

## HOW WILL THE GOVERNOR'S 2003-04 PROPOSED BUDGET AFFECT CALIFORNIA'S CHILD CARE AND DEVELOPMENT SYSTEM?

The Governor's 2003-04 Proposed Budget includes extensive changes to California's child care and development system, resulting in savings and policy changes. The Administration proposes to address several perceived concerns with the current child care system through a combination of funding cuts, program elimination, and realignment. The Governor's most sweeping child care proposal transfers a number of child care and other programs to counties along with a dedicated funding stream. The Administration also proposes to eliminate the CalWORKs Stage 3 child care program.

### A BRIEF OVERVIEW OF CALIFORNIA'S SUBSIDIZED CHILD CARE SYSTEM

California's subsidized child care system is complex and delivered through a number of programs with various eligibility requirements.<sup>1</sup> The California Department of Education (CDE) and Department of Social Services (DSS) administer subsidized child care programs at the state level.<sup>2</sup> At the local level, child care programs are administered by community-based organizations, schools, public agencies (including county welfare departments and county offices of education), and by some local colleges.

Generally, low-income parents may apply for child care assistance if they work, are seeking employment, are engaged in vocational training, or have a special need.<sup>3</sup> Families receiving subsidized child care must also have incomes no greater than 75 percent of the state median income.<sup>4</sup> Children in low-income families may also enroll in state preschool or Head Start programs, which provide opportunities for social and educational enrichment.<sup>5</sup> Parents may find the variety of options confusing and frustrating because not everyone who qualifies is able to receive child care due to limited funding and enrollment. In 2001, over one-quarter of a million children were in need of child care assistance in California.<sup>6</sup> Since funding levels have not been adequate to meet the actual need for quality subsidized child care, eligible families are held on waiting lists until funded slots become available.

Families that receive subsidized child care fall primarily into two separate categories, those who obtain child care through the welfare system (CalWORKs) and those who do not. Families may receive child care directly from their county welfare department if they receive cash aid and participate in a welfare-to-work program.<sup>7</sup> Other low-income families may enroll directly with a state contracted child care center; receive a voucher to enroll in a local child care center or family child care home program; or arrange informal license-exempt care. As families' incomes increase they pay graduated fees, and once families reach the income eligibility ceiling, they are no longer eligible to receive subsidized child care.<sup>8</sup>

