

CALIFORNIA BUDGET PROJECT

Starting Strong:

Why Investing in Child Care and Development Programs Is Critical for Families and California's Economic Future

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THE CALIFORNIA BUDGET PROJECT
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Acknowledgments

- Hope Richardson prepared this chartbook.

California Budget Project

- The CBP was established in 1995 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 the economic and social well-being of low- and middle-income Californians. Support for the CBP comes from foundation grants, subscriptions, and individual contributions. Please visit the CBP's website at www.cbp.org.

Overview


- California's child care programs provide safe and affordable care, building a foundation for children's success and helping lower-income parents find and keep jobs. Preschool and afterschool programs provide additional child development options for California's families.
- State policymakers have cut total funding for child care and preschool in recent years – by nearly 40 percent since 2007-08 – to help close budget gaps. As a result, significantly fewer children are now served by California's child care and state preschool programs.
- The 2013-14 budget offered modest improvements after years of cuts to child care and state preschool programs.
- Even with these improvements, however, the 2013-14 budget funded about 110,000 fewer child care and state preschool slots than the 2007-08 budget – a decline of nearly one-quarter.

Overview (continued)

- During the Great Recession and in its aftermath, policymakers made deep cuts to CalWORKs child care, one of the state's key resources for families who are struggling to find work and attain self-sufficiency.
- Policymakers also made other changes that weakened the state's child care and development system, including lowering the income eligibility limit for child care and state preschool, introducing a fee for part-day state preschool, and failing to update subsidized child care payment rates.
- California's economic recovery has yet to reach many families, with more than two dozen counties still facing double-digit unemployment rates. Economic challenges facing California even before the recession began, such as wage stagnation and widening inequality, continue today.
- Improving access to high-quality, affordable child care could provide a critical boost for California's low- and moderate-income families, potentially extending the reach of the state's economic recovery.

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Part 1:

High-Quality, Affordable Care Benefits Children, Parents, and Employers

Strong Child Care and Preschool Programs Build a Foundation for Children's Success

- Research shows that strong child care and preschool programs can promote kids' future academic success. Specifically:
 - Children from low-income families who receive high-quality child care exhibit stronger reading and math skills in elementary school than children who did not receive such care.
 - Children from low-income families who complete high-quality preschool show stronger academic skills in elementary school than their low-income peers who did not attend such a preschool. These preschool graduates are also less likely to repeat grades or to be enrolled in special education. In addition, they are more likely to graduate from high school than children who did not attend high-quality preschool.

Child Care Assistance Benefits Parents and Employers

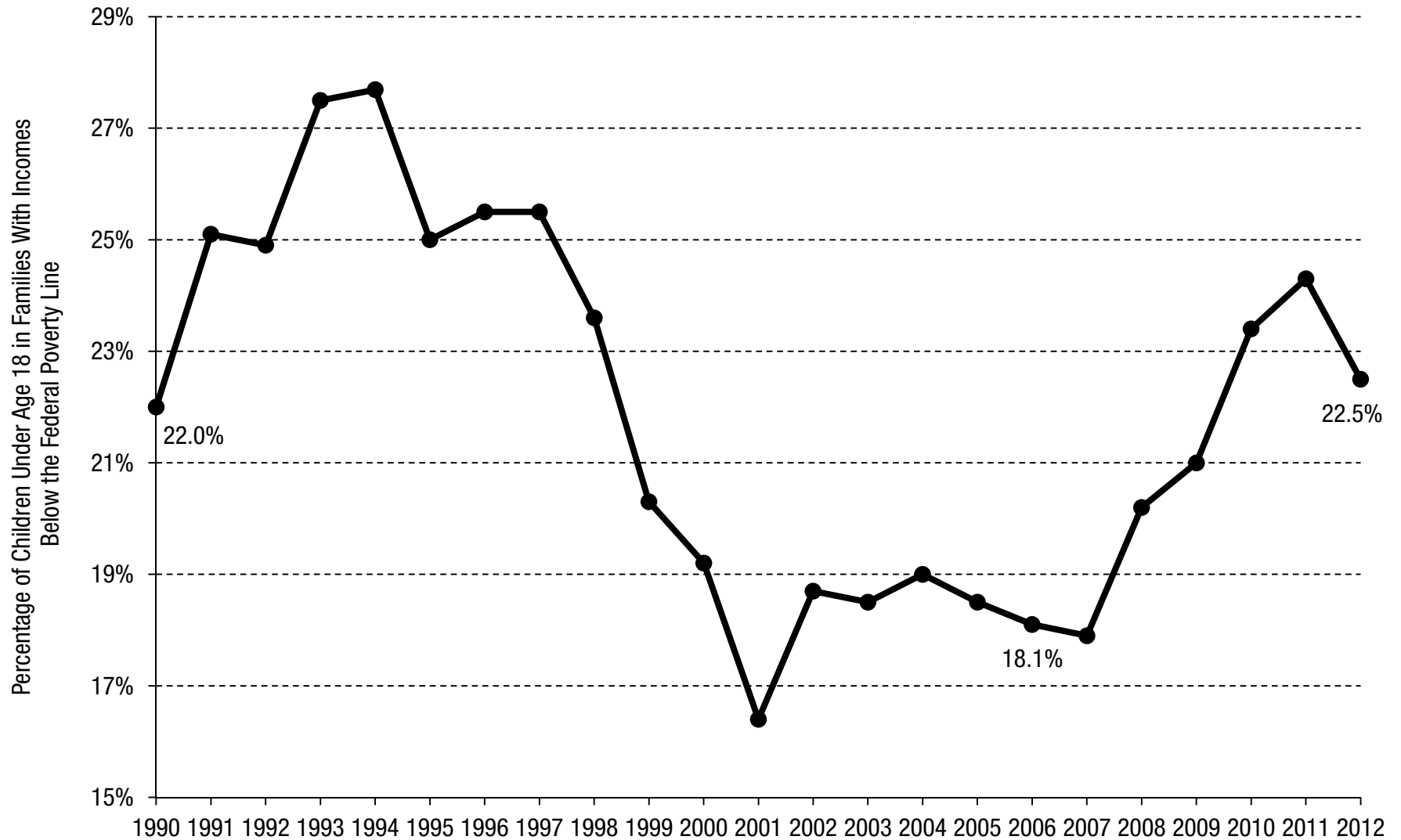
- Studies show that child care assistance helps working parents and their employers. Specifically:
 - Parents with access to child care are more likely to be employed and to have higher earnings than parents who lack such assistance.
 - Single mothers who receive child care are more likely to retain their jobs than those who do not receive such assistance.
 - Child care assistance allows parents to succeed on the job by reducing the chances that they will have to miss work or cut back their hours due to child care responsibilities.

Many California Families Struggle to Afford Child Care

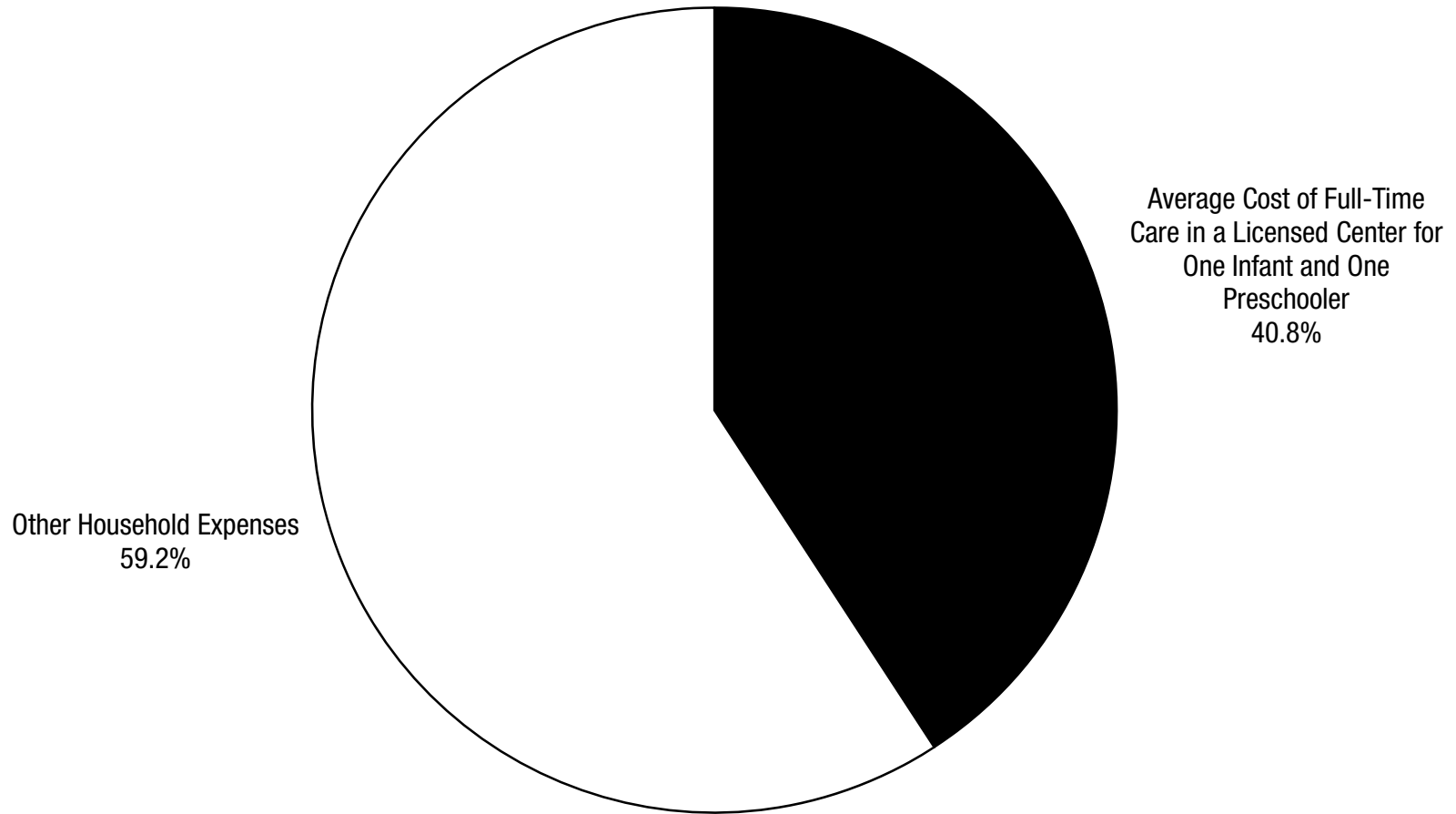
- Many California families live in poverty. A total of 2.1 million California children – nearly one in four – are in families with income below the poverty line.
- Child care is one of the most expensive items in a household budget. The high cost of child care makes child care assistance for low-income families even more important.
- Without access to child care assistance:
 - A California family of four earning \$46,897 – \$1 above the maximum income at which they could qualify for subsidized child care – would spend 40 percent of their household budget on the average cost of full-time care in a licensed center for an infant and a preschooler.
 - A single parent working full-time at the state’s minimum wage would spend nearly half of his or her income on full-time, center-based care for a preschool-aged child.

