programmatic reductions school districts have experienced in recent years—and the potential for additional reductions if the November election does not result in new state revenue—the LAO agrees with the Governor's assessment that now is not the time to initiate major new programs. Budget reductions and unfunded COLAs mean districts currently are increasing class sizes, shortening the school year, and cutting many activities that have long been part of the school program. The LAO does not believe that offering a 14th year of public education to a limited pool of children—and dedicating resources to develop new curricula and train teachers—at the expense of funding existing K-12 services makes sense.

- **…And for Policy Reasons.** The LAO also has fundamental policy concerns with the design of the TK program. While receiving an additional year of public school likely would benefit many four-year olds born between September and December, the LAO questions why these children are more deserving of this benefit than children born in the other nine months of the year. This preferential treatment is particularly questionable since the eligibility date change will render children born between September and December the oldest of their kindergarten cohorts, arguably an advantage over their peers. Moreover, the TK program would provide an additional year of public school to age-eligible children regardless of need. This includes children from high and middle-income families who already benefit from well-educated parents and high-quality preschool programs. The LAO believes focusing resources on providing preschool services for low-income four-year olds—regardless of their exact birth month—likely would have a greater effect on improving school readiness and reducing the achievement gap.

LAO Recommendations. Overall, the LAO recommends that the Legislature immediately adopt the Governor's proposal to eliminate the new TK program and focus limited state resources on serving four year olds who could most benefit from state subsidized education programs. The LAO also makes recommendations to smooth the transition to the new Kindergarten cutoff dates pursuant to Chapter 705. More specifically, the LAO recommends that the Legislature:

1. Immediately adopt the Governor's January budget proposal to cancel initiation of the new Transitional Kindergarten program, because it is costly and poorly designed. According to the LAO, this would result in a savings of between **$100 million** and **$224 million** in 2012-13. (Savings estimates are affected by declining enrollment adjustments in the state revenue limit formula.)

2. Modify the Governor's waiver proposal to focus on students born close to cutoff dates.

3. Adopt the Governor's proposal to prioritize preschool access for low-income children affected by the Kindergarten date change, but only for the transition years.

Staff Recommendation. Staff recommends that the Subcommittee:

- Hold these items open pending additional information at the time of the May Revision.

OUTCOME: Rejected Governor's budget proposal to eliminate Transitional Kindergarten program. (Vote: 2-0)

4. Child Nutrition

Background. The Department of Education currently administers nearly **$2.4 billion** in state and federal funding for child nutrition programs that reimburse a variety of local agencies – primarily public local education agencies (LEAs) – providing meals to low-income children and youth in our state. Most funding is federal, but state funding was added about twenty-five years ago to supplement federal meal reimbursements.

Child Nutrition Program Funds in 2011-12	**Budget Item**	**Budget Appropriations**
State Funds		
State Nutrition Program (Prop 98)	6110-203-0001	$155.2 million
State Nutrition Program (Non-98 GF)	6110-202-0001	10.4 million
State Breakfast Start Up & Summer Programs (Prop 98)	6110-201-0001	1.0 million
Subtotal, State Funds		**$166.6 million**
Federal Funds		
Child Nutrition Program	6110-201-0890	$2,173.2 million
Summer Programs	6110-201-0890	29.0 million
Subtotal, Federal Funds		**$2,202.2 million**
Total, All Funds		**$2,368.8 million**

Funded meals largely include free- and reduced-price breakfast and lunch provided predominantly in LEAs in school settings. However, both the state and federal programs authorize funding for low-income children in non-LEA settings -- including private schools, child care centers and family day care homes.

State Meal Reimbursements for Non-LEA Meals. According to the California Department of Education (CDE) a total of **$199 million** in federal reimbursements and **$9.8 million** in state reimbursements were provided for non-LEA meal providers in 2010-11. This funding provided **62.8 million meals** for low income children and youth. Since Proposition 98 funding is statutorily limited to K-14 education agencies and to child care and development "instructional" programs, the state has historically appropriated state meal reimbursements for non-LEA meal providers with non-98 General Funds.

The 2011–12 budget appropriates **$10.422 million** in non-98 General Funds for state meal reimbursements for non-LEA child nutrition providers. Based on current meal projections, CDE estimates that the state meal rate will remain at **15.62 cents per meal** (each free and reduced-price lunch and breakfast served) in 2011-12. (CDE estimates state meal reimbursement rates for LEA child nutrition providers serving K-12 students – funded with Proposition 98 dollars – at 21.95 cents per meal in 2011-12.)

Meal "sponsors", which pass through state and federal nutrition funding to meal "providers", may retain up to **30 percent** of state meal reimbursements for administrative expenses that generally include administrative salaries, bookkeeping, rent/lease agreements, utilities and equipment rental. (Food preparation is not considered an administrative cost and therefore must be covered by providers with remaining funds.)

Governor's Budget Proposal. The Governor proposes a decrease **of $10.422 million** in non-98 General Fund in 2012-13 to eliminate state supplemental reimbursements for free- and reduced-price breakfast and lunch meals served at private schools, private child care centers, and other entities.

