



## County of Los Angeles Policy Roundtable for Child Care



Policy Brief

November 1, 2010

### GOVERNOR SIGNS 2010-11 BUDGET BILLS: IMPACT ON CHILD CARE AND DEVELOPMENT SERVICES

#### Overview

Governor Schwarzenegger signed the 2010-11 State Budget bill on October 8, 2010 and 19 implementation bills on October 19, 2010. In signing the budget, the Governor exercised his line item veto authority<sup>1</sup> to achieve his goal of closing the \$19.3 billion budget gap, increasing the reserve from \$375 million to \$1.3 billion and pushing a comprehensive plan for pension reform.<sup>2</sup> The Budget, a combination of reductions, federal funds and other solutions, keeps spending relatively flat at \$86.6 billion for 2010-11, compared to \$86.3 billion for 2009-10.

The next section of this brief reviews the budget for child care and development services, drawing attention to those programs subjected to budget cuts or elimination, and briefly explores the implications of the budget reductions to these programs.

#### Child Care and Development Services

The Budget Act of 2010 (Senate Bill 870, Chapter 712) contains substantial cuts to child care and development programs. Table 1 on page two summarizes the revisions to child care and development services administered under the California Department of Education (CDE), Child Development Division and Learning Supports. Table 2 summarizes the Budget appropriations reserved to improve the quality and availability of child care and development services.

- Elimination of CalWORKs Stage 3 Child Care

The Governor reduced \$256,000,000 in State General Funds from CalWORKs Stage 3 Child Care “to help bring ongoing expenditures in line with existing resources and to build a prudent reserve”. The remaining balance of \$128,823,000 in federal funds (of which \$18.7 million is American Recovery and Reinvestment Act funds) will support the program through October 2010, when the services are terminated.<sup>3, 4</sup>

**Impact:** According to the Child Care Alliance of Los Angeles, 17,100 children ages birth through 12 years old of 11,700 families in Los Angeles county will lose their child care services as of November 1, 2010 due to the elimination of CalWORKs Stage 3 Child Care. The estimated 6,000 providers – largely licensed centers and family child care homes - serving these families are at risk of reducing or closing their operations. Ramifications will also ripple through the 13 organizations that administer the funds – the ten Child Care Resource and Referral Agencies and three additional organizations with Alternative Payment Programs – resulting in an estimated 400 layoffs.<sup>5</sup>

Since the Governor signed the budget, the legislative leadership and community advocates have been working diligently to develop strategies to restore funding for CalWORKs Stage 3 Child Care. Speaker of the Assembly John Pérez and President Pro Tempore of the Senate Darrell Steinberg plan to introduce a bill on December 6, 2010 that would restore \$250 million of the vetoed funds; the remaining \$6 million is discretionary funds put forward from the Assembly budget. In the meantime, the California and local First 5 Commissions have been asked to cover the transitional period beginning November 1, 2010 until the bill is signed. The bill would include a promise to reimburse the funds forwarded by the Commissions.<sup>6</sup> On

