SUBCOMMITTEE NO. 1 on Education

Subcommittee No. 1
Chair, Carol Liu
Member, Ted Gaines
Member, Roderick Wright

Wednesday, May 23, 2012
1:30 p.m.
Room 4203, State Capitol
OUTCOMES

Governor's May Revise & Open Issues: Department of Education

Child Care & Early Childhood Education Overview:

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1. Various K-12 State Operations and Local Assistance Adjustments (Vote Only)

DESCRIPTION: The Governor proposes the following amendments to and addition of various K-12 state operations (support) and local assistance budget items for the Department of Education in 2012-13. As proposed by the Governor's May Revise and Department of Finance (DOF) April Letter, these adjustments – as listed below – are considered technical adjustments, mostly to update federal budget appropriation levels so they match the latest estimates and utilize funds consistent with current programs and policies.

GOVERNOR'S MAY REVISE PROPOSALS:

Federal Funds Adjustments

1. **Item 6110-112-0890, Local Assistance, Public Charter Schools Grant Program (PCSGP) (Issue 326).** It is requested that this item be increased by $25,000 Federal Trust Fund to reflect an increase in the federal grant award for the PCSGP. The increase is due to fluctuation in the number of charter schools that are eligible for the PCSGP, which provides each newly approved charter school between $250,000 and $575,000 to support planning and initial implementation.

2. **Item 6110-113-0890, Local Assistance, Federal Title VI Funds for Student Assessment Program (Issue 147).** It is requested that Schedule (2) of this item be decreased by $2,460,000 to align the appropriation with the anticipated federal grant. Federal funds for state assessments are provided for costs associated with the development and administration of the Standardized Testing and Reporting program, the English Language Development Test, and the California High School Exit Exam.

3. **Item 6110-125-0890, Local Assistance, Migrant Education Program and English Language Acquisition Program (Issues 086 and 087)—**It is requested that Schedule (1) of this item be decreased by $261,000 federal Title I Migrant Education Program funds to align with the available federal grant award. Local educational agencies (LEAs) use these funds for educational support services to meet the needs of highly-mobile children.

   It is also requested that Schedule (2) of this item be decreased by $3,334,000 federal Title III English Language Acquisition funds to align with the available federal grant award. LEAs use these funds for services to help students attain English proficiency and meet grade level academic standards.

4. **Item 6110-128-0001, Local Assistance, Amend Economic Impact Aid Program Budget Bill Language (Issue 083).** It is requested that provisional language be amended to change the due date for a required Economic Impact Aid (EIA) report from March 31 to September 15 of each year. As a condition of receiving EIA funds, juvenile county court schools are required to report on the use of funds and the number of pupils served. The September due date would allow data to be reported after the completed fiscal year and would provide more accurate information for budget development.

The EIA is a categorical program that provides Proposition 98 General Fund to school districts for the purpose of providing educational services to disadvantaged and English learner pupils.

It is further requested that Provision 1 of this item be amended to conform to this action as follows:

> "1. Of the funds appropriated in this item, up to $3,100,000 is available pursuant to Section 54021.2 of the Education Code for Juvenile County Court Schools that have Economic Impact Aid eligibility. As a condition of receipt of funds, Juvenile County Court Schools receiving the funds are required to report on the use of funds and the number of pupils served no later than ~~March 31, 2013.~~ September 15, of each year."

5. **Item 6110-134-0890, Local Assistance, Federal Title I Set Aside Funds for LEA Corrective Action Program (Issue 149).** It is requested that Schedule (2) of this item be decreased by $8,954,000 federal Title I Set Aside funds to align the appropriation with the estimated program costs. The program provides funding for technical assistance to LEAs entering federal Corrective Action. Fifty-eight LEAs are expected to be eligible for the program in the budget year, at a cost of $31,904,000. The funding requested for the program is based on the State Board of Education's past practices. We further propose to shift the $8,954,000 to Schedule (4) of this item, consistent with federal law and guidance, to provide additional funding to schools and LEAs at a time of limited General Fund resources. (See related Issue 151.)

6. **Item 6110-134-0890, Local Assistance, Federal Title I Funds for School Improvement Grant Program (Issue 150).** It is requested that Schedule (3) of this item be increased by $2,949,000 federal Title I funds to align the appropriation with the anticipated federal grant. SDE awards school improvement grants to LEAs with the persistently lowest-achieving Title I schools to implement evidence-based strategies for improving student achievement.

7. **Item 6110-134-0890, Local Assistance, Federal Title I Basic Elementary and Secondary Education Act Program (Issue 097).** It is requested that Schedule (4) of this item be increased by $13,033,000 federal Title I funds for the Title I Basic Elementary and Secondary Education Act to reflect an increase of $12,281,000 in the available federal grant award and $752,000 in one-time carryover funds. LEAs use these funds to support services that assist low-achieving students enrolled in the highest poverty schools.