The Governor's proposal would eliminate all non-98 General Fund appropriations for state child nutrition programs administered by the Department of Education. The Governor has recommended the elimination of several other small education programs supported with non-98 General Fund in 2012-13.

The Department of Education has summarized state and federal nutrition funding in 2010-11 (the last full year available) for non-LEA providers in the table below. As illustrated, the Governor's proposal would eliminate state meal reimbursements primarily for private agencies -- schools and child care centers (non-profit and for-profit). Of the **$9.8 million** expended by non-LEA nutrition sponsors in 2010-11, **$8.3 million** (84 percent) was expended by these private agencies.

Non-LEA (Non-98) Child Nutrition Program in 2010-11

School Nutrition Program	**School Programs**	**Meals**	**State (Non-98) Reimbursement**	**Federal Reimbursement**
47 Sponsors	PRIVATE SCHOOLS	2,384,399	$ 372,446	$ 6,120,758
1 Sponsor	PRIVATE SCHOOL W/ CHILD CENTER	2,877	$ 449	$ 5,996
46 Sponsors	PUBLIC INSTITUTIONS (County Probation Institutions, City or County Children's Homes)	6,208,235	$ 969,726	$ 14,299,207
2 Sponsors	CAMPS/RECREATION PROGRAMS	19,640	$ 3,068	$ 47,673
96 Sponsors		**8,615,151**	**$ 1,345,690**	**$ 20,473,634**
Child and Adult Care Food Program	**Child Care Programs**	**Meals**	**State (Non-98) Reimbursement**	**Federal Reimbursement**
446 Sponsors	PRIVATE NON-PROFIT	46,463,555	$ 7,257,621	$ 154,205,552
209 Sponsors	PRIVATE FOR PROFIT	4,000,206	$ 624,833	$ 12,039,882
25 Sponsors	GOVERNMENT (Military and Local Govt Agencies)	3,070,607	$ 479,631	$ 9,337,576
24 Sponsors	PUBLIC HIGHER EDUCATION (Non- Foundation CSU and UC)	511,394	$ 79,880	$ 2,547,682
13 Sponsors	INDIAN TRIBAL	162,507	$ 25,384	$ 399,988
717 Sponsors		**54,208,269**	**$ 8,467,348**	**$ 178,530,680**
813 Sponsors	**TOTAL**	**62,823,420**	**$ 9,813,035**	**$ 199,004,314**

However, the Governor's proposal would also eliminate state meal reimbursements for other public providers that expended a total **$1.5 million** in 2010-11. These public providers cover meals for schools associated with county probation departments, county juvenile halls, and city or county children's homes; and meals for child care centers operated by public higher education institutions (non-foundation based), various military agencies (State Coast Guard, Army, Air Force, Marines), and other local government agencies (Human Services, Employment, etc.).

The Governor's proposal does <u>not</u> affect **$199 million** in federal child nutrition funding currently provided for these non-LEA providers.

According to CDE, the Governor's proposal to eliminate state nutrition funding for non-LEA providers would reduce meal reimbursements for 20,000 nutrition sites and 312,000 children and youth statewide. However, according to CDE, most other states do not provide supplemental state reimbursements on top of their federal meal subsidies, as California does.

LAO Comments: According to the LAO, California receives about $200 million in federal funds each year to provide breakfast and/or lunch to about 312,000 children who do not attend public school districts. The majority of this federal funding goes to family daycare homes (FDHs), but other types of entities, including private schools, child care centers run by public or private parties (other than school districts), and juvenile halls, also receive this funding. The federal per-meal subsidy is $2.79 for lunches and $1.80 for breakfasts. In 2011-12, the state budgeted $10.4 million in non-Proposition 98 General Fund to supplement these federal nutrition subsidies. (The state spends an additional $2.5 million in Proposition 98 funds to subsidize meals in child care programs sponsored by school districts.) The state subsidy provides an additional $0.16 per meal.

Governor Proposes to Eliminate State Funding. The Governor proposes to eliminate the state subsidy for meals in non-school district settings, saving $10.4 million non-Proposition 98 General Fund in 2012-13. The Governor's proposal represents a five percent reduction in the total subsidy for these meals. (Per the LAO, the overall reduction is relatively small because federal funding, which supports the majority of the program, would remain unaffected.)

LAO Recommendations: Overall the LAO recommends that the Legislature adopt a consistent state policy – building upon the Governor's proposal -- and limit state funding for meal subsidies to students attending public K-12 schools. More specifically, the LAO recommends that the Legislature:

(1) Adopt the Governor's proposal to save **$10.4 million** in non-Proposition 98 funds by eliminating state meal funding for programs run by other entities. (The LAO recommends that the small share of these funds supporting meals for K-12 students attending juvenile halls instead be funded as part of the Proposition 98 school nutrition program.)

(2) Eliminating state meal subsidies for child care centers and family day care homes funded through school districts in order to maintain consistency across programs and prioritize

limited state resources. This action would save an additional **$2.5 million** in Proposition 98 funds, which could be redirected to offset proposed reductions to the state preschool program or to other K-12 priorities. All entities would continue to be eligible to receive federal support, which provides the bulk of funding for the meal program.