**Table 1. Fiscal Impact of Budget Act of 2010 - Child Care and Development Services**

Program	2009-10 Budget Act			Budget Act of 2010			Change
	State/CCDF <sup>7</sup>	ARRA <sup>8</sup>	Total	State/CCDF <sup>9</sup>	ARRA <sup>10</sup>	Total	
<b>Child Development Division</b>							
State Preschool <sup>11</sup>	\$438,913,000		\$438,913,000	\$379,518,000		\$379,518,000	-\$59,395,000
General Child Development	\$779,849,000	\$17,347,000	\$797,196,000	\$758,374,000	\$17,347,000	\$775,721,000	-\$21,475,000
Migrant Child Care	\$36,246,000	\$3,087,000	\$39,333,000	\$30,579,000		\$30,579,000	-\$8,754,000
Alternative Payment (AP) Program	\$258,811,000	\$15,743,000	\$274,554,000	\$251,770,000	\$18,830,000	\$270,600,000	-\$3,954,000
CalWORKs Stage 2 (AP)	\$439,620,000	\$36,272,000	\$475,892,000	\$394,670,000 <sup>12</sup>	\$36,272,000	\$430,942,000	-\$44,950,000
CalWORKs Stage 3 (AP)	\$393,373,000	\$18,905,000	\$412,278,000	\$109,918,000	\$18,905,000	\$128,823,000	-\$283,455,000
Resource and Referral Programs	\$19,438,000		\$19,438,000	\$18,688,000		\$18,688,000	-\$750,000
Extended Day/Latchkey <sup>13</sup>	\$5,000,000		\$5,000,000				-\$5,000,000
Handicap Allowance	\$2,011,000		\$2,011,000	\$1,940,000		\$1,940,000	-\$71,000
California Child Care Initiative	\$250,000		\$250,000	\$250,000		\$250,000	
Quality Improvement	\$51,552,000	\$18,783,000	\$70,335,000	\$47,115,000	\$18,783,000 <sup>14</sup>	\$65,898,000 <sup>15</sup>	-\$4,437,000
Centralized Eligibility List	\$7,900,000		\$7,900,000	\$7,900,000		\$7,900,000	
Local Planning Councils	\$6,637,000		\$6,637,000	\$3,319,000		\$3,319,000	-\$3,318,000
<i>Subtotal</i>	<i>\$2,439,600,000</i>	<i>\$110,137,000</i>	<i>\$2,549,737,000</i>	<i>\$2,004,041,000</i>	<i>\$110,137,000</i>	<i>\$2,114,178,000</i>	<i>-\$435,559,000</i>
Cost of Living Adjustment (COLA)	0		0	0		0	
Growth	0		0	0		0	
<i>Subtotal COLA and Growth</i>	<i>\$0</i>		<i>\$0</i>	<i>\$0</i>		<i>\$0</i>	
Child Care Facilities Revolving Fund	\$5,000,000		\$5,000,000	\$5,000,000		\$5,000,000	
<i>Child Care and Development Services Total</i>	<i>\$2,444,600,000</i>		<i>\$2,554,737,000</i>	<i>\$2,009,041,000</i>		<i>\$2,119,178,000</i>	
<b>Learning Supports</b>							
After School Education and Safety Program	\$546,898,000		\$546,898,000	\$550,000,000		\$550,000,000	\$3,102,000
21 <sup>st</sup> Century Community Learning Centers	\$169,371,000		\$169,371,000	\$174,034,000		\$174,034,000 <sup>16</sup>	\$4,663,000
Cal-SAFE Child Care	\$24,778,000		\$24,778,000	\$24,778,000		\$24,778,000 <sup>17</sup>	0
Pregnant Minor Programs	\$13,327,000		\$13,327,000	\$13,327,000		\$13,327,000 <sup>18</sup>	0
<i>Learning Supports Total</i>	<i>\$754,374,000</i>		<i>\$754,374,000</i>	<i>\$762,139,000</i>		<i>\$762,139,000</i>	<i>\$7,765,000</i>
<b>Child Care and Development and Learning Supports Grand Total</b>	<b>\$3,198,974,000</b>	<b>\$110,137,000</b>	<b>\$3,309,111</b>	<b>\$2,771,180,000</b>	<b>\$110,137,000</b>	<b>\$2,881,317,000</b>	<b>-\$427,794,000</b>

- Quality Improvements

Table 2. Quality Improvement Detail			
Program	2009-10 <sup>19</sup>	2010-11 <sup>20</sup>	Change
Schoolage Care and Resource and Referral	\$1,930,629	\$2,002,671	\$72,042
Infant and Toddler Earmark	\$10,873,244	\$11,342,626	\$469,382
Quality expenditures to be defined	\$2,969,000	\$664,000 <sup>21</sup>	-\$2,305,000
CalWORKs Careers in Child Development	\$4,000,000	\$3,591,000	-\$409,000
Training for license-exempt providers	\$2,500,000	\$1,250,000	-\$1,250,000
DSS contract for licensing inspections	\$8,000,000	\$12,300,000 <sup>22</sup>	Federal only
Trustline Registration Workload	\$1,000,000	\$1,000,000	0
Health and Safety Training	\$500,000	\$500,000	0
Health Hotline	\$300,000	\$231,000 <sup>23</sup>	Until 10/1/10
Preschool Education Projects <sup>24</sup>		\$114,000	Until 10/1/10
Child Dev Permit Matrix Prof Growth Advisors		\$63,000	Until 10/1/10
Child Care Recruitment and Retention Programs	\$15,000,000	\$11,825,000	-\$3,175,000
Child Development Training Consortium	\$320,000	\$320,000	0

October 28<sup>th</sup>, the First 5 LA Commission voted to grant three months of transition funding for CalWORKs Stage 3 eligible families for their children ages birth to five years old.<sup>25</sup>

- **Local Planning Councils (LPCs)**

The budget for the LPCs was slashed in half. New language requires the LPCs to meet their mandated requirements to the extent possible and with data that is readily available.<sup>26</sup>

**Impact:** The LPCs - a collaboration of subsidized and non-subsidized child care and development providers, county departments, health and human services agencies, regional centers, employers, local and state commissions, child care resource and referral programs, parents, and other stakeholders - are critical partners to the child care and development infrastructure. In addition to coordinating statewide efforts at the community level to identify needs and address gaps in services, the LPCs have been successful at leveraging significant resources from other sources to enhance and expand the child development system through quality improvement activities, training, workforce development and outreach to underserved populations. The significant cuts to the LPCs are likely to result in staffing reductions or, in smaller counties the elimination of staff, and impair the LPCs' ability to meet their federal mandates to leverage and guide the distribution of resources to meet the needs of families for high quality child care and development services.