Nearly One Out of Four California Children Were Living in Poverty in 2012

Child Poverty Rate Remains Nearly One-Fourth Higher Than in 2006, the Year Before the Great Recession Began



The Average Cost of Child Care in California Makes Up 40 Percent of the Household Budget for a Family of Four Whose Income Is Just Above the Eligibility Limit




2013-14 Income Eligibility Limit for Child Care Assistance for a Family of Four, Plus \$1 = \$46,897

Access to Affordable Child Care Is a Challenge for Many California Families

- Demand for subsidized child care far exceeds available supply. More than 193,000 children were on waiting lists for California's child care and development programs as of 2011, when funding for the state's Centralized Eligibility List (CEL), which tracked the number of children on counties' waiting lists, was eliminated.
- Many parents are seeking full-time child care or care during nontraditional hours to accommodate their work schedules, but the availability of this care is limited. In addition, demand for licensed infant and toddler care outstrips supply.
- An estimated 8 percent of infants and toddlers whose families qualify for child care assistance are served by California's subsidized programs, according to a 2012 study by the RAND Corporation. The estimates are higher for three-year-olds (34 percent) and four-year-olds (65 percent).



Part 2: Overview of California's Child Care and Development Programs



California's child care and development programs provide safe and affordable care that helps parents find and keep jobs.

California's Child Care and Development Programs

- **California's child care programs (CalWORKs and non-CalWORKs)** offer assistance to eligible parents who are working, seeking employment, or participating in a job-training program. Families in the CalWORKs (California Work Opportunity and Responsibility to Kids) Program as well as lower-income families who are not enrolled in CalWORKs may receive child care assistance.
- **The California State Preschool Program (CSPP)** provides full- and part-day preschool for eligible three- and four-year-olds from low- and moderate-income families.
- **State and federal afterschool programs** provide academic enrichment for students in kindergarten through 12th grade.

California's Child Care Programs: CalWORKs

- CalWORKs – California's welfare-to-work program – helps parents obtain subsidized child care from the provider of their choice. Families may continue to receive child care assistance after leaving CalWORKs if they still have a need for care and their income does not exceed a certain level – \$42,216 for a family of three, for example.
- **CalWORKs child care** is offered in three “stages”:
 - Stage 1 generally provides child care for up to six months after families begin receiving cash assistance.
 - Stage 2 provides child care to families who have transitioned from Stage 1. Families may stay in Stage 2 for up to two years after leaving CalWORKs.
 - Stage 3 provides child care to families who reach the Stage 2 time limit if they remain eligible.

California's Child Care Programs: Non-CalWORKs

- Lower-income families who have not participated in CalWORKs may access child care through other programs.
- A family of three must have an income of \$42,216 or less to qualify. Families are charged a fee based on their income, but very-low-income families do not have to pay.
- California's child care programs available to low-income families not participating in CalWORKs include:
 - **General Child Care** – operated by licensed centers that contract with the state.
 - The **Alternative Payment Program** – administered by local agencies that help families obtain subsidized child care from the provider of their choice.

The California State Preschool Program

- The California State Preschool Program (CSPP) provides full- and part-day preschool for eligible three- and four-year-olds from low- and moderate-income families.
- Families generally must meet the same income guidelines applicable to child care to qualify for state preschool. State law, however, allows up to 10 percent of families in the CSPP to have incomes up to 15 percent above the income eligibility limit.
- Parents are not required to be employed or to participate in a job training program to qualify for part-day preschool.

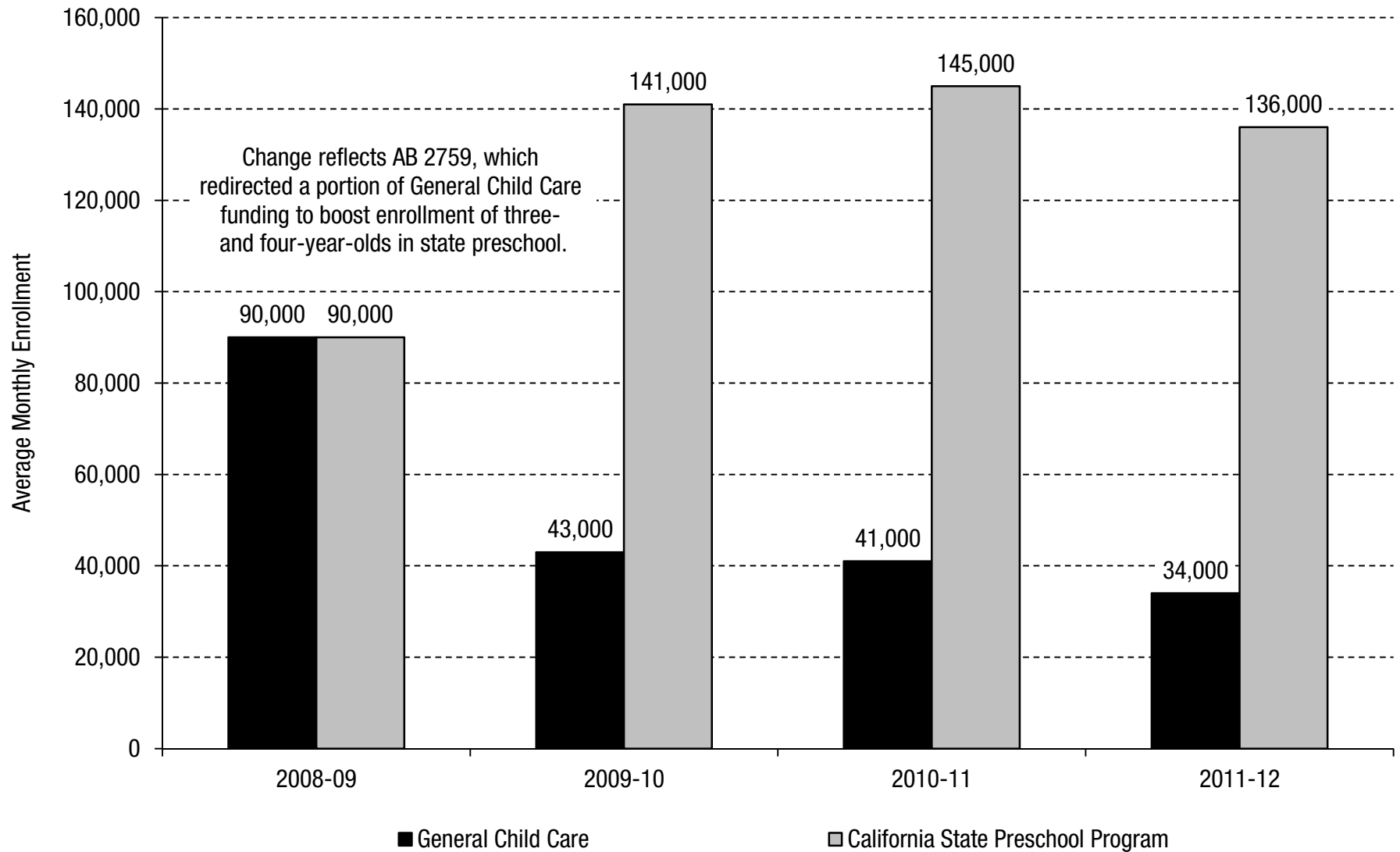
Preschool Enrollment Increased in 2009-10 Due to a State Policy Change


- Legislation (AB 2759 of 2008) expanded state preschool in 2009-10, creating the California State Preschool Program by consolidating funding from several early care and education programs.
- Local child care contractors were given flexibility to shift funds between General Child Care and the CSPP each year to best meet the needs of working families. This means that some of the dollars that had previously supported child care for three- and four-year-olds in state-licensed centers are now used to expand the number of full-day preschool slots.

Preschool Enrollment Increased in 2009-10 Due to a State Policy Change (continued)

- Preschool enrollment increased sharply when AB 2759 took effect – by more than 50 percent between 2008-09 and 2009-10. Also in 2009-10, there was a corresponding decline in General Child Care enrollment as three- and four-year-olds increasingly were served by the CSPP.
- Because General Child Care and the CSPP are subject to similar standards, the experience of preschool-aged children has remained much the same.