   It is further requested that provisional language be added as follows to conform to this action:

   > X. Of the funds appropriated in Schedule (4), $752,000 is provided in one-time Title I Basic Program carryover funds to support the existing program.

8. **Item 6110-134-0890, Local Assistance, Shift of Federal Title I Set Aside Funds to Title I, Part A Basic Program (Issue 151).** It is requested that Schedule (4) of this item be increased by $32,625,000 federal Title I Set Aside funds for allocation to all Title I LEAs and schools using the state's standard Title I, Part A Basic Program distribution methodology. Of

this amount, $8,954,000 would be shifted from Schedule (2) due to a decrease in the estimated costs of the LEA Corrective Action program, as compared to the Governor's Budget estimate. (See related Issue 149.) In addition, $23,671,000 federal Title I Set Aside funds are available due to an increase in the anticipated federal grant. Distributing these funds to all Title I schools and LEAs is consistent with federal law and guidance and would provide additional funding to these schools and LEAs at a time of limited General Fund resources.

It is further requested that provisional language be added as follows to conform to this action:

X. Of the funds appropriated in Schedule (4), $32,625,000 is provided in one-time Title I Set Aside funds for allocation to all Title I local educational agencies and schools using the state's standard distribution methodology for the federal Title I, Part A Basic Program.

9. **Item 6110-136-0890, Local Assistance, McKinney-Vento Homeless Children Education Program (Issue 088).** It is requested that Schedule (1) of this item be increased by $534,000 federal Title I McKinney-Vento Homeless Children Education funds. This adjustment includes an increase of $284,000 to align with the available federal grant award and $250,000 in one-time carryover funds. LEAs use these funds to provide services to homeless students.

   It is further requested that provisional language be added as follows to conform to this action:

   X. Of the funds appropriated in Schedule (1), $250,000 is provided in one-time carryover funds to support the existing program.

10. **Item 6110-137-0890, Local Assistance, Rural and Low-Income School Program (Issue 089).** It is requested that this item be increased by $216,000 federal Title VI, Part C, Rural and Low-Income School Program funds to reflect an increase of $131,000 in the available federal grant award and $85,000 in one-time carryover funds. This program provides financial assistance to rural districts to help them meet federal accountability requirements and to conduct activities of the federal Elementary and Secondary Education Act program.

    It is further requested that provisional language be added as follows to conform to this action:

    X. Of the funds appropriated in this item, $85,000 is provided in one-time carryover funds to support the existing program.

11. **Item 6110-156-0890, Local Assistance, Adult Education Program (Issue 090).** It is requested that this item be increased by $6,737,000 federal Title II funds for the Adult Education Program to reflect an increase of $1,143,000 in the available federal grant award and $5,594,000 in one-time carryover funds. This program provides resources to support the Adult Basic Education, English as a Second Language, and Adult Secondary Education programs.

    It is further requested that provisional language be added as follows to conform to this action:

X. Of the funds appropriated in this item, $5,594,000 is provided in one-time carryover funds to support the existing program.

12. **Item 6110-161-0890, Local Assistance, Special Education Individuals with Disabilities Education Act (IDEA) 611 Grant Awards (Issue 643)**. It is requested that Provision 1 of this item be amended to align future IDEA 611 grant awards with the amended allocation table provided by the federal government. This request would provide the SDE with flexibility so that in instances where IDEA 611 amended grant awards received are lower than the initial grant award, reductions can be made according to the intent set forth by the federal Office of Special Education Programs.

    ~~"1. If the funds for Part B of the federal Individuals with Disabilities Education Act (20 U.S.C. Sec. 1400 et seq.) (IDEA) that are actually received by the state exceed $1,237,042,000, at least 95 percent of the funds received in excess of that amount shall be allocated for local entitlements and to state agencies with approved local plans. Up to 5 percent of the amount received in excess of $1,237,042,000 may be used for state administrative expenses upon approval of the Department of Finance. If the funds for Part B of the IDEA that are actually received by the state are less than $1,237,042,000, the reduction shall be taken in other state-level activities, unless otherwise specified in the amended grant award."~~

13. **Item 6110-161-0890, Local Assistance, Special Education (Issue 648).** It is requested that this item be decreased by ~~$12,538,000~~ $14,084,000 in federal special education funds. This adjustment includes a decrease of ~~$12,381,000~~ $12,382,000 in Schedule (1), ~~and~~ a decrease of ~~$157,000~~ $1,698,000 in Schedule (5), and a decrease of $4,000 to Schedule (6) to align appropriations with the anticipated federal Individuals with Disabilities Education Act, Part B, grant award for fiscal year 2012-13.

14. **Item 6110-166-0890, Local Assistance, Vocational Education Program (Issue 091).** It is requested that this item be increased by $9,869,000 federal Title I funds for the Vocational Education Program to reflect an anticipated increase of $2,909,000 in the federal grant award and $6,960,000 in one-time carryover funds. This program develops the academic, vocational, and technical skill of students in high school, community colleges, and regional occupational centers and programs.