Staff Recommendation. Staff recommends that the Subcommittee:

- Hold these items open pending additional information at the time of the May Revision.

5. Child Care Quality Improvement Plan Activities—Review

Background. The federal Child Care and Development Fund (CCDF) is the main child development block grant provided to states by the federal government for the support of child care services to families who meet certain income and need criteria. The federal government requires that at least 4 percent of the block grant be used for activities to improve the quality of child care. Another portion – not to exceed 5 percent of the block grant amount – is used to pay for costs of administering CCDF. The State is required to submit a plan every two years detailing how the quality improvement funds will be allocated and expended. The most recent plan was submitted to the federal government in May of 2011. This plan covers the period October 1, 2011 through September 30, 2013.

The CDE was required to set forth goals for the next biennium for the expenditure of the quality improvement funds in the plan submitted to the federal government. The CDE set out the following seven goals in this plan:

1. By June 30, 2013, tools will be developed for Early Childhood Education (ECE) coursework and professional development activities to be mapped to the state's *Early Childhood Educator Competencies*. Faculty and professional development educators will know and understand the competencies their students should be able to demonstrate upon successful completion of any given course or training.
2. By 2013, all California community colleges that offer early learning and care programs will incorporate the "core eight" classes and additional courses will reflect the designated lower division *Competencies* in their degree programs.
3. By 2014, all California State University, University of California and at least several of the private higher education institutions that offer early childhood education programs and will have articulation agreements with the community colleges and align their courses to a common and comprehensive course of study across the two-and four-year degree system.
4. By 2015, a clear and accessible system of demonstrating the *Early Childhood Educator Competencies* equivalency for courses will be developed and publicized, including clear criteria and deliverables. This system includes courses taken from out-of-state and foreign institutions and non-Western Associations of Schools and Colleges accredited institutions, as well as competencies developed through professional practice.
5. Existing quality improvement professional development projects will be maintained and expanded to the extent feasible.
6. Ensure that Quality Improvement professional development providers collect data from their service population in a manner consistent with the National Workforce Registry and the Early Child Care Data Collaborative. Develop a process in which data about workforce utilization of Quality Improvement professional development activities is used to inform allocation of resources.
7. AB 212 and First 5 California's CARES Plus, which provide stipends for professional development, will increase early childhood practitioners' educational attainment and retention in the field.

The CDE had provided a high level summary of the allocation of Quality Improvement Activities for 2011-12 (see Attachment A). Some of the contracts are multi-year and others are renewed annually. For the most part, many of these contracts have been renewed annually or biannually with the same contractor since their inception and many of them were started in 1998. Funding for the Resource and Referral Programs dates back to 1976.

The state recently attained a $53 million federal Race to the Top Early Learning Challenge Grant to develop locally based quality rating systems for child care and development programs. This grant will be expended over four years.

Governor's Budget. The Governor's budget proposes the expenditure of $72 million in federal funds for 27 quality improvement projects.

The Governor has proposed to shift all administration and funding for quality improvement to the Department of Social Services beginning in 2013-14. During the budget year the DSS and CDE would work jointly to develop a spending plan.

Major Categories of Quality Improvement Projects. There are several major categories of funding for the quality improvement projects. However, each of these categories is supported by multiple projects and grants. The major categories are as follows:

- Support for the Resource and Referral Network and Agencies.
- Support for the Local Child Care and Development Planning Councils.
- License Enforcement for Child Care Programs (State Support).
- Training and Professional Development for Early Child Care Professionals.
- Grants, stipends, and other financial incentives to encourage professional development and licensure.
- Early Childhood Education Curriculum Development.

Overall Quality Improvement Strategy Unclear. As listed above, the CDE has indicated very specific goals to the federal government for expenditure of quality improvement funds over the next biennium. However, presently it is difficult to make linkages from the individual projects to these goals. Furthermore, some of the goals are merely statements and not actually tangible goals that the department is working towards. Generally, CDE has not developed measurable outcomes and performance metrics for each of the quality improvement contracts. This makes it difficult to determine whether these investments are the most strategic in meeting the specified goals illustrated in the federal plan. Furthermore, independent reviews have not been done for most of the projects.

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.

Who Benefits From the Projects? It is clear that some investments in quality improvement can and should be for the benefit of the entire early childhood education field, especially state standards and curriculum. However, it is unclear whether other investments in grants, stipends, and free and reduced priced training opportunities are targeted to the development of the network that serves subsidized families. Given limited resources and the State's interest in developing a strong network that serves subsidized families there may be an interest in better targeting these resources to meet specific outcomes.

Who Should Manage Quality Improvement Projects? The Governor has proposed to transfer management of all of the quality improvement projects from CDE to DSS and to work on a joint plan for the upcoming budget year. 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 also 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. As summarized above, the quality improvement projects span several large categories of expenditures. Some of these projects are clearly linked to education and others are not.

Staff Recommendation. Staff recommends that the Subcommittee take the following actions:

- Direct staff to work on developing reporting requirements for the Race to the Top Grant.
- Direct staff to work with CDE, DOF and LAO to gather more information on who is benefiting from each quality project.