Enrollment in the California State Preschool Program Increased in 2009-10 Due to a State Policy Change

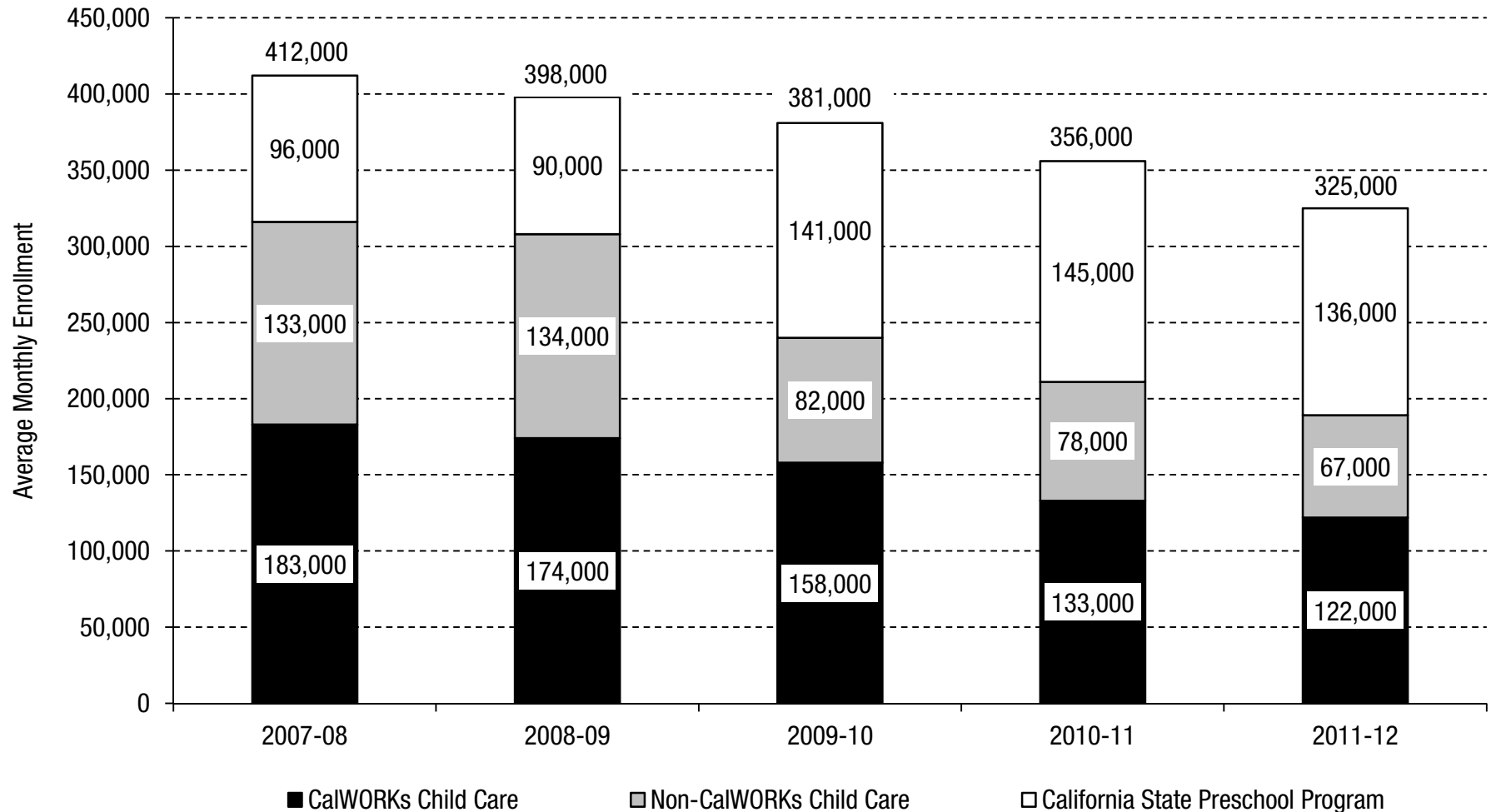




The total number of children served by California's child care and state preschool programs combined has declined significantly since 2007-08.

Total Child Care and Preschool Enrollment Dropped by Nearly 90,000 Between 2007-08 and 2011-12

Preschool Enrollment Increased and Non-CalWORKs Child Care Enrollment Dropped in 2009-10 Due to Implementation of AB 2759



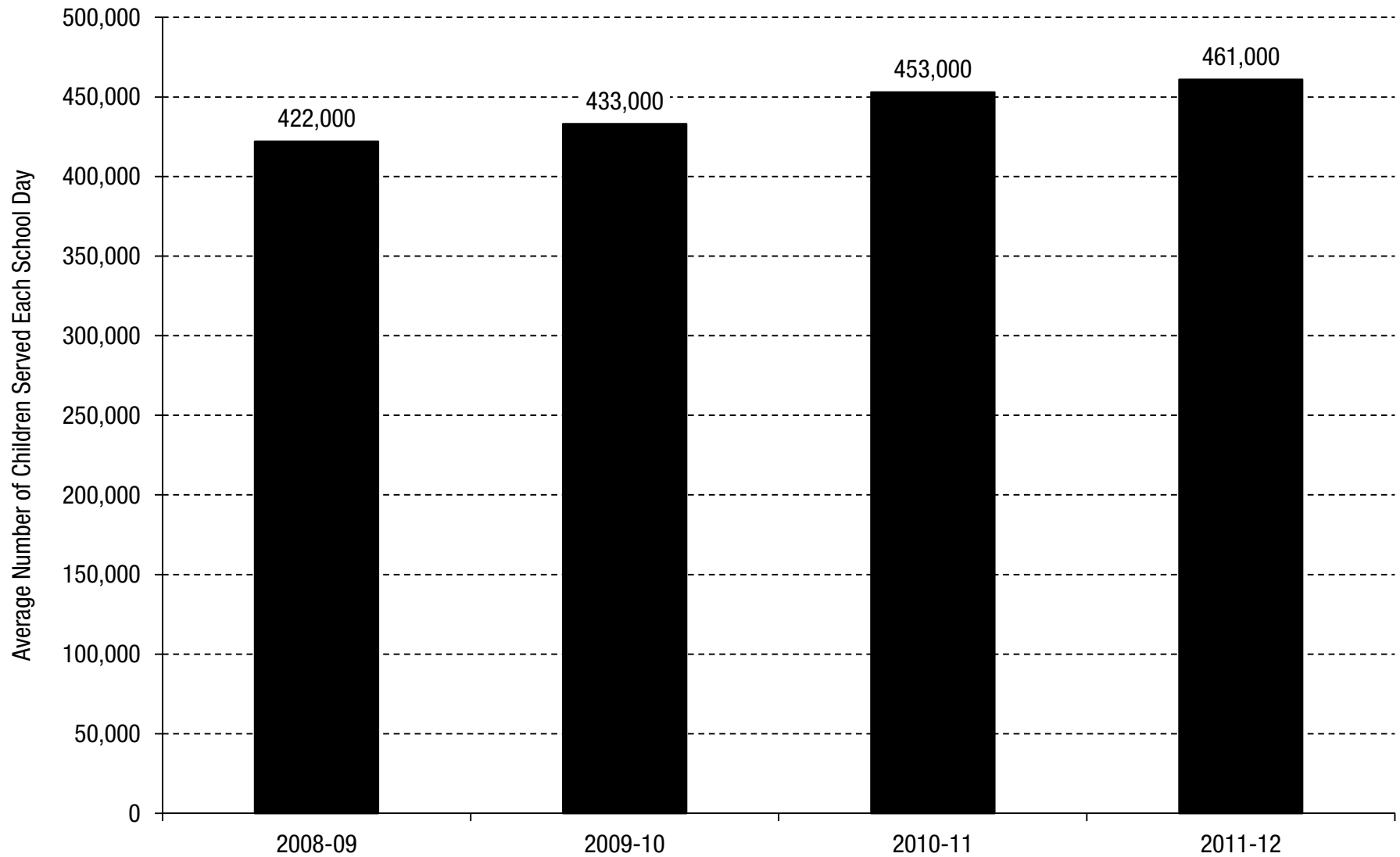
Note: Figures are rounded to the nearest 1,000. Annual totals and child care subtotals are CBP estimates based on state data.

Source: California Department of Education, Department of Finance, and Department of Social Services

State and Federal Afterschool Programs

- In addition to California's child care and preschool programs, the state provides academic enrichment for students in kindergarten through ninth grade through the After School Education and Safety (ASES) Program.
- Proposition 49 of 2002 requires California to provide approximately \$550 million each year for ASES, a funding mandate that was triggered in 2006-07. Previously, the state spent less than \$125 million per year on afterschool programs.
- The federal 21st Century Community Learning Centers Program provides additional funding to support afterschool programs for disadvantaged K-12 students.


Afterschool Program Enrollment Has Increased in Recent Years





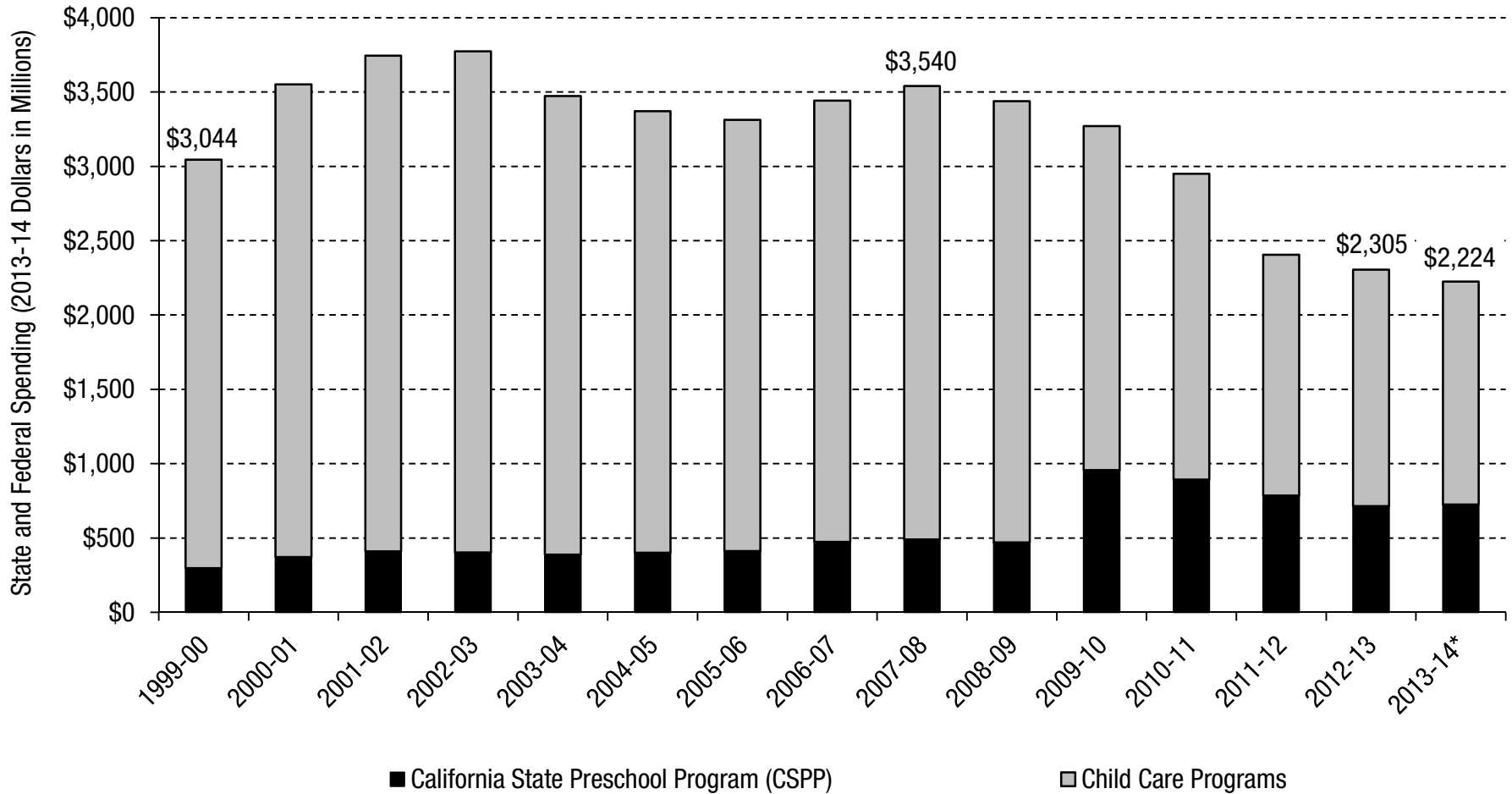
Part 3:

California's Child Care and Development Programs in the Wake of the Great Recession



State policymakers made deep cuts to child care and preschool programs in recent years to help close budget gaps.

Combined Spending on Child Care and Preschool Has Declined by Nearly 40 Percent Since 2007-08, After Adjusting for Inflation



* 2013-14 enacted.

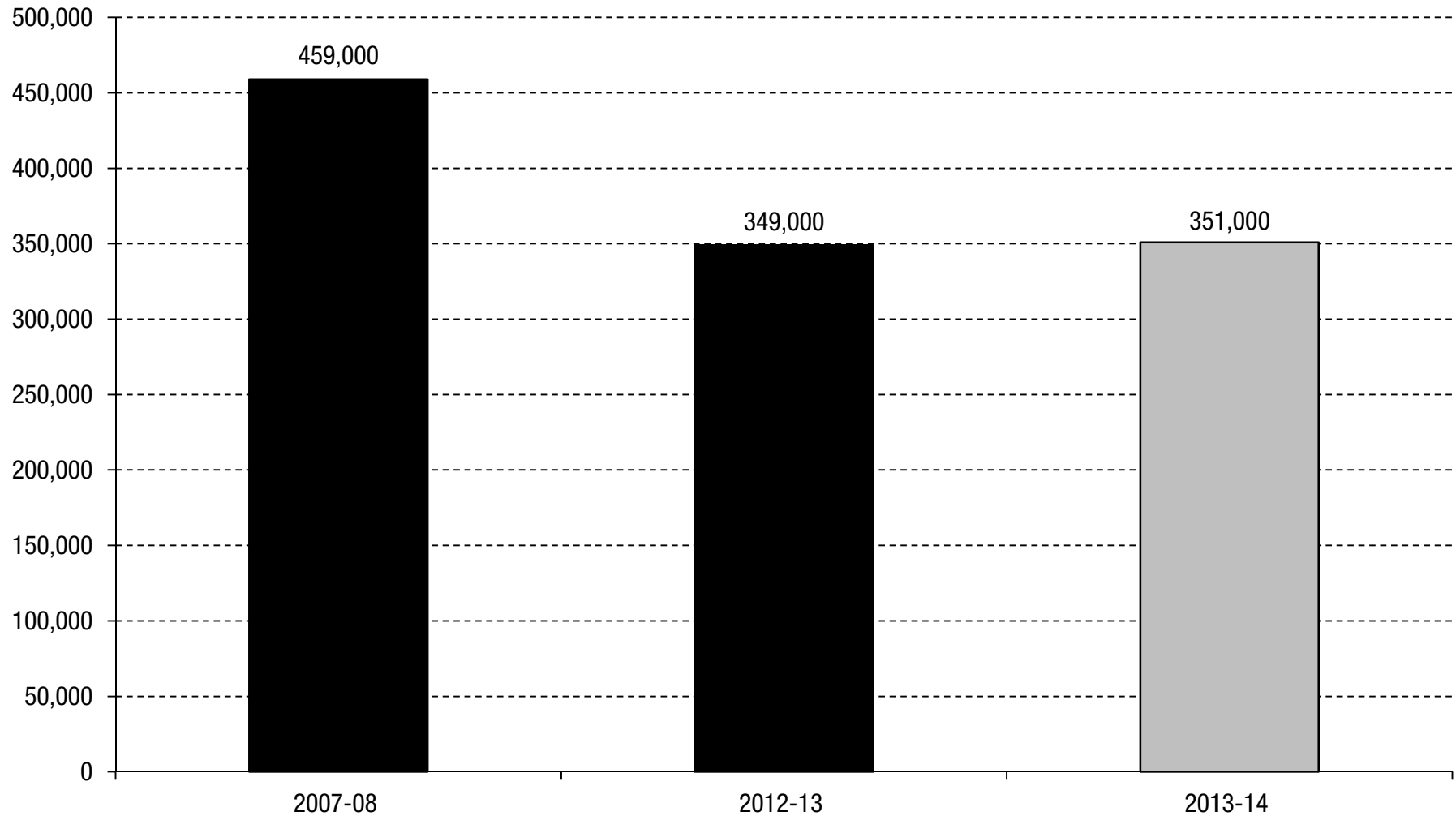
Note: "Child Care Programs" include both CalWORKs and non-CalWORKs child care. Beginning in 2009-10, estimated General Child Care dollars used to support preschool slots are classified as CSPP dollars.

Source: California Department of Education, Department of Finance, Department of Social Services, and Legislative Analyst's Office

The 2013-14 Budget Offered Modest Improvements After Years of Cuts to Child Care and State Preschool

- California's 2013-14 budget funds an estimated 351,000 "slots" for child care and state preschool, up slightly from the number in the 2012-13 budget.
- The 2013-14 budget:
 - Provides \$25 million in additional funding for state preschool.
 - Reappropriates \$10 million in unspent funds from the 2012-13 fiscal year to expand non-CalWORKs child care slots in 2013-14.
 - Directs an additional \$16 million General Fund dollars to child care programs in order to compensate for the automatic federal spending cuts known as sequestration.
- Despite these changes, the number of funded slots remains nearly one-quarter below what it was in the 2007-08 budget.

State Budget Cuts Have Reduced the Number of Child Care and State Preschool Slots by Nearly One-Quarter Since 2007-08



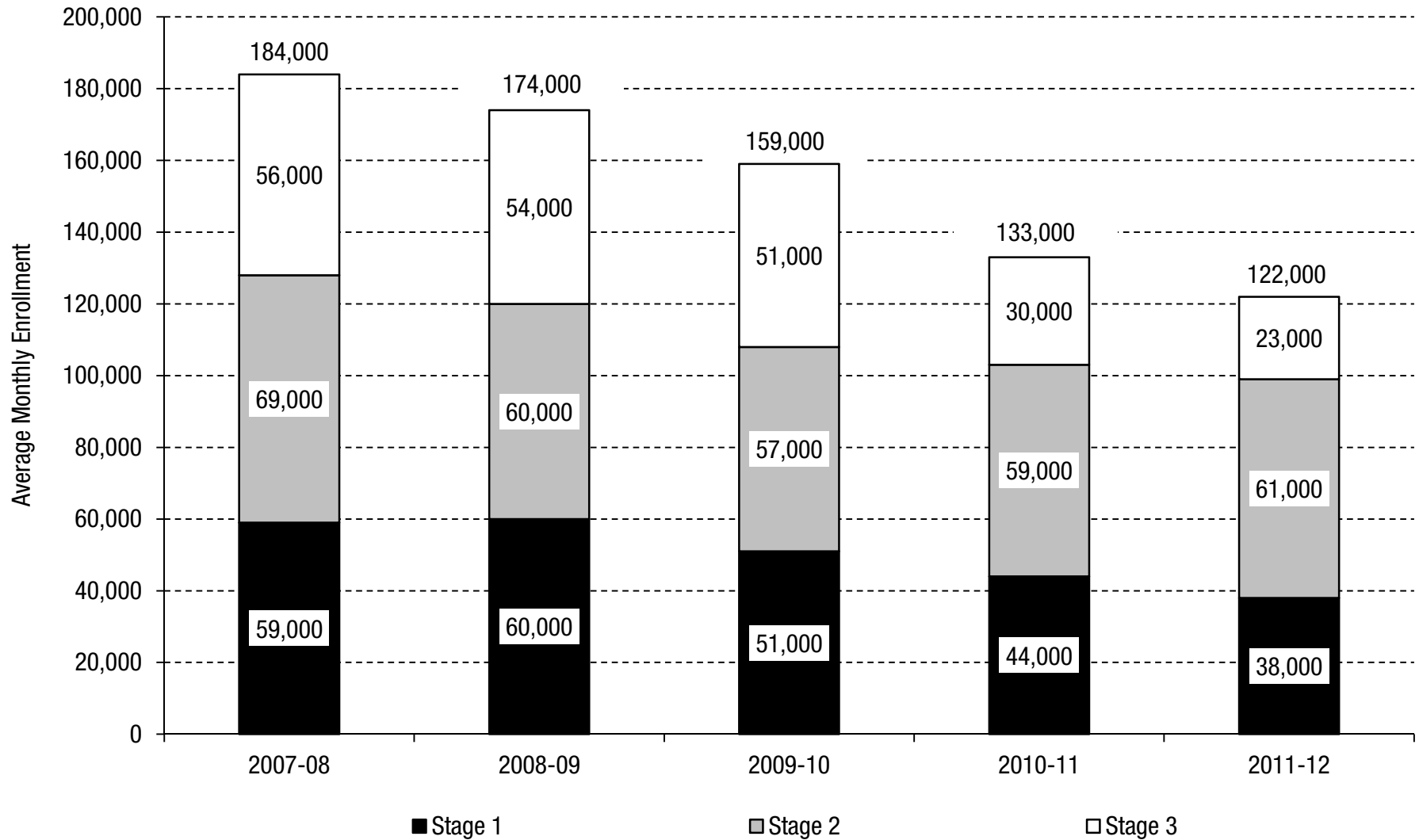
Note: Reflects slots funded with federal and/or state dollars as of the enacted budget for each year, except that 2012-13 also reflects impact of \$13.5 million midyear augmentation to CalWORKs Stage 3 child care. Child care includes CalWORKs and non-CalWORKs programs.