    It is further requested that provisional language be added as follows to conform to this action:

    X. Of the funds appropriated in this item, $6,960,000 is provided in one-time carryover funds to support the existing program.

15. **Item 6110-183-0890, Local Assistance, Safe and Supportive Schools (Issue 822).** It is requested that this item be increased by $475,000 Federal Trust Fund to reflect the availability of one-time carryover funds for the Safe and Supportive Schools program, which supports statewide measurement of school climate and helps participating high schools improve conditions such as school safety, bullying, and substance abuse.

It is further requested that provisional language be added as follows to conform to this action:

X. Of the funds appropriated in this item, $475,000 is provided in one-time carryover funds to support the existing program.

16. **Item 6110-193-0890, Local Assistance, Mathematics and Science Partnership Program (Issue 092).** It is requested that this item be decreased by $818,000 federal Title II funds to reflect a decrease of $2,518,000 in the federal grant award and $1.7 million in one-time carryover funds. The Mathematics and Science Partnership Program provides competitive grants to partnerships of low-performing schools and institutions of higher education to provide staff development and curriculum support to mathematics and science teachers.

    It is further requested that provisional language be added as follows to conform to this action:

    X. Of the funds appropriated in this item, $1,700,000 is provided in one-time carryover funds to support the existing program.

17. **Item 6110-195-0890, Local Assistance, Improving Teacher Quality—Local Grants (Issues 093 and 094).** It is requested that Schedule (1) of this item be decreased by $656,000 federal Title II funds to align with the federal grant award. The Improving Teacher Quality Grant Program provides funds to LEAs on a formula basis for professional development activities focused on preparing, training, and recruiting highly-qualified teachers.

    It is also requested that Schedule (4) of this item be decreased by $1,506,000 federal Title II funds to align with the available federal grant award. The Improving Teacher Quality Higher Education Grant Program provides funds on a competitive basis to support academic partnerships between institutes of higher education and high-need K-12 LEAs for projects that focus on professional development for teachers and administrators.

18. **Item 6110-201-0890, Local Assistance, Federal Child Nutrition Program (Issue 821).** It is requested that Schedule (1) of this item be increased by $107,263,000 Federal Trust Fund due to the anticipated increase in meals served through the Child Nutrition Program. Sponsors of this federal entitlement program include public and private nonprofit schools; local, municipal, county, or tribal governments; residential camps; and private nonprofit organizations.

19. **Item 6110-240-0890, Local Assistance, Advanced Placement (AP) Fee Waiver Program (Issues 823 and 827).** It is requested that this item be increased by $3,138,000 Federal Trust Fund to reflect the availability of $32,000 in one-time carryover funds and an anticipated $3,106,000 increase in the federal grant for the AP Fee Waiver program, which reimburses school districts for specified costs of AP, International Baccalaureate, and Cambridge test fees paid on behalf of eligible students. These programs allow students to pursue college-level course work while still in secondary school.

    It is further requested that provisional language be added as follows to conform to this action:

X. Of the funds appropriated in this item, $32,000 is provided in one-time carryover funds to support the existing program.

20. 6110-001-001 and 6110-001-0890, Support, State Department of Education. Amend California Longitudinal Pupil Achievement Data System (CALPADS) Budget Bill Language (Issue 324). It is requested that Provision 26 of Item 6110-001-0890 be amended to allow greater flexibility for the SDE to administer the CALPADS. Currently, the provisional language for the CALPADS restricts the funds for specific purposes, including systems maintenance and vendor costs. In fiscal year 2012-13, the SDE projects increased costs from the Office of Technology Services (OTech) for data storage and a one-time cost to update older software versions no longer supported by the OTech, which the SDE would not be able to fund due to the proscriptive nature of the amount in the Budget Bill language. The proposed changes will provide the flexibility necessary for the SDE to absorb the cost increases and successfully administer the CALPADS.

Specifically, it is requested that Provision 26 of 6110-001-0890 be amended as follows:

"26. Of the funds appropriated in this item, $6,636,000 is for the California Longitudinal Pupil Achievement Data System (CALPADS), which is to meet the requirements of the federal No Child Left Behind Act of 2001 (20 U.S.C. Sec. 6301 et seq.) and Chapter 1002 of the Statutes of 2002. These funds are payable from the Federal Trust Fund to the State Department of Education (SDE). Of this amount, $5,641,000 is federal Title VI funds and $995,000 is federal Title II funds. These funds are provided for the following purposes: $~~2,457,000~~3,254,000 for systems housing and maintenance provided by the Office of Technology Services (OTECH); $~~1,491,000~~908,000 for ~~vendor~~ costs associated with necessary system~~s integration and improvement~~ activities; $790,000 for SDE staff~~, including a technical lead, to work on the system; $251,000 for system software costs; $134,000 for an independent project oversight consultant and independent validation and verification costs; $45,000 for system hardware costs; $8,000 for Department of General Services charges;~~ and $~~486,000~~710,000 for various other costs, including hardware and software costs, indirect charges, Department of General Services charges~~ OTECH charges~~, and operating expenses and equipment. As a condition of receiving these funds, SDE shall ensure the following work has been completed prior to making final vendor payments: a Systems Operations Manual, as specified in the most current contract, has been delivered to SDE and all needed documentation and knowledge transfer of the system has occurred; all known software defects have been corrected; the system is able to receive and transfer data reliably between the state and local educational agencies within timeframes specified in the most current contract; system audits assessing data quality, validity, and reliability are operational for all data elements in the system; and SDE is able to operate and maintain CALPADS over time. As a further condition of receiving these funds, the SDE shall not add additional data elements to CALPADS, require local educational agencies to use the data collected through the CALPADS for any purpose, or otherwise expand or enhance the system beyond the data elements and functionalities that are identified in the most current approved Feasibility Study and Special Project Reports and the CALPADS Data Guide v1.2. In addition, $974,000 is for

SDE data management staff responsible for fulfilling certain federal requirements not directly associated with CALPADS."

Other Adjustments

21. **Item 6110-102-0231, Local Assistance, Tobacco-Use Prevention Education Program (Issue 828).** It is requested that this item be decreased by $629,000 in Health Education Account funds to reflect decreased revenue estimates from the Cigarette and Tobacco Products Surtax Fund (Proposition 99). These funds are used for health education efforts aimed at the prevention and reduction of tobacco use. Activities may include tobacco-specific student instruction, reinforcement activities, special events, and cessation programs for students.

STAFF RECOMMENDATION (VOTE ONLY): Staff recommends approval of all of the May Revise and DOF April Letter issues listed above (Items 1-21), including highlighted technical amendments. No issues have been raised for any of these items.

OUTCOME: Approve staff recommendation. (Vote: 3-0)

Child Care Vote Only Calendar

2. Child Care Federal Funds - Technical Adjustments

Background. Federal funds along with General Fund (Proposition 98 and non-Proposition 98) are one of the primary funding sources for child care programs. The exact amount available to fund child care programs in any one year is dependent upon allocations from the federal government and available carryover of unspent prior year allocations.

May Revision Letter. The May Revision makes adjustments to the base assumptions in the January budget about the amount of federal funds available to offset GF expenditures. The May Revision letter indicates that there are **$768,000 additional federal funds ongoing** and **$1 million in one-time federal funds** available from prior years.

Staff Recommendation. Staff recommends that the Subcommittee approve this technical adjustment.

OUTCOME: Approve staff recommendation. (Vote: 3-0)

3. 21st Century Community Learning Centers – Technical Adjustments

Background. The 21st Century Community Learning Center program is a federal grant program that supports the creation of community learning centers that provide academic enrichment opportunities during non-school hours for children, particularly students who attend high-poverty and low-performing schools. The program helps students meet state and local student standards in core academic subjects; offers students a broad array of enrichment activities; and offers literacy and other educational services to the families of participating children.

May Revision Letter. The May Revision letter indicates that federal funds are expected to be **$12.3 million** higher in the budget year for the 21st Century Community Learning Center program. This is a result of $10 million in fewer ongoing funds offset by $22.4 million additional one-time carryover funds.

Staff Recommendation. Staff recommends that the Subcommittee approve this technical adjustment.

OUTCOME: Approve staff recommendation. (Vote: 3-0)

Child Care and Early Childhood Education

Background and Previous Subcommittee Meetings. 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.

These programs and the Governor's proposals to balance the budget have been discussed at length at the March 1, 2012 meeting of the Senate Budget and Fiscal Review Committee and the April 12, 2012 meeting of Budget Subcommittee #1 on Education. For additional background information on these programs please reference the agendas from those hearings.

4. Caseload Adjustments

Background. The child care and early childhood education programs funded by the State are generally capped programs. This means that funding is not provided for every qualifying family or child, but instead funding is provided for a fixed amount of slots or vouchers. The exception is the CalWORKs child care program (Stages 1 and 2), which are entitlement programs in statute. In general Stage 1 child care is provided to families on cash assistance until they are "stabilized". After families are stabilized they are transferred to Stage 2, where they are entitled to child care while on aid and for two additional years after they leave aid. Stage 3 has been for those families that have exhausted their Stage 2 entitlement.

Historically caseload projections have generally been funded for Stages 1, 2, and 3 in their entirety – even though, technically speaking, Stage 3 is not an entitlement or caseload driven program. There has been considerable turmoil in the Stage 3 program since Governor Schwarzenegger first vetoed all of the funding for Stage 3 in 2010. Last year the program was effectively capped and CDE was required to provide instructions to the field on how to dis-enroll families.