- **Reduction to Child Care Recruitment and Retention Programs**

The budget for the Child Care Recruitment and Retention Programs was cut by just over 21 percent, from \$15 million to \$11.825 million.

**Impact:** In Los Angeles County, the Investing in Early Educators Program awards stipends to early educators serving mostly low-income families eligible for subsidized child care and development services and earning college units that informs their work with children and families and contributes to a degree in child development. The Investing in Early Educators Program also offers ongoing training and professional development opportunities relating to improving learning environments, conducting and using developmental screening tools for early identification and intervention of children with special needs, and working effectively with infants and toddlers. As a result of the budget cut to the programs, stipend amounts may be reduced by 25 to 50 percent. During 2009-10, early educators were awarded \$1,100 for completing three units or \$2,100 for completing six units; early educators earning an Associate of Arts, Bachelor or Master degree were eligible to receive an additional \$250 to \$750 depending on their degree attainment. In addition, fewer trainings will be offered on a quarterly basis.

- **Cap on Center-based Reserve Accounts**

Centers will be limited to a reserve account balance that is five percent of the sum of the contract maximum reimbursable amount. To achieve the cap, the Superintendent of Public Instruction is to offset the 2010-11 apportionments with funds maintained in the contractor's center-based reserve account within the child development fund as of June 30, 2010 and to continue until the reserve account balance is at five percent.<sup>27</sup> Previously, there had been no limit on the size of the reserves for center-based child development centers.

**Impact:** These are funds that have been earned by the organizations and are used to keep their doors open and staff paid during delayed budgets. Many organizations exhausted their reserves **and** their lines of credit during this year's longest budget delay in history. As a result,

classrooms were closed (some to never re-open) and staff received lay-off notices. Since the budget was signed, programs are scrambling to enroll so that they may fully earn their contracts by the end of the budget year. Organizations also use their reserves to support major capital projects such as facility playground renovation and repair.

- **Reduction to Administrative Cost Allowance – Alternative Payment (AP) Programs**

Voucher-based contractors administrative and support services allowance has been reduced from 19 to 17.5 percent of their contract amount for a savings of \$17.1 million.<sup>28</sup>

**Impact:** Thirteen organizations, including the ten Child Care Resource and Referral Agencies, administer the AP Program funds. As a result of the reduction in their administrative budgets, the AP Program organizations may be forced to scale back some of their support services offered to child care and development programs.

- **Quality Funding**

Funds allocated for quality improvements have been adjusted to the federal minimum requirement, resulting in the reductions to some quality improvement activities (i.e. see the Child Care Recruitment and Retention Programs addressed earlier in this document) and elimination of some smaller programs. States receiving federal funding for child care and development services are required to allocate four percent of those funds for quality improvement activities; California has consistently exceeded the federal requirement.

**Impact:** The quality dollars are critical to improving the delivery of child care and development services beyond the basic health and safety requirements. California has traditionally used its quality investments to support professional development activities, improve the quality of infant and toddler care, offer stipends to early educators continuing their education, and provide technical assistance for enhancing classroom environments. The reduction in funds at this time is counter-intuitive to efforts currently underway to develop a statewide quality rating and improvement system.

- **Early Learning Advisory Council Activities**

The Governor cut an augmentation of \$503,000 to support additional staff positions and associated committee expenses. Instead, he revised the budget providing \$439,000 and two time-limited positions until July 2013 per the agreement with the California Children and Families Commission, making the funds available to the California Department of Education to support the ELAC activities.<sup>29</sup> In addition, he deleted a provision describing legislative intent to use a portion of the American Recovery and Reinvestment Act funds for the ELAC to study the feasibility of implementing a data system with information on children from birth to five years old, stating that the language is inconsistent with the approved grant application for funds.