### WHAT IS THE GOVERNOR'S PROPOSAL?

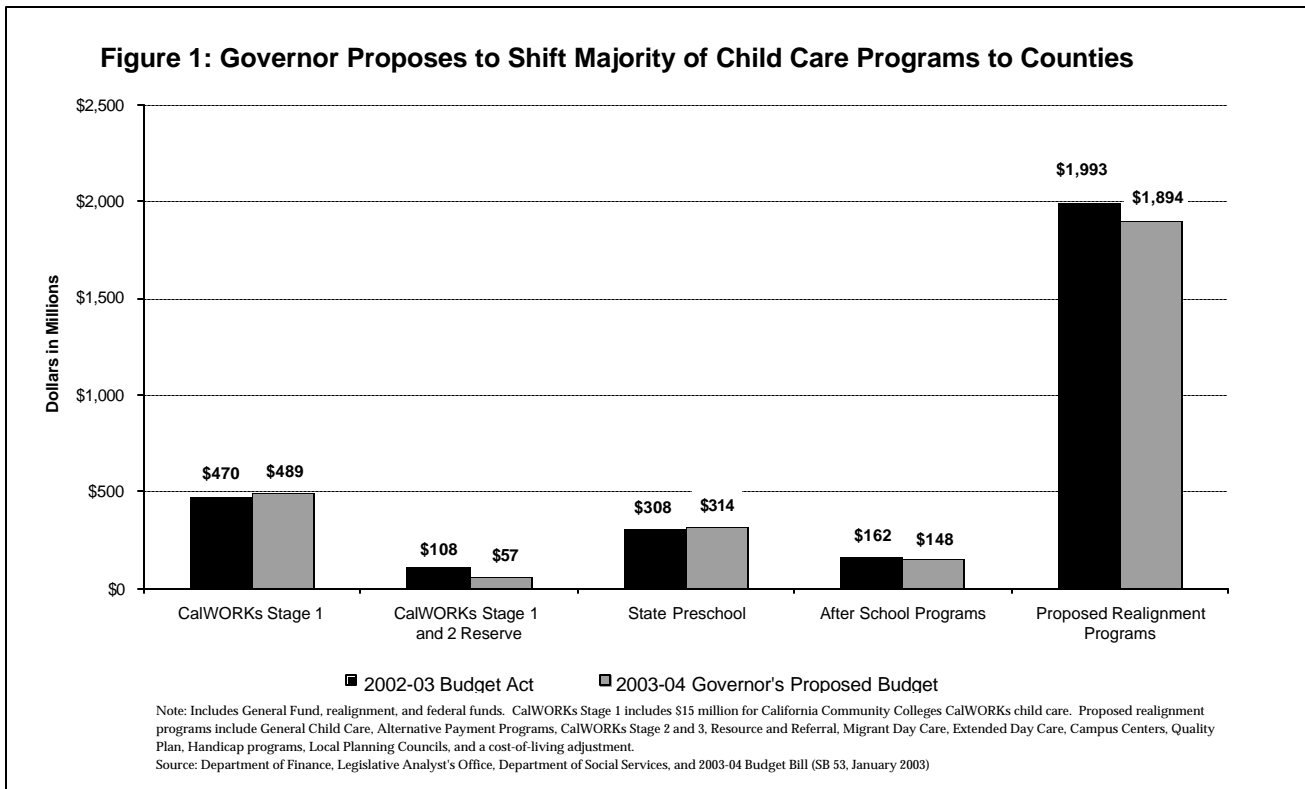
The Governor has proposed broad policy changes to the state's child care and development system in response to the current budget crisis. The Governor's Mid-Year Spending Reduction Proposals for 2002-03 included proposals to eliminate CalWORKs Stage 3 and the Child Development Policy Advisory

## WHAT IS THE GOVERNOR'S PROPOSAL?

The Governor's 2003-04 Proposed Budget:<sup>10</sup>

- Shifts responsibility and funding for a number of child care development programs from the California Department of Education (CDE) to counties as part of a larger realignment proposal. The proposal transfers responsibility and funding for General Child Care, Alternative Payment Programs, CalWORKs Stage 2 and Stage 3, Resource and Referral, Quality Plan, Migrant Child Care, Latchkey, Campus Centers, and Handicap programs from the state to counties. State Preschool and the After School Education and Safety Programs are not included in the proposed state-county realignment.
- Reduces funding for the After School Education and Safety Program by \$3.9 million.
- Funds CalWORKs Stage 1 child care at \$481 million in 2003-04. Stage 1 — the only child care program currently administered at the county level — is not included in the proposed state-county realignment and remains within the DSS budget.
- Eliminates the CalWORKs Stage 3 child care program for estimated General Fund savings of \$108.8 million in 2002-03. The Governor's December proposal notes that \$10 million of the savings are due to a lower than anticipated caseload during the current year, and the remaining \$98.8 million of savings are attributable to the program's elimination by April 1, 2003. The Proposed Budget reflects additional General Fund savings of \$78.3 million from the substitution of available federal funds for state General Fund dollars in 2002-03.
- Eliminates the Child Development Policy Advisory Committee (CDPAC) effective July 1, 2003, for General Fund savings of \$367,000.
- Shifts \$28 million from the Child Facilities Revolving Fund and \$96.7 million of unspent child care funds to replace current year funding for other K-14 education programs. In the past the Legislature has used unspent funds from prior years to meet child care needs.
- Doubles licensing fees for center and home licensed child care facilities.<sup>11</sup>
- Restructures the Community Care Licensing inspection schedule, shifting from a schedule of inspecting each facility every three years to inspecting 20 percent of facilities annually.<sup>12</sup>
- Provides \$62 million to the California Children and Families Commission, established by Proposition 10 of 1998, in anticipation of the revenue loss associated with the proposed \$1.10 tax increase on cigarettes and other tobacco products. Absent the backfill, revenues generated by the tax imposed by Proposition 10 would likely decline due to the decrease in consumption that typically occurs after an increase in cigarette and tobacco taxes.