May Revision. The May Revision typically updates caseload funding. These adjustments are made based on current law and do not reflect policy changes that would reduce the program. The revised baseline caseload assumptions for Stages 2 and 3 are an increase of **$3.2 million** and **$14.5 million**, respectively. Stage 1 caseload is down slightly.

Staff Comments. Staff finds that the Administration has continued to build the Stage 3 caseload as if it is an entitlement, even though it is currently operating as a capped program. Given the magnitude of other reductions being made in this budget to child care programs, the Legislature may wish to weigh the tradeoffs related to expanding Stage 3 beyond the current capped level and the other budget reductions being considered.

Staff Recommendation. Staff recommends that the Subcommittee hold this issue open.

5. Budget Reductions

Previous Subcommittee Meeting. At the March 1, 2012 Senate Budget and Fiscal Review Committee and the April 12, 2012 Budget Subcommittee #1 hearing considerable testimony was taken on the impacts of the Governor's proposed reductions to the child care programs. There was considerable concern voiced about the loss of 62,000 child care slots, which is the expected impact of the Governor's January budget proposals to reduce General Fund spending on child care programs by $450 million or approximately 20 percent of the total program when compared to 2011-12. Testimony was received that indicate that this level of cut could actually reduce slots further than the 62,000 estimated given the compounding nature of the reductions and the relative fragility of local child care markets. Specifically, we heard considerable testimony from the Title 5 community about the devastating impact of the State Reimbursement Rate (SRR) cut on the ability to sustain programs that meet Title 5 criteria.

In summary the Governor's January budget proposals discussed were as follows:

- **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 reduction would have eliminated 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.

The LAO also offered several alternative reduction options for the Legislature to consider, as follows:

- **Work Requirements.** 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.** The LAO has offered an alternative for additional budget savings by lowering income ceilings below the Governor's level to 50 percent of State Median Income (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.** The LAO has surveyed many other states and has found that the Governor's proposal on 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.** 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.** 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 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.** 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.

The Subcommittee also discussed at the April 12, 2012 meeting, the idea of implementing an across-the-board reduction. Last year an 11 percent across the board reduction was implemented to the Alternative Payment (AP) programs (including Stage 3) and Title 5 centers. The Subcommittee has heard from numerous representatives in the child care community that an across-the-board reduction is preferred to other policy change because it provides the field with some flexibility to meet the reductions and can minimize disruptions in the provision of child care services.

May Revision. The May Revision proposes approximately the same total budget savings **($452.5 million GF**) from non-Proposition 98 savings as was proposed in January. The Governor makes two major modifications to change the mix of cuts proposed in January. The Governor indicates that the modifications to the mix of cuts will result in retaining over 25,000 slots that would have been lost under the January proposal. The major modifications are as follows:

- **Loosens Work Eligibility Requirements.** Consistent with the Governor's May Revision proposal for CalWORKs, the Governor has also loosened the work eligibility requirements for recipients of child care subsidies. Under the Governor's revised proposal, parents pursuing education or training may receive child care subsidies for up to two years. Parents could continue to receive child care subsidies, but would have to be meeting work requirements (30 hours per week or 20 hours per week for families with young children). The Administration has indicated that only full-time students that are not otherwise working would be time limited. Part-time students that also work part-time would not be time limited as long as they were meeting work requirements and income requirements of the program. This policy change requires the Governor to **restore $180 million GF** to the January budget proposal.
- **Reduces Voucher Rates.** The Governor's May Revision also takes the proposed rate reductions to the Regional Market Rate (RMR) to the 40^{th} percentile of the 2005 RMR survey. The Governor's May Revision proposal would also reduce the license exempt rate to 71 percent of the lowered RMR rate. This proposal would result in **$190 million GF savings** ($61 million GF savings from Stage 1). The January budget had also proposed reducing the RMR, but had proposed to reduce rates to the 50^{th} percentile of the 2009 RMR survey for $17.1 million in GF savings ($5.3 million GF related to Stage 1). The January budget had also proposed to hold steady payments made to licensed exempt providers.

The May Revision continues to **reduce the income eligibility** for child care programs from 70 percent of SMI to 200 percent of the federal poverty level. However, May Revision estimates show that this proposal will **save $4.1 million GF less** than original expected. Revised savings related to reducing income eligibility are now estimated to be $39.8 million GF.

In addition to the reduced voucher rates described above, the Governor also proposes to continue to **eliminate the COLA** for non-Proposition 98 programs, thereby saving $30.4 million GF in the budget year. This estimate has been revised upward by **$537,000 GF** in the May Revision. The Governor also continues to pursue the **10 percent SRR reduction** on Title 5 contracts for $67.5 million in savings. This estimate is **$269,000 GF** less than was projected in the May Revision.