- **Reduction to Regional Market Rate (RMR) for License-exempt Providers**

The Budget reduces the reimbursement rate for license-exempt providers from 90 to 80 percent of the rates paid to licensed family child care providers.<sup>30</sup> This change affects voucher-based programs inclusive of Alternative Payment and CalWORKs Stage 1 and 2 Child Care for a total savings of \$31,100,000.<sup>31, 32</sup>

**Impact:** As a result of the reduction in the RMR, license-exempt providers may impose a cost to the families to cover the difference or the family may need to secure the services of a family, friend or neighbor willing to accept a lower reimbursement rate. License-exempt providers have significantly lower overhead and do not meet licensing requirements.

- **Community Care Licensing Division, Department of Social Services**

Community Care Licensing received a small augmentation of \$18,866,000 for 2010-11, bringing its total budget up to \$2,117,690,000.<sup>33</sup>

**Impact:** It is unclear whether the augmentation to the Community Care Licensing Division will have any impact at this time. Currently, licensing is woefully underfunded, resulting in visits to child care and development programs once every five years unless a complaint against a program has been issued or a program is on probation. As of mid-September, Community Care Licensing suspended certain operations including hosting orientation sessions, processing of licensing applications, and staff training due to budgetary constraints.

### **For More Information on 2010-11 Budget Bills: Impact on Children and Families**

A number of organizations have developed overviews and analyses of the 2010-11 Budget as it impacts health and human services for children and families, including child care and development as follows:

California Budget Project

[www.cbp.org](http://www.cbp.org)

Child Development Policy Institute

[www.cdpi.net](http://www.cdpi.net)

Legislative Analyst's Office

[www.lao.ca.gov](http://www.lao.ca.gov)

Western Center on Law and Poverty

[www.wclp.org](http://www.wclp.org)

#### ***Endnotes:***

<sup>1</sup> The Governor vetoed \$963 million in General Fund spending, of which \$256 million is in funding to child care and development programs. (Legislative Analyst's Office. *Major Features of California's 2010-11 Budget*, October 12, 2010).

<sup>2</sup> *California State Budget 2010-11 Summary*, October 8, 2010.

<sup>3</sup> *California State Budget 2010-11 Summary*, October 8, 2010.

<sup>4</sup> The California Department of Education has issued Management Bulletin 10-10 with instructions to CalWORKs Stage 2 and 3 contractors on implementation of the Governor's veto of funding for CalWORKs Stage 3 Child Care. According to the Bulletin, "Because the Governor eliminated funding for CalWORKs Stage 3, the provisions of California Education Code Section 8263(c) regarding continuity of care do not apply for the families being terminated." The Bulletin continues by suggesting that families be registered on their respective county's Centralized Eligibility List (CEL) and be informed as to how the CEL works. (Management Bulletin 10-10. *CalWORKs Stage 3 Elimination of Funding*. October 2010.)

<sup>5</sup> Child Care Alliance of Los Angeles. *CalWORKs Stage 3 Child Care Elimination – Over a \$400 Million Economic Impact on Los Angeles County*. October 11, 2010.

<sup>6</sup> Letter from the California Legislature to the Local First Five Commissions c/o First 5 Association of California, October 25, 2010.

<sup>7</sup> SBX8 1, Chapter 1: Budget Act of 2009: Revisions, Approved: July 28, 2009; Item 6110-196-0001.

<sup>8</sup> SBX8 1, Chapter 1: Budget Act of 2009: Revisions, Approved: July 28, 2009; Item 6110-198-0890.

<sup>9</sup> SB 870, Chapter 712: 2010-11 Budget, Approved: October 8, 2010; Item 6110-196-0001.

<sup>10</sup> SB 870, Chapter 712: 2010-11 Budget, Approved: October 8, 2010; Item 6110-198-0890.

<sup>11</sup> Of this amount, \$50 million is available for the Prekindergarten and Family Literacy (PKFL) Program, of which \$5 million is for wraparound care to children enrolled in State Preschool. The Superintendent of Public Instruction may assign priority to children enrolled in PKFL Programs.

<sup>12</sup> A total of \$201 million in unobligated Proposition 98 funds since 2005 have been re-appropriated to the California Department of Education (CDE) for allocation by the Superintendent of Public Instruction for funding CalWORKs Stage 2 Child Care for 2010-11. Of the swept funds, \$23 million reflects unspent preschool and child development funds, \$5.8 million in unspent CalWORKs Stage 2 and 3 Child Care funds, \$500,000 of unspent IDEA Early Education funds, and \$53.5 million in unspent ASES Program funds. SB 870, Chapter 712: 2010-11 Budget, Approved: October 8, 2010; Item 6110-494.)