Source: Department of Finance and Legislative Analyst's Office

CalWORKs Child Care Has Been Cut Deeply

- CalWORKs child care is one of the state's key resources for families who are struggling to find work and attain self-sufficiency.
- Policymakers made deep cuts to CalWORKs child care in recent years, contributing to an enrollment drop of more than 60,000 between 2007-08 and 2011-12, the most recent year for which complete enrollment data are available.
- Some child care cuts affected families with young children who had recently enrolled in the CalWORKs Program, while other cuts affected parents who had found employment and were no longer receiving CalWORKs cash assistance, but who continued to rely on CalWORKs child care.

CalWORKs Child Care Enrollment Dropped by One-Third Between 2007-08 and 2011-12



Note: Figures are rounded to the nearest 1,000.

Source: California Department of Education, Department of Finance, and Department of Social Services

Cuts to CalWORKs Stage 1 Child Care Limited Some Parents' Engagement in Welfare-to-Work Activities

- The Legislature reduced funding for CalWORKs Stage 1 child care by \$215 million in 2009-10, a cut that remained in effect through 2011-12.
- To reflect the lower funding level, legislators exempted certain parents with young children from work participation requirements.
- This change reduced some families' need for child care, but also limited parents' opportunities to engage in welfare-to-work activities.
- The 2012-13 budget phased out the work exemption for most parents of young children and required counties to reengage these parents in welfare-to-work activities during 2014. However, the budget agreement also shortened the window of time available for CalWORKs parents to participate in the full array of state-allowed activities from 48 to 24 months.
- The projected Stage 1 enrollment for 2013-14 of about 43,000 is markedly lower than in the years before the funding cut.

Cuts to CalWORKs Stage 3 Disrupted Child Care for Working Families

- Stage 3 child care assists former CalWORKs participants who have transitioned off cash assistance but are earning a low income.
- Stage 3 has historically accommodated all qualifying former CalWORKs participants, but several changes in recent years have prevented eligible children from enrolling and caused some families to lose access to Stage 3 child care.

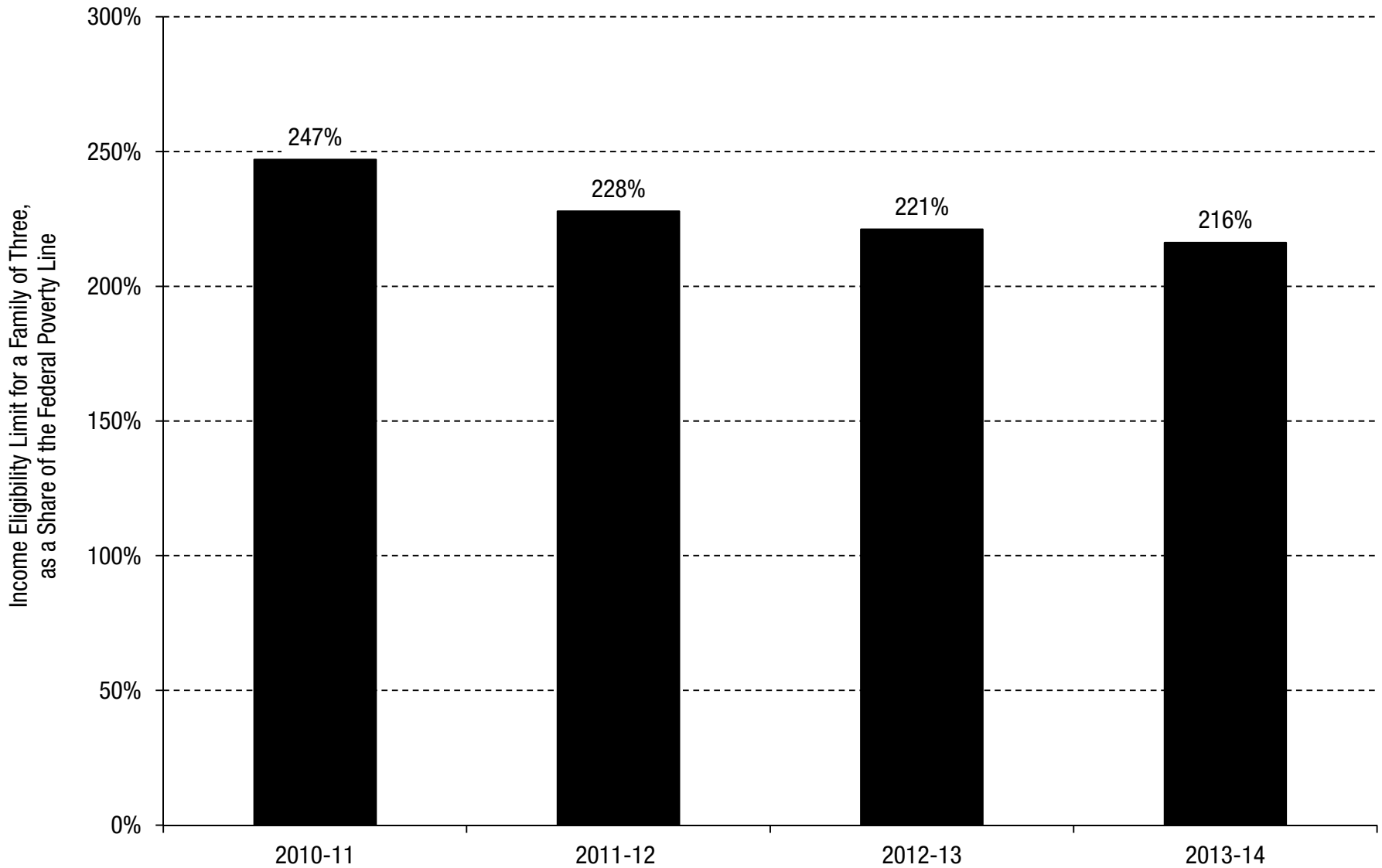
Cuts to CalWORKs Stage 3 Disrupted Child Care for Working Families (continued)

- In 2010, then-Governor Arnold Schwarzenegger vetoed all funding for Stage 3 child care that the Legislature included in the 2010-11 budget. Although the state subsequently restored funding, the number of children enrolled in Stage 3 plummeted from 51,000 in 2009-10 – the year before the veto – to 30,000 in 2010-11.
- In addition, in the past few years, Stage 3 enrollment estimates assumed in the budget were lower than the actual need. Therefore, funding was not always sufficient to enroll all qualifying families. In some cases, counties were able to accommodate these families through other programs, but in other cases families may not have received needed child care assistance.
- The 2013-14 Budget Act includes provisions intended to improve funding flexibility if actual enrollment exceeds budget estimates, helping ensure that families' access to child care is not disrupted.

State Policymakers Lowered the Income Eligibility Limit for Child Care and State Preschool in 2011-12


- The income eligibility limit is the highest income at which a family qualifies for assistance with child care and state preschool expenses.
- Policymakers lowered this limit in 2011-12, causing thousands of children to lose access to care.
- The income eligibility limit remains at the reduced level of 70 percent of California's 2005 state median income (SMI). The current income eligibility limit is \$42,216 for a family of three.
- In 2013-14, the income eligibility limit for a family of three is equal to 216 percent of the federal poverty line, down from 247 percent of the poverty line in 2010-11.

The Income Eligibility Limit for Child Care and State Preschool Has Moved Closer to the Federal Poverty Line