LAO Review. The LAO's initial review of the May Revision proposal finds that the Governor's proposal related to the RMR reduction is too harsh. The LAO finds that the Governor's proposal would cut RMR rates by at least one-third and given a reduction of this magnitude would likely severely limit access to families. The LAO's review finds that the proposed rate level is well below the policies adopted in other states and has been further complicated by the fact that the state does not currently maintain RMR survey data down to the 40th percentile. The lack of data would make it very difficult for the Administration to calculate specific rates for each county in time to implement the rate reduction.

Staff Comments. Staff finds that the Governor's proposal to allow for up to two years of full time school or training is a significant amendment to the January proposal. The changes to the work requirements in the January proposal were of the harshest reductions that would have resulted in 46,000 children losing child care immediately. The Governor's current proposal, while better than the January proposal, will still result in the reduction of some slots. However, previously the LAO had estimated that the savings from going to a two-year limit on education would only result in about $50 million in savings. The LAO also indicated that there may need to be changes made to current reporting requirements from the APs and Title 5 contractors to CDE to implement this change.

The Administration assumes that there will be no loss of slots from the RMR reduction. As pointed out by the LAO this is not how it is likely to play out in real life. A 30 percent reduction to current rates is likely to significantly restrict access to licensed providers for voucher clients. Furthermore, a rate reduction of this magnitude would also lead to the closure of many centers and family daycare homes. This will further constrict the child care market.

As has been discussed earlier in this Subcommittee, 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. This continues to be the case even under the Governor's revised proposal.

Staff Recommendation. Staff recommends that the Subcommittee hold this item open and direct staff to build different scenarios for achieving solutions, with an emphasis on preserving slots.

6. 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 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 May Revise Proposals for Part-Day Preschool.

Overall, the Governor's May Revise proposes a net increase of **$33 million** for the Proposition 98 portion of the State Preschool Program in 2012-13. In contrast, the Governor's January budget proposed a **$58 million** reduction in 2012-13, as summarized below:

Proposition 98 Funded Preschool Program (Dollars in Millions)	**January**	**May Revise**	**Change**
Revised 2011-12 Budget	**$368**	**$368**	**--**
Reduce Standard Reimbursement Rate	-$34	--	$34
Reduce income eligibility threshold	-$24	$-24	--
Increase preschool slots	--	$57	$57
Technical adjustments			
Total Adjustments,	**(-$58)**	**($33)**	**($91)**
Proposed 2012-13 Budget	**$310**	**$400**	**$90**

More specifically, the May Revise proposes the following adjustments to the state preschool program in 2012-13:

- **Restores Provider Rate Reductions. (Issue 409).** The Governor requests that **$34,082,000**, which reflects a portion of the savings from elimination of Transitional Kindergarten requirements, be redirected to restore the 10 percent reduction to the Standard Reimbursement Rate (SRR) proposed in January. This request would retain the part-day per-child SRR at $21.22 for state preschool programs.

- **Increases Preschool Slots. (Issue 407).** The Governor requests that **$57,485,000** in remaining savings from elimination of Transitional Kindergarten requirements be redirected to expand access to part-day preschool for **15,500 children** from low-income families. Enrollment priority would be given to children from income eligible families who have their fifth birthday after November 1 and will no longer be eligible for Kindergarten in 2012-13.

- **Preschool Growth Adjustment**. **(Issue 480).** The Governor requests a decrease of **$1,507,000** to reflect updated growth estimates for the population of zero to four year old children.

- **Family Income Eligibility Ceiling Continued with Technical Adjustment (Issue 410).** Consistent with the Governor's savings proposals for other child care programs, the May Revise continues to reduce program eligibility criteria by lowering the amount a family can earn and still participate in the program. The May Revise proposes a relatively small increase of **$98,000** to reflect a revised estimate of savings associated with this reduction. Under the Governor's continuing proposal, 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.**

The May Revise also continues the Governor's January proposal not 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.

LAO Comments. The LAO offered 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): The following issues still apply to the Governor's May Revise:

- **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 children** 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. The LAO offers the following recommendations to the Legislature:

1. **Support Elimination of Reduction to Reimbursement Rates**. The LAO supports the Governor's May Revise proposal to rescind the 10 percent reduction in the SRR in 2012-13 – and associated savings of $34.1 million – proposed by the Governor in January.

2. **Reject Proposal to Lower Family Income Thresholds and Instead Eliminate Slots.** The LAO recommends that the Legislature reject the Governor's 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. **Recommend Funding All Preschool Slots in Proposition 98**. The LAO believes that the Governor's May Revise proposal continues to treat preschool programs inconsistently drawing false distinctions between Proposition 98 and non-Proposition 98 funded services. For this reason, the LAO continues to recommend funding all preschool slots within Proposition 98.

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 issues open to conform to the child care and Proposition 98 budget packages.

