Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 on Education

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

Wednesday, May 25, 2011
Outcomes

Discussion Items

VOTE-ONLY ISSUES

ISSUE 1: Adjust Child Care Programs for Growth

Issue. The issue before the Subcommittee is a negative growth adjustment due to the decline in the 0-4-year old population served.

May Revise Request. The Governor's May Revise requests that funding for child care programs be **decreased by $6,923,000** to reflect a revised growth adjustment of -0.67 percent. It is requested that Provision 11 of item 6110-196-0001 be amended as follows:

> "11. The amounts provided in Schedules (1), (1.5)(a), (1.5)(c), (1.5)(d), and (1.5)(j) of this item reflect a reduction to the base funding of ~~0.21~~ 0.67 percent for a decline in the population of 0-4 year-olds."

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ACTION: Approved
VOTE: 3-0

ISSUE 2: Offset General Fund with Additional Federal Funds

Issue. The issue before the Subcommittee is increased federal funds that are proposed to offset $7.41 million General Fund for the CalWORKs Stage 3 child care program.

May Revise Request. The Governor's May Revise requests that CalWORKS Stage 3 child care be increased by **$7,412,000** to reflect the following: (1) an increase of $7,077,000 in ongoing federal funds, and (2) an increase of $335,000 in one-time federal funds available from prior years. These funds will offset a like amount of Proposition 98 General Fund.

It is further requested that provisional language be added to Item 6110-196-0890 as follows:

> "X. Of the funds appropriated in this item, $335,000 is available on a one-time basis for CalWORKs Stage 3 child care from federal Child Care and Development Block Grant funds appropriated prior to the 2011 federal fiscal year."

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ACTION: Approved
VOTE: 3-0

ISSUE 3: Child Care Quality Activities

Issue. The issue before the Subcommittee is an increase to the child care quality activities due to an increase in the amount of federal funds available to California.

May Revise Request. The Governor's May Revise requests that Provision 4(a) and (b) of this item be amended to adjust the quality earmarks under the Child Care and Development Block Grant as follows:

> "(a) ~~$2,002,671~~ $2,085,639 is for the schoolage care and resource and referral earmark.
> (b) ~~$11,342,626~~ $11,698,772 is for the infant and toddler earmark and shall be used for increasing the supply of quality child care for infants and toddlers."

Quality Activities Required. The federal Child Care and Development Block Grant requires that four percent of the federal funds be spent on quality improvement activities.

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ACTION: Approved
VOTE: 3-0

ISSUE 4: Child Care Savings Adjustment

Issue. The issue before the Subcommittee is a revised savings estimate for the March budget policy changes, and backfilling with General Fund for those lost savings.

May Revise Request. The Governor's May Revise requests that the child care item be increased by **$40,609,000** General Fund to reflect revised estimates of the savings generated by the child care reductions adopted by the Legislature in March. The revised estimates reflect the adjustments to CalWORKs caseload and the adjustment to growth funding for non-CalWORKs programs.

Child Care Savings Erosion in May Revise

(dollars in thousands)

	Conference	May Revise	Change
License-Exempt at 60% of 85th percentile of RMR	$44,114	$37,361	-$6,753
Eliminate Traditional 11- and 12-Year Olds	$35,824	$31,488	-$4,336
SMI at 70 percent	$30,065	$28,466	-$1,599
10 Percent Family Fee Increase	$5,043	$4,102	-$941
SRR Cut	$121,967	$121,407	-$560
Across-the-Board 15 Percent Reduction	$246,307	$219,887	-$26,420
Total	$483,320	$442,711	-$40,609

Staff Recommendation. Staff recommends that the Subcommittee approve this request.
ACTION: Approved
VOTE: 3-0

ISSUE 5: 21st Century ASSETs Report Due Date

Issue. The issue before the Subcommittee is an extension of a report due date to correspond more closely with the timeline for the availability of data.

April Letter Request. The Governor submitted an April Letter requesting that the due date for completion of the annual report on per-pupil costs for the 21st Century High School After School Safety and Enrichment for Teens (ASSETs) program be moved from November 1 to April 30. The CDE does not receive complete expenditure data for the prior fiscal year until December 31. This extension would provide the CDE with sufficient time to collect and analyze the data. The ASSETs Program consists of after school enrichment programs that provide academic support and safe alternatives for high school pupils after regular school hours.