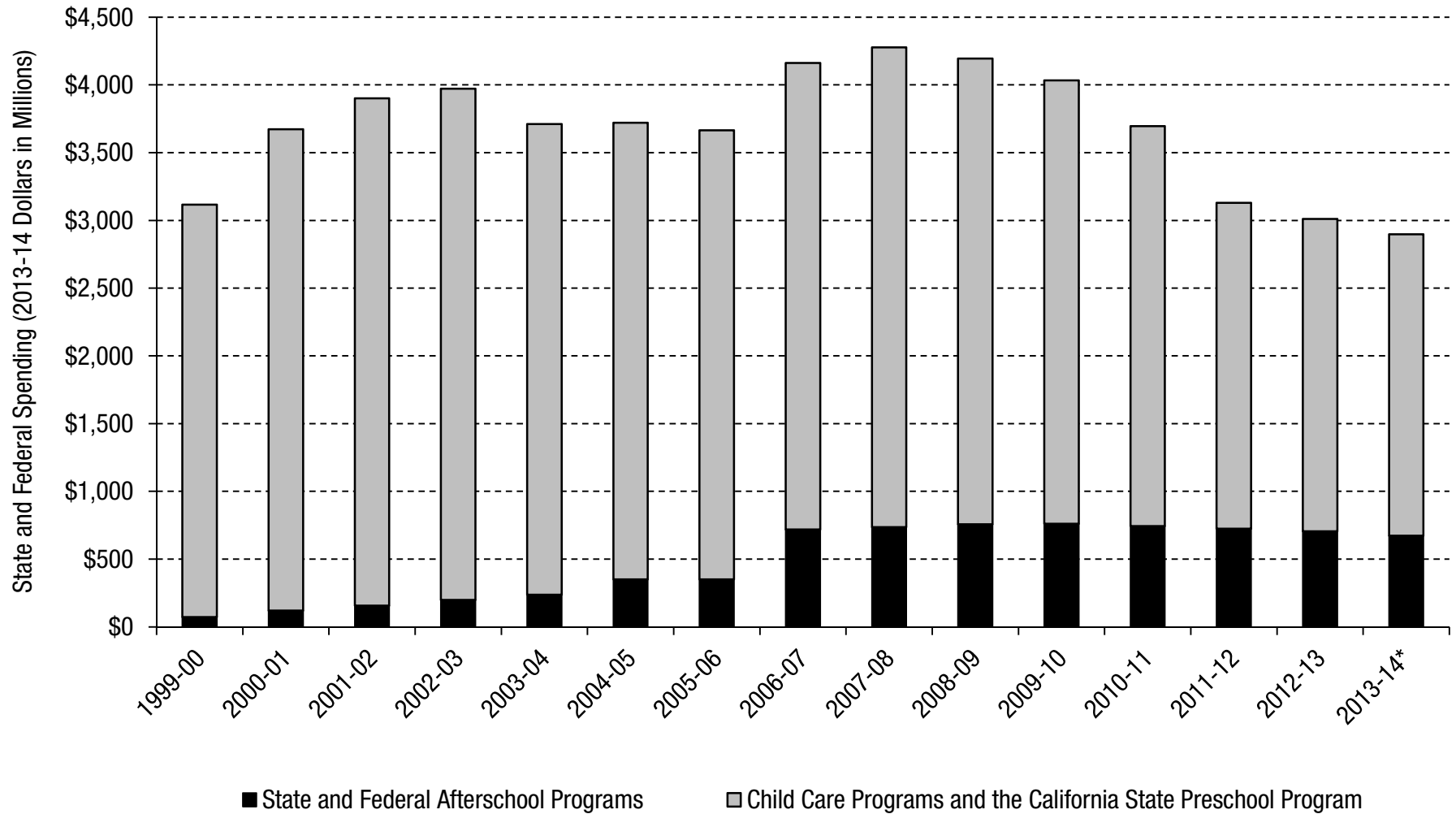
Additional Policy Choices Have Weakened the State's Child Care and Development System

- In addition to the actions mentioned previously, state lawmakers have made other policy choices in recent years that have weakened the state's child care and development system. These policy decisions include:
 - Introducing a fee for part-day state preschool in 2012-13, which caused some families to disenroll or not enroll their children in the program.
 - Not updating subsidized child care payment rates in recent years. For example, the Regional Market Rate (RMR) that determines child care voucher amounts is based on data from the 2005 statewide survey of provider rates. As vouchers lose purchasing power, low-income families who rely on these subsidies have access to fewer child care providers.
 - Lowering reimbursement rates for “license-exempt” child care providers, typically friends or relatives who provide care during nontraditional hours such as nights and weekends.



Compared to a decade ago, afterschool programs account for a larger share — and child care and preschool a smaller share — of child care and development funding.

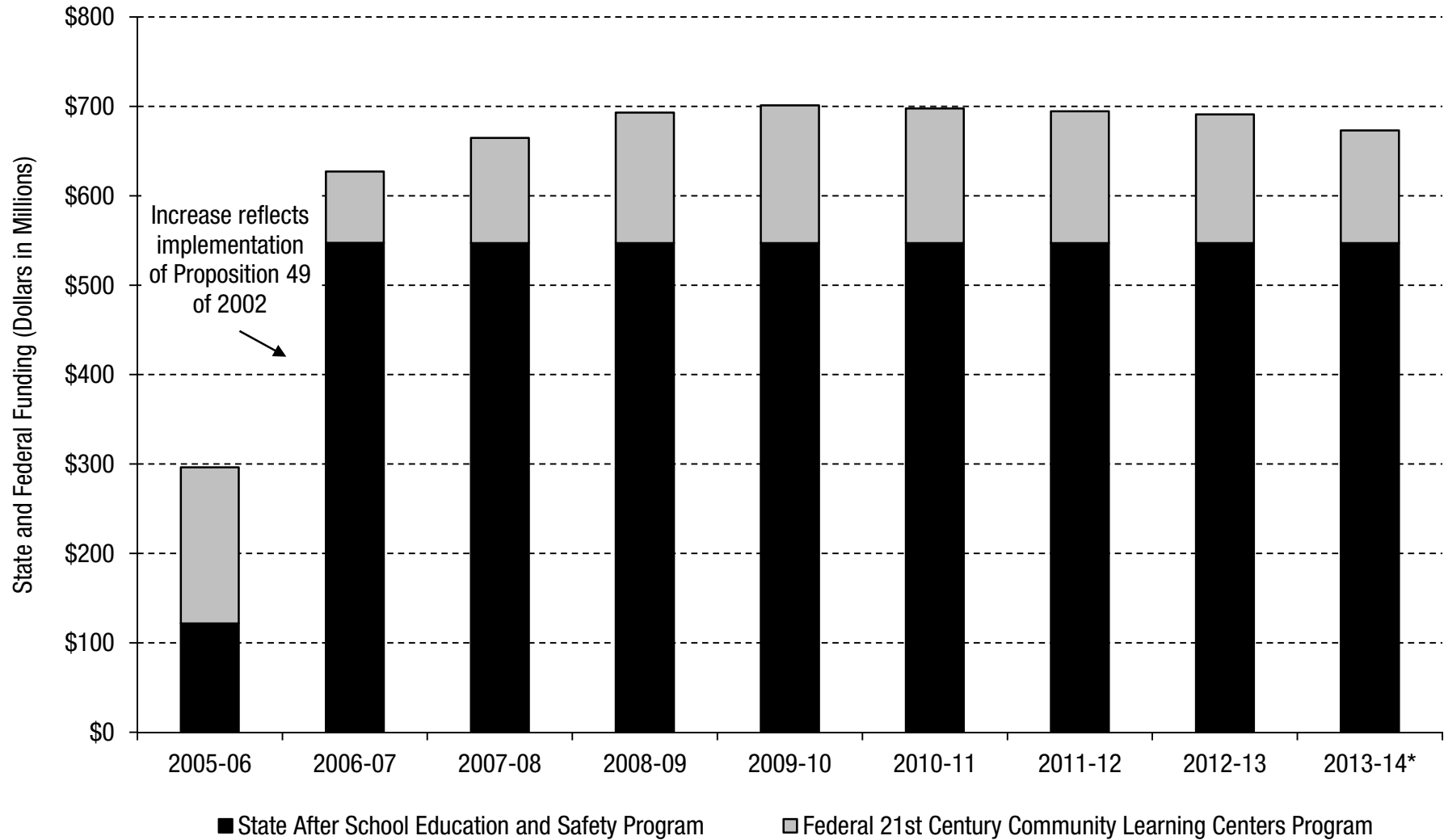
Afterschool Funding Increased Sharply in 2006-07 and Has Remained Relatively Stable, While Funding for Other Child Care and Development Programs Has Declined




State Afterschool Funding Has Remained Relatively Stable in Recent Years Due to Proposition 49

- As a result of Proposition 49 of 2002, which requires the state to spend approximately \$550 million each year on afterschool services, state afterschool funding has remained relatively stable in recent years – even as policymakers have made deep cuts to child care and preschool programs.
- Afterschool funding comprises an estimated 23 percent of child care and development funding in 2013-14, compared to just over 2 percent in 1999-00, before Proposition 49 took effect.
- In contrast, federal afterschool funding in California varies from year to year and has declined from \$154 million in 2009-10 to a projected \$126 million in 2013-14, without adjusting for inflation.

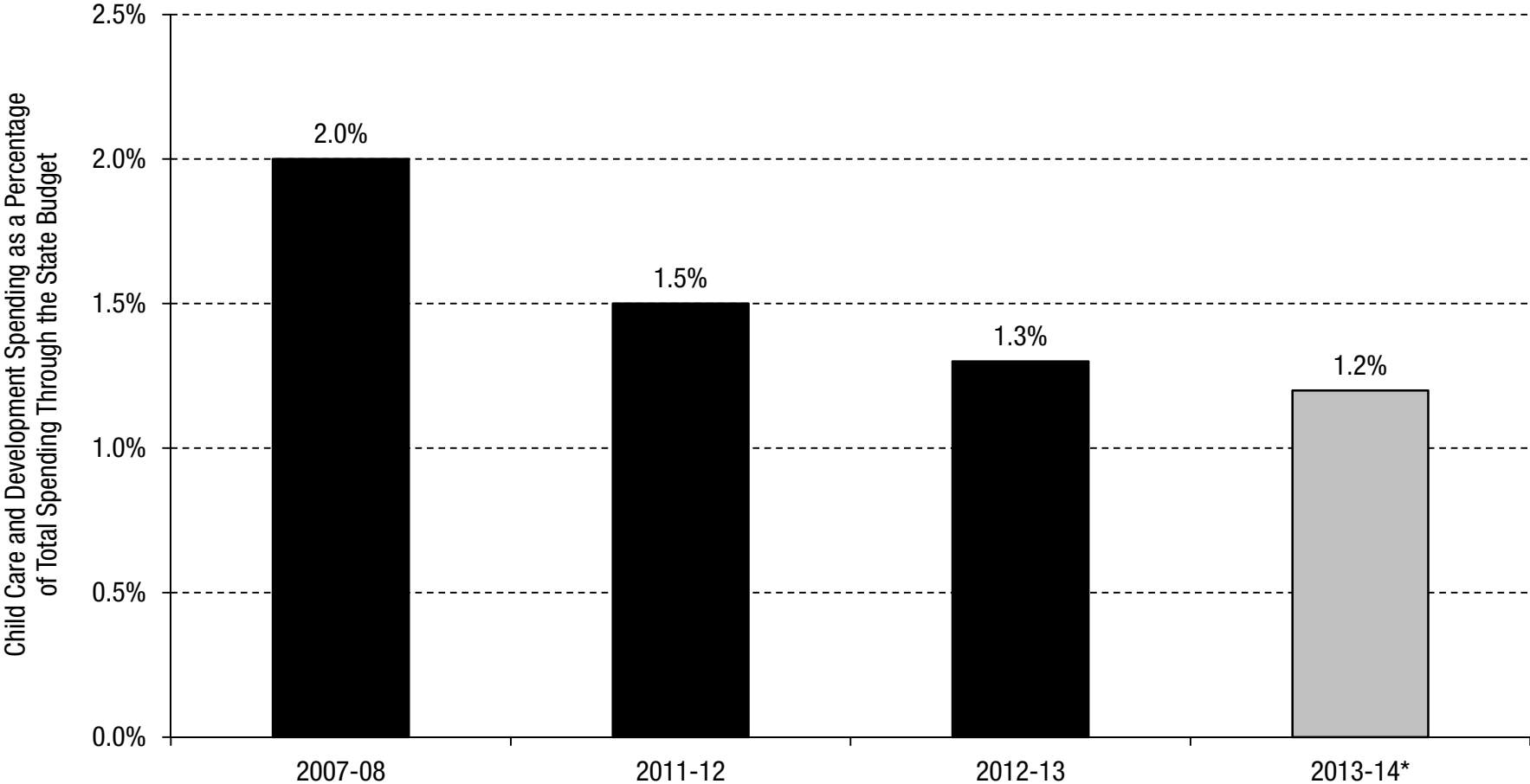
State Afterschool Funding Has Remained Constant at \$547 Million Since 2006-07, Without Adjusting for Inflation





After years of deep budget cuts,
child care and development spending has
fallen to 1.2 percent of total state spending,
down from 2.0 percent in 2007-08.