Committee (CDPAC), as well as cuts to other child care programs.<sup>9</sup> Both proposals were initially rejected by the Legislature, but remain under consideration in deliberations over the 2003-04 Budget.



The Governor proposes to allocate \$2.9 billion for child care in the 2003-04 Proposed Budget (including federal funds), a 4.9 percent decrease from the 2002-03 Budget Act. This amount includes \$473.3 million (\$432.5 million General Fund) for programs administered by the CDE, \$531.4 million (\$51.6 million General Fund) for programs administered by the DSS, and \$1.894 billion (\$1.031 billion General Fund) shifted to the counties under the proposed state-county realignment. Figure 1 compares child care funding in the 2003-04 Proposed Budget to the 2002-03 Budget Act.

### ELIMINATION OF CALWORKS STAGE 3 CHILD CARE

The Governor's 2003-04 Proposed Budget eliminates the CalWORKs Stage 3 child care program for estimated 2002-03 General Fund savings of \$108.8 million. As noted in the Governor's Mid-Year Spending Reduction Proposals, \$10 million of the savings are due to a lower than anticipated caseload during the current year, and the remaining \$98.8 million of savings are attributable to the program's elimination by April 1, 2003. The Proposed Budget reflects additional General Fund savings of \$78.3 million from the substitution of federal funds for General Fund dollars in 2002-03.

The Legislature rejected the Governor's proposal in its deliberations over mid-year reductions, but may consider the proposal as part of negotiations over the 2003-04 Budget.

### How Vital Is CalWORKs Stage 3 Child Care to Working Families?

The Legislature has historically recognized the important role of child care subsidies in helping families that have left cash assistance for work. Since the 1998 implementation of welfare reform, the state has fully funded Stage 3 child care. The Governor's proposal eliminates CalWORKs child care subsidies for economically vulnerable families before many will be financially capable of assuming the full cost of quality care for their children.

## WHAT IS CALWORKS CHILD CARE?

In 1997, California law replaced the Aid to Families with Dependent Children (AFDC) with the California Work Opportunity and Responsibility to Kids (CalWORKs) program to comply with federal welfare changes.<sup>13</sup> The Legislature's intent in the CalWORKs child care program was to move families who were or had been receiving cash aid "from their relationship with county welfare departments to relationships with institutions providing services to working families."<sup>14</sup> CalWORKs offers a three-stage child care delivery system, assisting low-income families toward self-sufficiency.

**CalWORKs Stage 1:** County welfare departments administer CalWORKs Stage 1. A family is eligible when it enrolls in CalWORKs work activities, and may remain in Stage 1 for six months or less, unless welfare caseworkers consider the family to be too "unstable" to move to the second stage of child care, or agencies administering child care payments experience shortfalls in Stage 2 and Stage 3 funding.

**CalWORKs Stage 2:** The CDE administers Stages 2 and 3 through contracts with community-based organizations and public agencies and by providing eligible families with child care certificates and vouchers. Counties may transfer families from Stage 1 to Stage 2 child care when they are considered stable. "Diversion families" – those eligible for monthly cash aid that instead choose a lump sum payment or work support services in lieu of cash aid – may be enrolled directly in Stage 2 child care without passing through Stage 1. A family may receive Stage 2 child care for up to two years after leaving cash aid, as long as the family is income-eligible and the child is 13 years old or younger.

**CalWORKs Stage 3:** Stage 3 child care may be provided without a time limit to continue service to families that have reached their two-year time limit in the CalWORKs Stage 2 child care program. Eligibility for the program is restricted to CalWORKs recipients and former recipients who are income-eligible. A family is not guaranteed service in Stage 3, and a family may have to wait in Stage 2 child care for an available funded space.