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

> "1. The State Department of Education shall provide an annual report to the Legislature and Director of Finance by ~~November 1~~ April 30 of each year that identifies by cohort for the previous fiscal year each high school program funded, the amount of the annual grant and actual funds expended, the numbers of pupils served and planned to be served, and the average cost per pupil per day. If the average cost per pupil per day exceeds $10 per day, the department shall provide specific reasons why the costs are justified and cannot be reduced. In calculating cost per pupil per day, the department shall not count attendance unless the pupil is under the direct supervision of after school program staff funded through the grant. Additionally, the department shall calculate cost per day on the basis of the equivalent of a three-hour day for 180 days per school year. The department shall also identify for each program, as applicable, if the attendance of pupils is restricted to any particular subgroup of pupils at the school in which the program is located. If such restrictions exist, the department shall provide an explanation of the circumstances and necessity therefor."

Staff Recommendation. Staff recommends that the Subcommittee approve this request.

ACTION: Approved
VOTE: 3-0

ISSUE 6: 11- and 12-Year Old Restriction Cleanup Language

Issue. The issue before the Subcommittee is cleanup language to SB 70, which restricted the use of subsidized child care for 11- and 12-year olds.

SB 70. The education trailer bill, SB 70, restricted the use of subsidized child care for 11- and 12-year olds to non-traditional hours of care. SB 70 also prioritized 11- and 12-year olds for the waitlists to before and after school programs.

Need for Further Clarification. SB 70 placed a clear statement into the education code dealing with child care that 11- and 12-year olds would be prioritized for waitlists to after school programs. However, the before and after school programs are stating that because the After School Education and Safety (ASES) program statute does not include a similar statement they cannot use that priority ranking in their districts. This cleanup language simply inserts into the ASES statute a statement that 11- and 12-year olds who were displaced due to the loss of subsidized child care will be prioritized for waitlist spots for before and after school programs.

Staff Recommendation. Staff recommends that the Subcommittee approve the cleanup trailer bill language.

ACTION: Approved
VOTE: 3-0

DISCUSSION ISSUES

ISSUE 7: Child Care Overview – March 2011 Budget

Speakers:

- Rachel Ehlers, Legislative Analyst's Office

Issue. The issue before the Subcommittee is an informational overview of the child care budget as reflected in SB 69, passed by the Legislature in March 2011.

Decrease in Overall Funding. When the Governor released his January budget, the state faced a $25.4 billion deficit for the 2011-12 fiscal year, due to an anticipated shortfall of revenues to the expected expenditures. In March 2011, the Legislature addressed $12 billion of this problem through SB 69 (held in enrollment) and trailer bills, including SB 70 which made changes to child care. The cuts included in SB 69 placed child care funding for 2011-12 at $1.845 billion, which includes $322 million for state preschool. The 2010-11 funding level is $2.32 billion with the restoration of the CalWORKs Stage 3 veto.

May Revise Proposed Budget

(dollars in thousands)

	State Preschool	General Child Care	Alternative Payment	Stage 2	Stage 3	Other
Total Funding	$321,196	$584,781	$200,155	$427,444	$120,303	$26,392
Enrollment	96,504	70,793	29,567	62,068	18,187	6,468

ACTION: Informational item, no action

ISSUE 8: CalWORKs Child Care Caseload Adjustment

Speakers:

- Camille Maben, Department of Education
- Rachel Ehlers, Legislative Analyst's Office
- Sara Swan, Department of Finance

Issue. The issue before the Subcommittee is revised caseload estimates for Stage 2 and Stage 3, and adjustments in funding accordingly.

Stage 3 Funding Background. In October 2010, Governor Schwarzenegger vetoed funding for the CalWORKs Stage 3 child care program. Pursuant to a court order, the termination of Stage 3 services were delayed until December 31, 2010, to allow for eligibility screening and possible placement of Stage 3 families in other programs. Families were given the opportunity to participate in a lottery for available openings in other child care programs, provided that they were not already determined eligible for either Stage 1 or Stage 2.