Child Care and Development Spending as a Share of Total State Spending Has Fallen by More Than One-Third Since 2007-08



* 2013-14 enacted.

Note: Child care and development spending includes child care, preschool, and afterschool dollars. Total spending includes both federal dollars and state General Fund, special fund, and bond fund dollars.

Source: California Department of Education, Department of Finance, and Department of Social Services



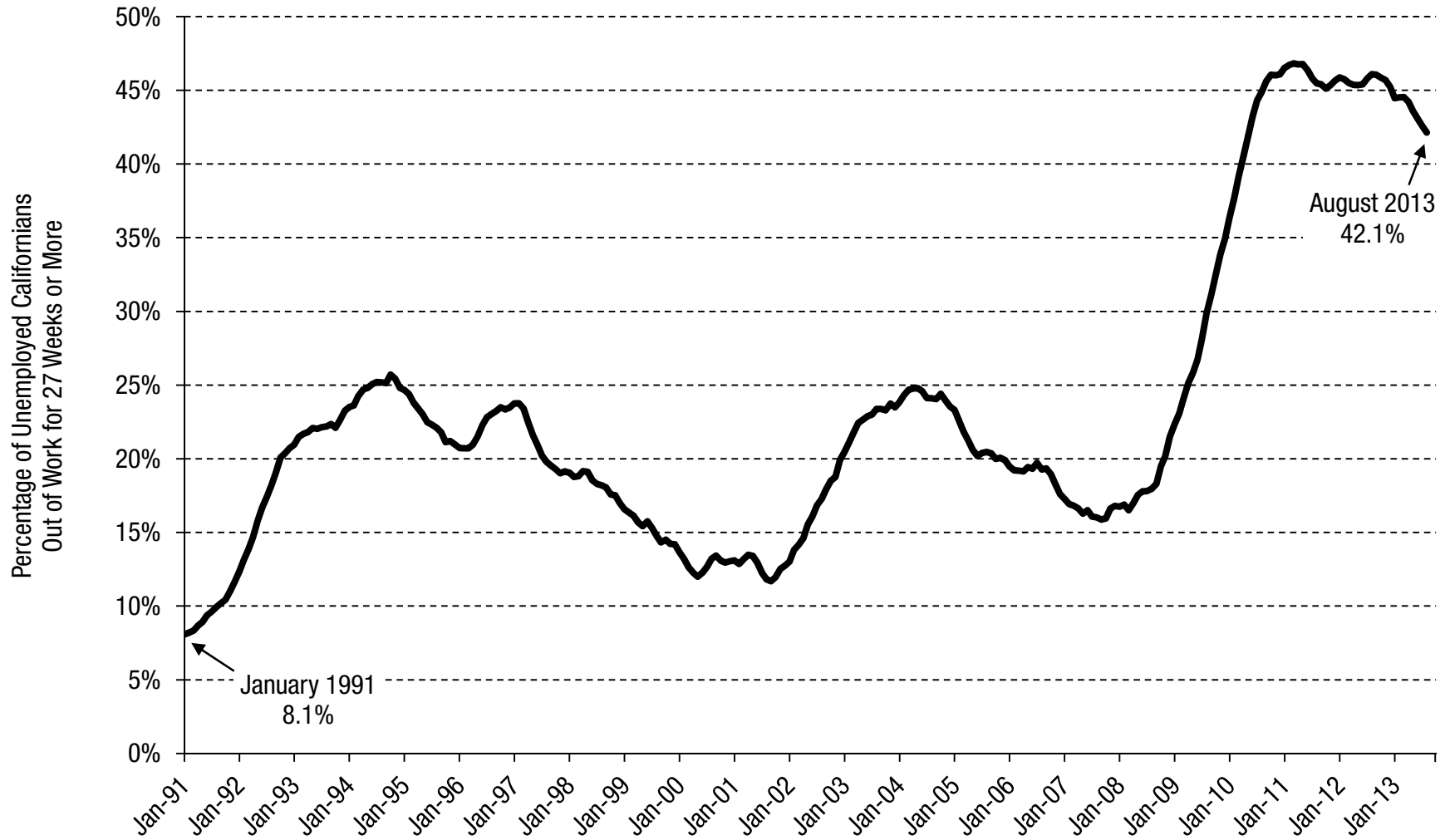
Part 4:

California's Economic Recovery Has Failed to Reach Many Families

Many Families Continue to Face Economic Uncertainty in the Wake of the Great Recession

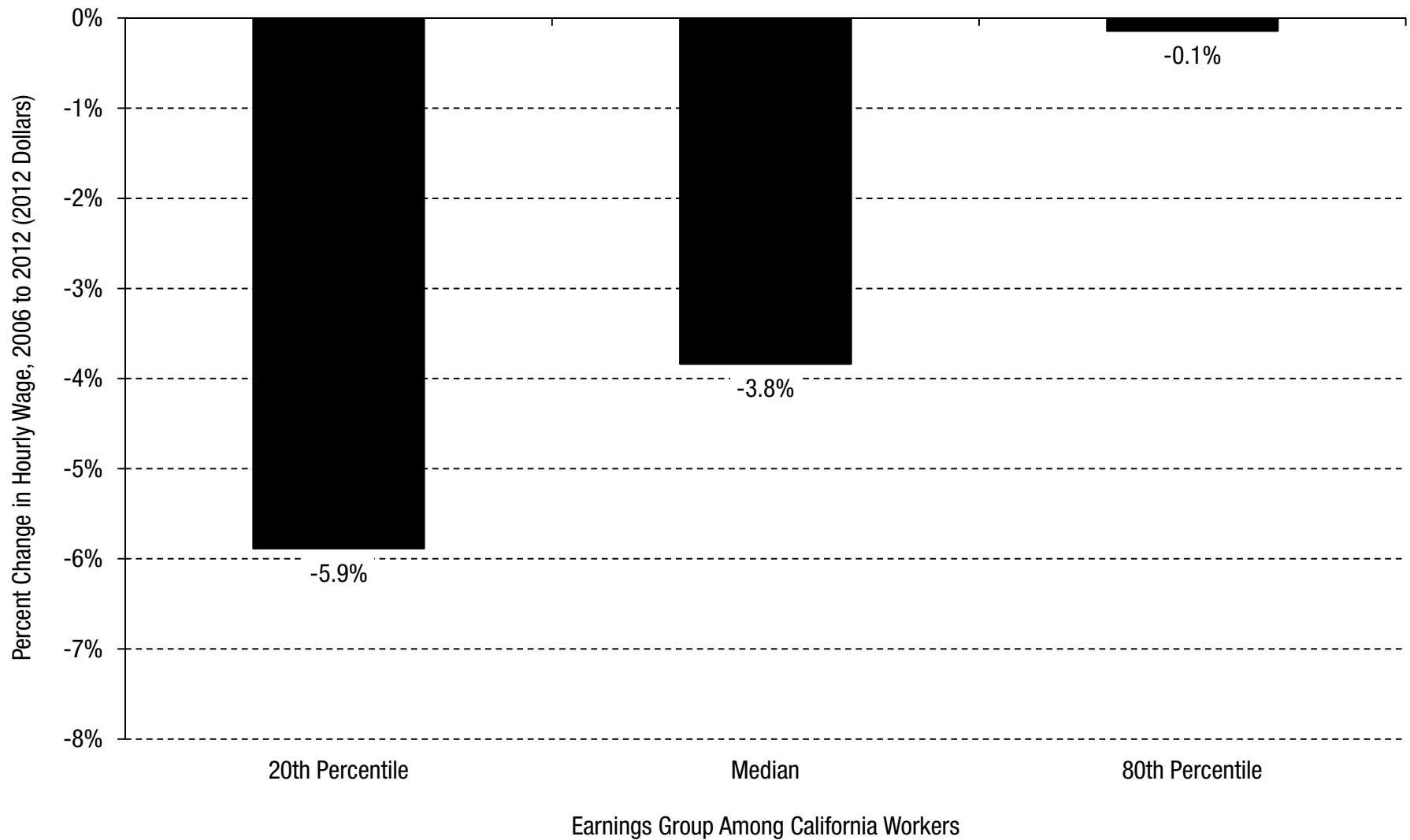
- California's economic recovery has yet to reach many families.
 - More than two dozen California counties still have unemployment rates in the double digits.
 - The share of unemployed Californians who have been out of work for at least half a year is near a record high.
 - Earnings for low- and mid-wage workers remain well below pre-recession levels, after adjusting for inflation. Only high-wage workers are close to seeing earnings catch up to their pre-recession value.
 - More than four in 10 California children live in families with incomes below 200 percent of the poverty line.