Studies have shown that former CalWORKs recipients typically find employment in relatively low-paying industries and often continue to struggle to make ends meet on modest incomes.<sup>15</sup> A family of three leaves cash assistance when their income level reaches \$1,563 per month (equivalent to an hourly wage of \$9.02 per hour, assuming 40 hours per week and 52 weeks of work per year).<sup>16</sup> While an hourly wage of \$9.02 is significantly higher than the minimum wage, it is not enough for many working families to support two children without government assistance.

The gap between the cost of living and wages for low-income working families remains substantial, with thousands of families relying on cash assistance to supplement their income. In 2001, the CBP estimated the cost of living for California families to achieve a modest standard of living. In order to make ends meet, a single-parent family of three needs to earn a monthly wage of \$3,620 (\$20.89 per hour), and a two-parent (both working) family of four needs to earn a monthly wage of \$4,336 (\$12.51 per hour) to afford the cost of housing and utilities, child care, transportation, food, health care, clothing, household and other basic expenses, and taxes.<sup>17</sup> Families with lower earnings often make ends meet through the use of child care subsidies or other public services. Many low-income working families are unable to afford even a modest standard of living without assistance with their child care costs.

If Stage 3 is eliminated, approximately 55,000 children will lose their child care.<sup>18</sup> These working families will be forced to join already overcrowded waiting lists for alternative subsidized child care programs. Families that cannot afford the full cost of child care may be faced with choosing between lower quality, less costly care; leaving children unattended; decreasing the number of hours they work; or even leaving the workforce in order to provide quality care for their children – potentially pushing families back onto the welfare rolls.

### **Would Abolishing CalWORKs Stage 3 Eliminate Inequity in California’s Child Care System?**

The Governor has proposed to eliminate CalWORKs Stage 3 for over a year. Beyond the potential savings, the Administration maintained “an inequity in access to child care...encourages families to seek public assistance in order to access child care subsidies.”<sup>20</sup> The Administration characterizes the issue as one in which services to CalWORKs families denies subsidized child care from families with even lower incomes. To resolve this inequity, the Governor proposed eliminating CalWORKs Stage 3.

The Administration mischaracterizes the issue as one in which service to CalWORKs families denies subsidized child care to other families with even lower incomes. Families that qualify for CalWORKs cash aid by definition have exceptionally low incomes. If they were to apply for subsidies in the larger subsidized child care system, they should rise to the top of waiting lists and receive service before families with relatively higher incomes. Accordingly, families that qualify for CalWORKs are not preventing other families from receiving subsidized child care. The problem is not that CalWORKs and non-CalWORKs families receive distinctly different child care assistance or “privileges”; the problem is that the state’s allocated resources have not adequately covered the need for child care assistance in California.

In current practice, families receiving child care through CalWORKs have been able to receive child care continuously, as long as they remain income eligible and have the need for child care. As such, the child care experience of former recipients of CalWORKs has not differed markedly from that of other families enrolled in the general subsidized child care system. However, if CalWORKs Stage 3 were to be eliminated, former CalWORKs cash aid recipients would face a time limit on their subsidized child care, regardless of their income eligibility. Some families enrolled in subsidized child care would be able to receive care continuously (as long as they remain eligible and pay graduated family fees), while others would find their child care subsidies terminated after two years. Once timed-out, such families would be required to re-apply and may be placed on already long waiting lists for child care subsidies – creating a tangible division between those families that receive child care through the welfare system and those who do not.

In essence, eliminating Stage 3 replaces one inequity - the inability for all families that are in need and eligible to receive subsidized child care - with another. Eliminating Stage 3 in essence “punishes” those families that have worked their way off welfare by imposing time limits, while families that utilize child subsidies outside the welfare system can receive child care assistance for an indefinite uninterrupted period, as long as they meet eligibility requirements.