Stage 3 Caseload Decline. While funding for Stage 3 was restored in the current year, the estimated costs reflect a significant decline in caseload. Based upon reported caseload for the months of January through March, average monthly caseload has declined by approximately 70 percent from the level prior to the veto. The transfer of families to Stage 2 and other child care programs funded through the Department of Education (CDE) accounts for a portion of this decline. However, information is lacking on the extent to which former Stage 3 families have located child care through alternative fund sources, such as First 5 county commissions, or have made alternative arrangements for care.

May Revise Request. The Governor's May Revise requests that child care programs be **decreased by $123,474,000** to reflect revised estimates of caseload costs for CalWORKs Stage 2 and Stage 3 child care. These adjustments reflect:

1. Increase of $64,350,000 to Stage 2, and
2. Decrease of $187,824,000 to Stage 3.

The decrease to Stage 3 is due mainly to the implementation of the Stage 3 veto reflected in the 2010 Budget Act which terminated funding for the program on November 1, 2010.

Due to uncertainty in the Stage 3 caseload number, the Administration is proposing to retain approximately $56.0 million in the current-year appropriation for Stage 3, after accounting for increased current-year costs in Stage 2, and to set aside $33.645 million in one-time funds to be appropriated for Stage 3 pending receipt of updated caseload data from the CDE.

ACTION: Hold open

ISSUE 9: ELAC Elimination

Speakers:

- Scott Moode, ELAC
- Camille Maben, Department of Education
- Rachel Ehlers, Legislative Analyst's Office
- Sara Swan, Department of Finance

Issue. The issue before the Subcommittee is the proposed elimination of the Early Learning Advisory Committee (ELAC).

ELAC Background. The ELAC was established through an executive order in 2009 to make California eligible for a three-year $10.8 million planning grant to pilot a recommended quality rating improvement system and to develop a data tracking system for children ages 0-5, including preschool. The intention was for ELAC to build on the work of the California Early Learning Quality Improvement System Advisory Committee (CAELQIS) in helping define the future policy direction for early learning in California.

Specifically, ELAC planned to:

1. Create a strategic plan for early learning
2. Integrate early childhood competencies data
3. Pilot a quality rating program

May Revise Request. The Governor's May Revise requests to eliminate ELAC. While the elimination of this advisory council will result in the loss of the remaining federal grant funds, ELAC's work represents a new initiative that the state cannot presently afford. The elimination of ELAC results in a decrease of $3.6 million in federal funds in 2011-12.

Staff Comment. The ELAC is the only entity working on state-wide data gathering for very early childhood learning. Also, the ELAC assumed many of the functions of CAELQIS, and it is not clear where those functions would be housed under the Governor's elimination plan.

Though the State should examine all spending priorities, the ELAC is funded with a federal grant, and these federal funds cannot be used for other projects within CDE. Also, there have been some concerns expressed that the federal government may request repayment of these funds if the ELAC tasks are not completed. Staff is also concerned that halting the planning process to integrate early childhood competencies data will exclude California from consideration for future federal grants in early childhood quality improvement.

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

ACTION: Hold open

ISSUE 10: SRR Reduction

Speakers:
- Camille Maben, Department of Education
- Rachel Ehlers, Legislative Analyst's Office
- Sara Swan, Department of Finance

Issue. The issue before the Subcommittee is the SB 69 action to reduce the Standard Reimbursement Rate (SRR) by ten percent.

SRR Background. The Standard Reimbursement Rate is utilized with agencies that have direct contracts with CDE, such as state preschool programs. It is important to note that as part of their contract, these providers are required to meet additional training and program standards which are not required of non-contracted providers.

The SRR is set by the Legislature annually in the Budget Act. The last increase to the SRR was in 2007. The SRR is set as a daily rate, but SRR contracts are based on a standard of 250 enrollment days per year, for a total annual reimbursement of $8,595 per child. The part-day State Preschool daily rate is lower at $21.22 or $3,714 per annum for 175 days of operation. The SRR does specify adjustment factors based on the number of hours each child receives care. It also has positive adjustment factors to account for the child's age (3 years and older is considered the standard rate), special needs, disability, and whether the child is at risk of abuse or neglect.