7. 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 (TK) 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 May Revise Proposals:

1. **Continues to 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.

   The Governor's most recent proposal – reflected in proposed trailer bill language -- would still eliminate the new Transitional Kindergarten program. And the May Revise continues earlier revisions that 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 May Revise would also authorize a full two years of Kindergarten for districts that choose to admit children who are not age-eligible for Kindergarten.

2. **Revises Savings Estimates Associated with Elimination of Transitional Kindergarten (Issue 251).** The Governor's January budget estimated **$224 million** in Proposition 98 savings associated with the proposals to eliminate Transitional Kindergarten in 2012-13. In February, the Department of Finance revised its savings estimates to **$124 million** to reflect savings offsets for school districts with declining enrollment, and additional costs resulting from districts that grant early admission "waivers" to children who do not meet the new age requirements when they enter school. The May Revise further lowers the savings estimate to **$92 million** in 2012-13 due to erosions associated with declining enrollment and increased attendance projected by expanding the waiver process.

3. **Continues to Extend Preschool to Children No Longer Eligible for Kindergarten.** The Governor continues 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.) In sharp contrast to his January proposal, the Governor's May Revise proposes an increase of **$57 million** in Proposition 98 funding to

fund an additional **15,500 preschool slots** to give eligible five-year olds first priority for part-day State Preschool funding.

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

- **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.

- **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.

- **…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's May Revise Proposition 98 Alternative Plan, this would result in a savings of between of **$75 million** in 2012-13, instead of the **$92 million** estimated by the Governor's May Revise.

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 COMMENTS: On April 12, 2012, the Subcommittee voted to reject the Governor's Transitional Kindergarten proposal.

8. Child Care Program Redesign and Restructuring

Previous Full Budget Committee Hearing. On March 1, 2012 the Senate Budget and Fiscal Review Committee held a hearing to fully evaluate the Governor's proposed redesign and restructuring of CalWORKs program and child care system. There was significant testimony at this hearing in opposition to the Governor's proposed restructuring of the child care system. Specifically, there has been considerable concern raised about the delinking of child care programs from education. The Superintendent of Public Instruction has also vigorously opposed this restructuring proposal.

In review, the Governor proposed to restructure the administration of child care over a two-year period. The Administration proposes to replace the three-stage child care system for current and former CalWORKs recipients and programs serving low-income working parents and centralize eligibility with 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 aid.

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 Department of Social Services) to provide a new consolidated block grant to the counties. Furthermore, the January proposal would have convert the contracts with Title 5 centers to vouchers.

  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.

May Revision. The May Revision proposes several changes to the restructuring proposal, including many that respond to concerns raised in committee hearings. The changes are outlined below:

- **Create Separate Block Grant.** Requires the creation of a separate child care block grant, to ensure eligible low-income working families continue to have access to child care services. In January, the Governor's budget was not specific about how child care monies would be allocated to the counties and there was some concern that the child care monies would be added to the County Single Allocation for the CalWORKs program and would not ultimately be expended on child care. Under the revised proposal, Stage 1 would continue to be funded as part of the Single Allocation block grant to the counties, but Stages 2 and 3, the AP programs, the Migrant programs, and funding for the Title 5 programs would all be placed in a block grant dedicated to child care.

- **Preserves Title 5 Infrastructure.** Requires that county welfare departments will contract with Title 5 centers for three years for the same number of slots that will be funded under the General Child Care program in 2012-13. The May Revision proposal would also provide counties with flexibility to deviate from this allocation up to 10 percent and after three years, counties would be able to adjust contracts with Title 5 centers including canceling contracts and shifting more resources to voucher-based providers within the county to better align service needs with available resources. The Title 5 designation will continue to be maintained by CDE through the annual submission of an assessment of the education program at the center. Counties would also be given flexibility to pay the higher of the RMR and SRR to maintain the Title 5 infrastructure. In some parts of the state the SRR is currently lower than the RMR voucher rate.

- **Clarifications on Transition.** The May Revision proposal indicates that some funding (up to 30 percent of GF and federal funds) would be shifted from CDE to the DSS to fund state operations costs associated with the transition of child care services to county welfare departments. It would also require that county welfare departments put together plans on how they would implement child care and provide the potential for a mid-year transfer of child care funding and responsibilities in 2012-13 if counties are ready to assume responsibilities early. This provides for a more aggressive transition of child care activities than contemplated in the January proposal. The Administration indicates that there are some counties that are interested in taking over these responsibilities in the budget year.

- **Revised Funding for County Administration.** The May Revision includes $26.5 million (mainly from federal funds) to counties so they can ramp up to take over child care eligibility in 2013-14. This is less than the $35 million proposed in January for this purpose. The Administration indicates that there is significant work that would need to be done to fully transition the administration of child care to the counties because under the Governor’s proposal the APs and Title 5 centers would no longer manage eligibility and instead eligibility would be centralized at the county. Given this, there should be some adjustments to the administrative overhead of the APs.