### **WHAT WILL STATE-COUNTY REALIGNMENT MEAN FOR CHILD CARE?**

In the 2003-04 Proposed Budget, the Administration argues that the state’s current child care and development system is too complex, inefficient, and inequitable, and proposes that shifting the responsibility from the state to the county will:

“facilitate greater coordination for needy families, enhance accountability and fraud prevention, reduce bureaucracy and administrative costs, and facilitate integration of local priorities and funding sources...to fill gaps in meeting child care needs more equitably than can be done while administered as a disjointed State program.”<sup>21</sup>

The Administration argues that only State Preschool and the After School Education and Safety Programs would remain under the jurisdiction of CDE “because these programs are primarily educational and not focused on meeting parents [sic] needs for employment.”<sup>22</sup> The Governor would also shift responsibility “to set program rules relating to eligibility, family fees, and provider reimbursement” to the county level.<sup>23</sup> Realignment would provide counties with a single block grant financed by a dedicated revenue stream. New revenues would come from:

- A one cent increase in the state’s sales tax rate, raising an estimated \$4.584 billion;
- Reinstatement of the 10 percent and 11 percent brackets on the very high-income taxpayers, raising an estimated \$2.580 billion; and
- A \$1.10 per pack increase in the state’s cigarette tax rate, raising an estimated \$1.170 billion.

At present, the Governor’s realignment proposal lacks substantive details and raises a number of policy concerns, including:

- *Whether the proposed revenue sources are adequate to meet the state’s current need for quality subsidized child care.*<sup>24</sup> The Administration’s proposed funding structure relies on dedicated tax increases. It is unclear whether revenue growth will keep pace with program costs in future years.
- *Whether the formula for allocating realignment funds among counties will incorporate county characteristics and changing needs.* How will the state respond, for example, to an increasing number of youth in some counties, and declining numbers in others?
- *Whether the Governor’s proposal to shift responsibility to set program eligibility, family fees, and reimbursement rates to the counties will lead to disparities that would encourage families to move between counties.*<sup>25</sup> The realignment proposal would essentially create 58 distinct child care systems that could have varying eligibility rules and requirements, potentially creating a more complicated and inequitable system as families navigate through different systems based on their county of residence. Child care is sufficiently expensive that disparities could encourage families to move from one county to another based on fees or higher eligibility limits.
- *Whether state regulation and quality controls, such as staffing ratios, would be maintained under the Governor’s proposal.* The Administration proposes to shift many child care program standards to the county level, while the 1991 realignment retained state responsibility for program requirements in response to advocates’ and legislative concerns over levels of quality and standards. Child care advocates are concerned that shifting child care and development programs from the jurisdiction of the CDE will lead to lower quality child care.<sup>26</sup> Can the state adequately ensure performance accountability and adherence to state standards?
- *Whether the programs currently proposed for realignment are the ‘right’ programs to realign.* The Governor incorporates the majority of child care development programs within the realignment proposal, but the Administration has not suggested including CalWORKs Stage 1, the only child care program that is predominantly administered by counties under existing law.

- *Whether a single block grant is an adequate funding structure to ensure that basic fundamental programs are sustained at the local level. Programs under realignment will be forced to compete within a limited funding allocation. Should the funding structure include several block grants by program area to ensure a basic level of services?*
- *Whether the state will ensure that counties meet federal maintenance of effort (MOE) spending requirements. Will counties find program funding in jeopardy if they are unable to provide matching funds? Will wealthier counties fare better than poorer counties?*

## CONCLUSION

Quality child care is a fundamental component of California's social infrastructure, empowering local families to move toward self-sufficiency and investing in the school readiness of California's children. Given the state's current fiscal position, the Governor's sweeping policy changes to California's child care and development system could help balance the budget in the short-term. However, adopting the Governor's Proposed Budget could have several unintended consequences, bringing more inequity and complexity into an already over-burdened and under-funded system.