SB 69. The March budget package reduced the SRR in provisional language by ten percent. The rate fell from $34.38 to $30.94 per day per child for general child care; and from $21.22 to $19.10 per day per child for state preschool programs. The annual savings from the adjustment are estimated at **$121.9 million**.

May Revise Request. The Governor's May Revise maintains the SB 69 SRR reduction.

Staff Recommendation. Staff recommends that the Subcommittee increase the SRR back to the January 10 budget level ($34.38 and $21.22). The funding for SRR will conform to the Proposition 98 package.

ACTION: Restored the Standard Reimbursement Rate to the January 10, 2011 level (of $34.38 and $21.22).

VOTE: 2-1 (Huff No)

ISSUE 11: Creating Efficiencies – AP Contract Bidding

Speakers:

- Camille Maben, Department of Education
- Rachel Ehlers, Legislative Analyst's Office
- Sara Swan, Department of Finance

Issue. The issue before the Subcommittee is the process for awarding Alternative Payment (AP) provider contracts.

Contract Awarding Process Overview. Current state regulations mandates that the AP contracts be provided first to the entity that previously held the contract. If that organization turns down the AP contract, the local educational agency (LEA) is offered the contract. If the LEA does not accept the contract, it is offered to the county, and then to any entity within the county that conducts similar work.

Benefits with Current Process. The current contract awarding process relies on the experience of the agencies that have administered the AP contracts for many years. These agencies have extensive experience with customer service for parents, with negotiating contracts with providers, and dealing with the unique issues related to child care administration. By continuing to offer contracts to the same agency every year, the state benefits from the agencies' many years of experience.

Problems with Current Process. The system of providing the AP contracts is not open to new agencies that may have experience and may be able to provide services for less cost than the current provider. By continuing to contract only with entities located within the county, the state may be losing out on the experience and administrative capability of entities outside of the county.

Options for Changes. The Legislature may wish to consider a pilot program to openly bid the AP contracts when the AP provider in an area willingly turns back their contract. This pilot program would not apply to all counties, but only those where the current AP releases the contract they hold with the state.

Staff Recommendation. Staff recommends that the Subcommittee adopt trailer bill language in concept to allow CDE to take bids for any AP service contract that is willingly turned back by the AP currently holding that contract.

ACTION: Hold open

ISSUE 12: Creating Efficiencies – Align AP and R&R Service Areas

Speakers:

- Camille Maben, Department of Education
- Rachel Ehlers, Legislative Analyst's Office
- Sara Swan, Department of Finance

Issue. The issue before the Subcommittee is the number of APs operating in the state and the efficiency of multiple service areas.

AP Overview. Currently, there are 82 APs in California. The CDE contracts with the AP to administer CalWORKs Stage 2, CalWORKs Stage 3, and the non-CalWORKs Alternative Payment Program at the local level. The APs in turn contract with the child care providers. The APs are responsible for both the administration of the programs and the support services to the families, developing payment agreements with the providers, and billing and collecting the family fees.

R&R Overview. The Resource and Referral Network (R&R network) was founded in 1976. California's federal child care development fund grant (CCDF) requires that four percent of the federal funds be used for child care quality improvement. California has chosen, through the state budget, to use a portion of these quality improvement dollars to fund the R&R network. The 73 R&R network agencies assist families in finding child care providers. They also maintain databases of child care providers in their service area, and work with providers to improve the quality of child care offered.

Create Greater Geographic Overlap. Currently, there are several small APs in California. Each agency has some basic costs from building rent to staff salaries that it incurs in operating. APs that serve more people may have a lower marginal cost per person served. By consolidating some of the service areas of the APs, the state could create efficiencies that may allow the APs to serve more people. The AP service areas could be made to overlap the R&R service areas. This would equate to roughly one AP per county. In some counties the R&R and the AP are already the same entity. Some highly populated counties, such as Los Angeles or San Francisco, have more than one AP and R&R due to the large number of people needing services.

Staff Recommendation. Staff recommends that the Subcommittee direct CDE to realign AP service areas to overlap with R&R network service areas in order to create some administrative efficiency.

ACTION: Hold open