- **Quality Activities.** There are also proposed changes to the quality activities, but those changes are detailed in the next item.

- **Stakeholder Workgroup**. The May Revision also proposes trailer bill language that requires the Department of Social Services to convene a stakeholder work group to include, county social services agencies, the State Department of Education, alternative payment providers, Title 5 child care centers, labor organizations, other child care and program integrity experts, and legal advocacy organizations representing consumers. This workgroup will make public recommendations no later than January 15, 2013 on a variety of issues, including consistent due process for parents, consistent mechanisms for dispute resolution, the equitable treatment of consumers of subsidized child care, best practices, and a consistent approach to fraud and overpayments.

LAO Supports Restructuring Plan. The LAO, for the most part, 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. The LAO also recommends that the Legislature fully recognize the state preschool budget that is currently budgeted in the General Child Care program that would otherwise be realigned to the counties under the Governor's proposal. More specifically, the LAO recommends that the Legislature fund all preschool slots within Proposition 98. The Governor's revised restructuring proposal addresses many of the concerns raised by the LAO, including placing child care funding in a separate block grant and the difficulties in converting all funding to vouchers and the impacts on Title 5 centers.

Staff Comments. There has been considerable opposition to the Governor's proposal to restructure child care to county-centered administration. However, it is important to note that the vast majority of the voucher 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 currently allocated to the counties by DSS. There are also five counties that are also Alternative Payment agencies. So there are considerable relationships that already exist between the Alternative Payment agencies and counties.

Staff finds that many of the topics of the stakeholder workgroup are topics that have been discussed at length at CDE for many years without resolution.

Staff Recommendation. Staff recommends that the Subcommittee hold this issue open.

9. Child Care Quality Improvement Plan Activities

Previous Subcommittee Meeting. At the April 12, 2012 meeting of the Subcommittee there was discussion about the expenditure of the child care quality improvement funds. These funds are the 4 percent of the federal Child Care and Development Fund (CCDF) monies required to be used for activities to improve the quality of child care. The Governor's budget included $72 million in federal funds for 27 quality improvement projects. The State is required to submit a plan every two years detailing how these 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 quality improvement projects generally fall into one of the major categories 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.

At the Subcommittee meeting we learned that some of the contracts are multi-year contracts 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. At the Subcommittee meeting we also learned that there are not regular reviews of these contracts.

We also discussed the recently awarded $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. The LAO recommended regular reports to the Legislature related to the implementation of this grant.

The Governor's January budget proposed the shift of administration of all quality funds from the State Department of Education to the Department of Social Services with the funds to be expended per a joint plan developed by CDE and DSS. The LAO recommended that the Legislature also have a role in the development and oversight of a plan. The Governor also proposed shifting the administration of the Race to the Top grant from CDE to DSS, as well.

May Revision. The Governor's May Revision includes several proposals related to quality, as follows:

- **Technical Adjustment.** The May Revision includes a technical adjustment to adjust for fewer one-time federal funds by adjusting federal funds downward by **$437,000**.
- **Race to the Top Grant.** The May Revision also includes the funding to reflect the receipt of the Race to the Top Grant. This includes **$5.3 million for state supported activities** related to the grant and provisional language that makes approval contingent on an approved expenditure plan for state activities. The May Revision also **includes $11.9**

million to support local quality improvement activities, including \$10.1 million that will be allocated to the Regional Leadership Consortia.

- **Amendments to Restructuring Proposal on Quality.** The May Revision indicates that the quality projects will continue to be funded by CDE in the budget year. However, in 2012-13 DSS will develop a plan in consultation with CDE that outlines how the quality funding will be expended in 2013-14. The plan would require that DSS conduct programs that promote health and safety of children in care and CDE retain programs and activities that promote early learning and readiness for school, including Resource and Referral programs. The plan would also reflect an allocation to county welfare departments to target quality funds to local needs and priorities. The May Revision includes amendments to provisional budget bill language to accomplish these changes.

Staff Comments. Staff finds that the budget year is the second year of the two-year expenditure plan for the quality improvement money that was already submitted and approved by the federal government. Therefore, maintaining management of the quality funds with CDE makes sense in the budget year. If a shift should occur, it would make more sense to make that shift at the beginning of a new two year cycle. Staff also finds that the Administration has attempted to provide guidance related to how they would reallocate the quality improvement funds based on core competencies. Clearly CDE is the leader in school readiness and early learning curricula; DSS currently has responsibilities related to regulating health and safety of children. The big change would be the role of the counties in allocating monies to target local priorities.

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

- Approve technical adjustment.
- Approve Race to the Top Funding and trailer bill language to set up annual reporting to the Legislature on expenditure of the grant.
- Hold open amendments to restructuring proposal.

OUTCOME: Approve staff recommendation. (Vote: 3-0)