The Share of Unemployed Californians Who Have Been Out of Work for At Least Half a Year Remains Near a Record High

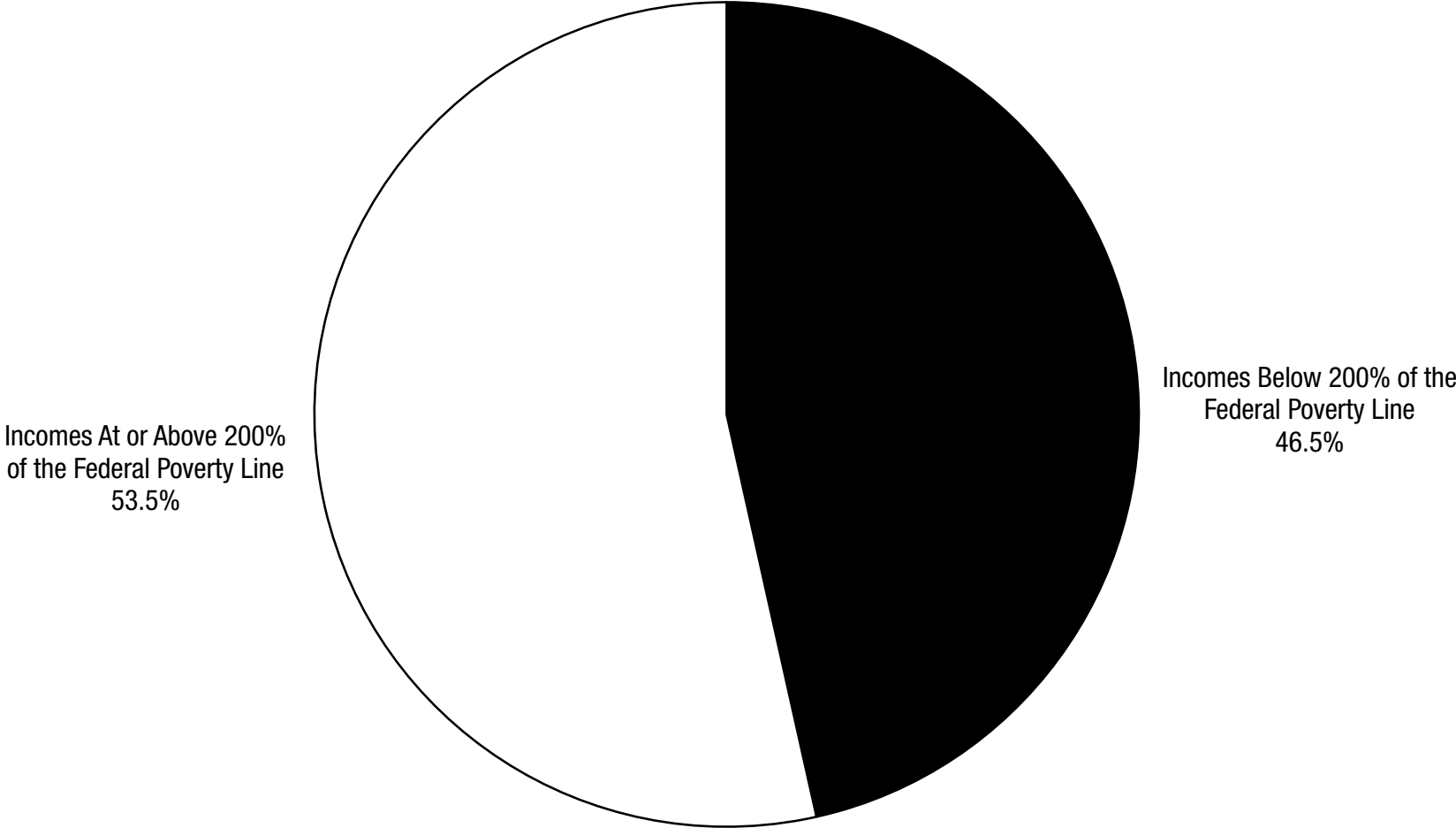


Note: Data reflect 12-month averages ending in the month displayed.
Source: Employment Development Department

Inflation-Adjusted Earnings of High-Wage Workers Have Nearly Returned to Their Pre-Recession Level, While Those of Low- and Mid-Wage Workers Remain Lower Than They Were in 2006



More Than Four in 10 California Children Live in Families With Incomes Below 200 Percent of the Federal Poverty Line

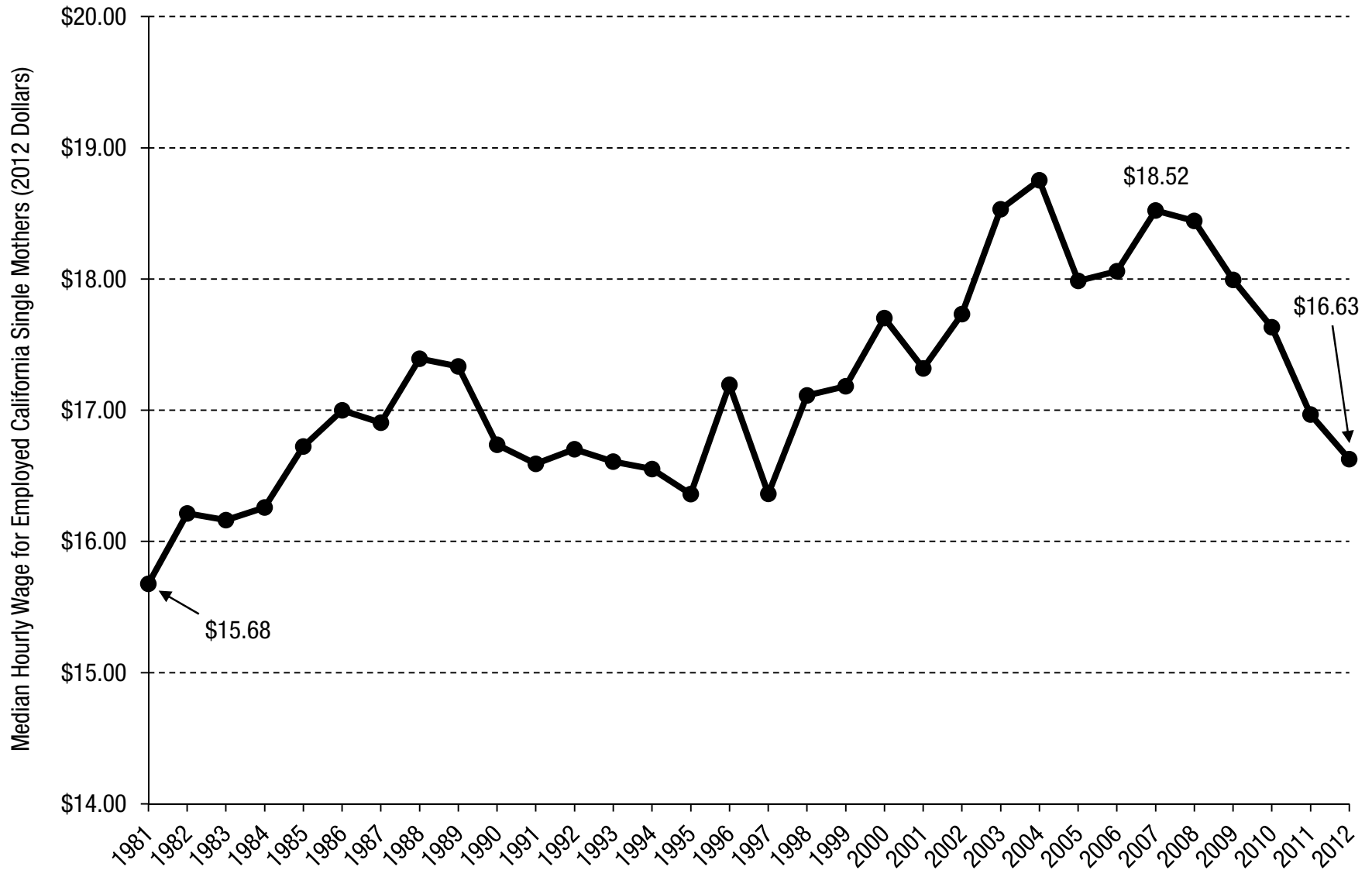


Number of California Children Living Below 200 Percent of the Poverty Line in 2012 = 4.3 Million

The Weak Job Market Has Hit Single Mothers Hard

- Child care assistance has a strong impact on employment for single mothers, a group whose economic stability has been shaken by the Great Recession and its aftermath.
- California single mothers' employment rate surpassed the state average starting in 1999 and continued to grow throughout the late 1990s and early 2000s.
- Between 2007 and 2011, the employment rate for California single mothers fell steeply, and in 2012 it remained nearly eight percentage points below the 2007 level, at 61.4 percent.
- California's single mothers also experienced a significant loss of earnings in recent years. Their median hourly wage – already lower than that of Californians as a whole – declined by close to \$2.00 between 2007 and 2012, after adjusting for inflation. This decline erased the wage gains single mothers made in the period prior to the recession.

The Inflation-Adjusted Median Wage for Single Mothers in California Continued to Decline in 2012





Strong child care and development programs provide a foundation for families' financial stability.

Improved economic security and opportunity for families can broaden the base of the state's economic recovery.

Conclusion

- In recent years, state policymakers made deep cuts to California's child care and development system.
- Diminished child care opportunities for California's children make it harder for working parents to balance work and family life.
- Cuts to child care and preschool programs leave a larger share of children unprepared to succeed in school and gain the skills they need to compete in the global economy.
- These outcomes threaten the competitiveness of California's future workforce as well as the state's economic vitality.
- Improving access to high-quality, affordable child care and preschool could provide a critical boost for California's low- and middle-income families amid an economic recovery that has yet to reach many households.

Conclusion (continued)

- Actions policymakers can take to strengthen California's child care and development programs include:
 - Increasing funding to serve families who are eligible for child care assistance but are currently on waiting lists.
 - Raising the income eligibility limit for child care and state preschool.
 - Repealing the family fee for part-day state preschool.
 - Adopting flexible budgeting practices for CalWORKs child care, and boosting funding when necessary, to ensure that all eligible families who need child care assistance – including Stage 3 families – receive it.
 - Increasing subsidized child care payment rates for both licensed and license-exempt providers.