<sup>13</sup> Latchkey was eliminated in 2009-10 Budget; funds provided services through August 31, 2009. Legislative intent provided for children displaced by the elimination of the program receive services under the state's subsidized child care, After School and Education (ASES), or both. (SBX8 1, Chapter 1: Budget Act of 2009: Revisions, Approved: July 28, 2009; Item 6110-196-0001, Schedule 1.5(i), 30.10.020.920 and Provision 16.)

<sup>14</sup> Of the ARRA funds appropriated for quality improvement, \$5.2 million is designated to improve the quality of infant toddler care, and \$1.7 million to improve the quality of care for children from birth to five years old.

<sup>15</sup> See Table 2 for breakdown of quality improvement allocations.

<sup>16</sup> SB 870, Chapter 712: 2010-11 Budget, Approved: October 8, 2010; Item 6110-197-0890(1).

<sup>17</sup> SB 870, Chapter 712: 2010-11 Budget, Approved: October 8, 2010; Item 6110-198-0001(3). This amount is in addition to the \$19.8 million for Cal-SAFE Academic and Support Services (Item 5110-198-0001(1)).

<sup>18</sup> Funds are available for child care as well as academic and supportive services. (SB 870, Chapter 712: 2010-11 Budget, Approved: October 8, 2010; Item 6110-198-0001(2).)

<sup>19</sup> SBX8 1, Chapter 1: Budget Act of 2009: Revisions, Approved: July 28, 2009; Item 6110-196-0001, Provisions 3 and 4.

<sup>20</sup> SB 870, Chapter 712: 2010-11 Budget, Approved: October 8, 2010; Item 6110-196-0001, Provisions 3 and 4.

<sup>21</sup> One-time federal funding available for 2010-11. Remaining funds are to be used for child care and development quality expenditures as identified by the CDE, with approval of the Department of Finance. (Item 6110-196-0001, Provision 3(c).)

<sup>22</sup> The budget relies completely on federal funding for this item. (Item 6110-196-0001, Provision 3(d).)

<sup>23</sup> Item 6110-196-0001, Provision 3(d) allocates \$75,000 for Health Hotline activities, \$81,000 for the infant-toddler specialist for the Hotline, and \$75,000 for technical assistance to providers for facility development until October 1, 2010.

<sup>24</sup> Includes but not limited to those operated by public television stations in Redding, Sacramento, San Francisco, San Jose, Los Angeles, Fresno, San Diego, and Eureka. Funds available until October 1, 2010. (Item 6110-196-0001, Provision 3(e).)

<sup>25</sup> First 5 LA. *First 5 LA Moves to Avert Child Care Crisis*, October 28, 2010.

<sup>26</sup> SB 870, Chapter 712: 2010-11 Budget, Approved: October 8, 2010; Item 6110-196-0001, Schedule 1.5(n), 30.10.020.015 and Provision 16.

<sup>27</sup> SB 870, Chapter 712: 2010-11 Budget, Approved: October 8, 2010; Item 6110-196-0001, Provision 15(a). If the targeted savings of \$83,100,000 is not achieved through this effort, the California Department of Education may conduct quarterly analyses of fiscal and attendance reports for the 2010-11 fiscal year for all contracts and may adjust the contract maximum reimbursable amounts due to the underutilization of funds to reach the savings. Item 6110-196-0001, Provision 15(b).

<sup>28</sup> *California State Budget 2010-11 Summary*, October 8, 2010.

<sup>29</sup> SB 870, Chapter 712: 2010-11 Budget, Approved: October 8, 2010; see veto message related to Item 6110-001-0001, Provision 22(a, b).

<sup>30</sup> SB 870, Chapter 712: 2010-11 Budget, Approved: October 8, 2010; Item 6110-196-0001, Provision 1(c).

<sup>31</sup> CalWORKs Stage 1 Child Care reduction is \$12.4 million; \$18.7 million reduction in remaining voucher-based programs. (*California State Budget 2010-11 Summary*, October 8, 2010.)

---

<sup>32</sup> While there were proposals introduced throughout the budget negotiations that would have resulted in other changes to the reimbursement rate, this was the only change. The cost of licensed child care services provided through the voucher-based programs, including Alternative Payment, will continue to be reimbursed at the 85<sup>th</sup> percentile of the rates charged by providers offering the same type of child care for the same age of the child in that region based on the 2005 Regional Market Rate Survey. Item 6110-196-0001, Provision 1(b).

<sup>33</sup> Item 5180-151-0001 (1). Senate Bill 1630 had proposed increasing the budget for licensing by \$79.7 million, however the Governor used his line item veto to reduce the augmentation by \$60.8 million.