---

*Deana Carrillo prepared this Budget Brief. The California Budget Project (CBP) was founded in 1994 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. General operating support for the California Budget Project is provided by foundation grants, individual donations, and subscriptions. Please visit the CBP's web site at [www.cbp.org](http://www.cbp.org).*

---

## ENDNOTES

- <sup>1</sup> See California Budget Project, *Lasting Returns: Strengthening California's Child Care and Development System* (May 2001) for a more detailed description of the structure and details of California's subsidized child care system.
- <sup>2</sup> The California Community Colleges and the California State University administer a few small programs as well.
- <sup>3</sup> Non-working parents may apply for child care if the child is at risk of neglect, abuse, or exploitation or if the parents are "seeking permanent housing for family stability" or medically or psychiatrically incapacitated (Education Code, Section 8263). A few programs, such as the part-day state pre-school program, provide child care assistance for low-income children regardless of their parents' employment status.
- <sup>4</sup> Children in families receiving cash assistance, considered at risk of abuse or neglect, or in homeless families, qualify for several child care programs without respect to income.
- <sup>5</sup> Congress will consider reauthorization of the Head Start program this year.
- <sup>6</sup> California Budget Project, *How Many Children Need Subsidized Child Care in California?* (March 28, 2001). The CBP estimated that 278,518 children were in need of subsidized child care beyond the number who could be served by funds allocated in the 2000-01 Budget Act.
- <sup>7</sup> Under welfare reform, county welfare departments and the DSS administer the first phase of child care for families receiving cash aid through the CalWORKs program. The CDE administers the second and third stage of CalWORKs child care.
- <sup>8</sup> Both CalWORKs and non-CalWORKs child care have the same income eligibility rules. Families are exempt from paying fees if their income is below 50 percent of the state median income. Families with higher incomes pay graduated fees on a sliding scale depending on family income.
- <sup>9</sup> Department of Finance, *Mid-Year Spending Reduction Proposals* (December 2002).
- <sup>10</sup> Department of Finance, *Governor's Budget Summary 2003-2004*.
- <sup>11</sup> Department of Finance, *Governor's Budget Summary 2003-04*, p. 135 and communications with the DSS. The fee schedule adjustment would increase home child care facility fees, which are currently \$25 to \$50, to \$50 to \$100; and center-based child care facility fees, which are currently \$100 to \$500, to \$200 to \$1,000, depending on the number of children served.
- <sup>12</sup> Approximately 10 percent of the facilities will be targeted based on potential child endangerment risk factors, while the remaining 10 percent will be chosen by random. Communication with the DSS.
- <sup>13</sup> See California Budget Project, *Lasting Returns: Strengthening California's Child Care and Development System* (May 2001), p. 16 for a more detailed description of the CalWORKs child care system.
- <sup>14</sup> Education Code, Section 8354.
- <sup>15</sup> California Budget Project, *TANF Reauthorization: A California Perspective* (April 2002), p. 3.
- <sup>16</sup> CBP calculations of Department of Social Services data for high-cost counties. The Governor's 2003-04 Proposed Budget includes a proposal that would decrease CalWORKs cash grants, which would reduce the maximum income a family of three can earn and still be eligible for cash aid from \$1,563 per month to \$1,479 per month (equivalent to an hourly wage of \$8.53).
- <sup>17</sup> Calculations assume 40 hours per week and 52 weeks of work per year. California Budget Project, *Making Ends Meet: How Much Does it Cost to Raise a Family in California?* (September 2001).
- <sup>18</sup> Discussions with the Legislative Analyst's Office (LAO).
- <sup>19</sup> See California Budget Project, *Shifting the Burden on Subsidized Child Care: Will Families Be Able to Afford the Governor's Plan?* (April 2002), for a description of the Administration's previous proposal.
- <sup>20</sup> Department of Finance, *Governor's Budget Summary 2002-03*, p. 48.
- <sup>21</sup> *Ibid.*, p. 88.
- <sup>22</sup> *Ibid.*
- <sup>23</sup> *Ibid.*, p. 22.
- <sup>24</sup> The estimated \$1.031 billion cost to counties is based on \$968 million 2002-03 General Fund spending on the proposed realigned programs, \$39 million for families currently in CalWORKs Stage 3, and \$24 million for a cost-of-living adjustment. The proposal does not include additional funds to provide child care to families that will be timing out of Stage 2 in 2003-04.
- <sup>25</sup> Department of Finance, *Governor's Budget Summary 2003-04*, p. 22.
- <sup>26</sup> See a description of the position of several child care advocates at [www.cdpi.net/budget.htm](http://www.cdpi.net/budget.htm).