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The 2012-13 Budget:

# The Governor's CalWORKs And Child Care Proposals



2012-13 BUDGET

## EXECUTIVE SUMMARY

***Governor's Budget Plan Would Dramatically Reduce and Restructure Both CalWORKs and Subsidized Child Care Programs.*** The Governor proposes to reduce funding for the California Work Opportunity and Responsibility to Kids (CalWORKs) program and state-subsidized child care programs. His budget plan reduces General Fund support for these programs by a total of \$1.4 billion or about 20 percent compared to what current law otherwise would require. These savings would be achieved by imposing stricter limits on which families are eligible to receive which types of services, as well as lowering state payments for certain existing CalWORKs recipients and child care providers. Additionally, the Governor's proposal would make major changes to the way the state administers both welfare-to-work and child care services.

### Governor's Proposals

***Significantly Reduces CalWORKs-Related Funding.*** The Governor achieves the bulk of his CalWORKs-related savings (\$890 million of \$985 million) by: (1) reducing cash grants, (2) shortening the time limit for adults to receive benefits, and (3) modifying work requirements. As a result of these changes, about 432,000 existing CalWORKs cases (74 percent) would face reduced cash assistance or have their cases discontinued. Under the Governor's plan, these policy changes would be accompanied by a change to the administrative structure of the CalWORKs program, which would divide the existing CalWORKs caseload into three programs. We believe that the Governor's proposed policy changes could be adopted and associated savings achieved without changing the administrative structure of the program. Moreover, the proposed administrative changes do not appear to yield any additional programmatic benefits in terms of efficiencies or effectiveness. Thus, we recommend the Legislature consider the Governor's major policy changes but reject his administrative changes.

***Significantly Reduces Child Care Funding.*** The Governor has three major policy proposals related to subsidized child care programs: (1) increasing parent work requirements, (2) lowering family income eligibility thresholds, and (3) reducing reimbursement rates for licensed child care providers. These proposals would lead to a combined \$391 million in savings and over 63,000 (24 percent) fewer child care slots. About 75 percent of the savings results from the stricter work eligibility requirements. These eligibility changes would have the most notable effect on parents who no longer would qualify for child care benefits while they attend school or training programs.

***Restructures the State's Subsidized Child Care System.*** Additionally, the Governor's proposal would begin consolidating funding and administration for several child care programs in 2012-13, with the goal of shifting administration for all child care programs to county welfare departments (CWDs) in 2013-14. The proposal also would expand the state's existing practice of offering payment vouchers to parents to choose their own child care providers and end the alternative practice of contracting directly with some centers (except for part-day/part-year preschool). Under the new system, first priority for child care would be for families receiving cash assistance through CalWORKs. Eligible working poor families not participating in CalWORKs also could apply for

subsidized child care and be served to the extent funding remains after cash-aided families are accommodated. (Remaining child care funding would be prioritized for the lowest income eligible families.)

### **LAO Recommendations**

***Adopt Package of Reductions Based on CalWORKs and Child Care Priorities.*** We believe some of the Governor's budget proposals merit consideration, but we recommend the Legislature consider modifying some of those proposals as well as consider other potential changes not proposed by the Governor. For CalWORKs, the Legislature might consider alternative reductions, including reducing funding to counties for employment services and child care, reducing the earned income disregard, increasing penalties for not meeting work requirements, and decreasing cash assistance after long periods on aid. For subsidized child care, additional savings options include eliminating care for older school-age children who instead could be served in before and after school programs, increasing family fees, and imposing time limits for how long a family can receive subsidized child care benefits.

***Adopt Modified Version of Governor's Child Care Restructuring Proposal.*** Because it would streamline the state's overly complex and poorly designed child care delivery systems, we recommend the Legislature adopt the Governor's restructuring proposal, including the plan to use 2012-13 as a transition year. We believe this proposal makes sense regardless of what policy changes or budgetary reductions the Legislature adopts for CalWORKs and subsidized child care. However, we recommend that when funds shift to CWDs in 2013-14, they be maintained as a separate county-administered block grant dedicated for child care services, rather than included as part of the CWDs' single allocation. Before making these changes, we also recommend the Legislature make a technical adjustment to accurately reflect the amount of funding currently supporting the state's preschool program, as well as align all funding for the program within Proposition 98.

***Final Package Will Depend Upon How Legislature Weighs Trade-Offs.*** Both CalWORKs and child care programs have experienced notable reductions in recent years. Given the magnitude of these recent reductions, the Legislature may choose not to cut as deeply as the Governor proposes. The Legislature, however, still will face difficult trade-offs and challenges as it weighs some reductions to CalWORKs and child care programs, and the resulting effects on the populations they serve, against the need for overall state savings and the limited options for making reductions in other areas of the budget. To assist the Legislature in crafting its CalWORKs and child care budgets, we provide illustrative associated budget packages that contain options linked with various savings levels.

## INTRODUCTION

The Governor proposes to reduce funding for the CalWORKs program and state-subsidized child care programs. Under his budget plan, these programs would be reduced a total of \$1.4 billion or about 20 percent in 2012-13 compared to what current law otherwise would require. These savings would be achieved by imposing stricter limits on which families are eligible to receive which types of services, as well as lowering state payments for CalWORKs recipients and child care providers. Additionally, the Governor's proposal would make

major changes to the way the state administers both welfare-to-work and child care services.

In this report, we describe and analyze the Governor's proposals related to the CalWORKs program and then turn to a similar discussion of the proposed changes to child care programs. We conclude by providing the Legislature with illustrative packages of ways to achieve savings in these two areas using different approaches than the Governor.

## CALWORKS

The Governor's budget proposes a major redesign of the CalWORKs program that results in significant General Fund reductions. These reductions are achieved primarily through reduced cash grants and shortened time limits for welfare-to-work services. In this section of the report, we provide background on the CalWORKs program, describe and analyze the Governor's CalWORKs proposals, and discuss alternative options the Legislature may wish to consider for achieving CalWORKs savings.

### BACKGROUND

In 1996, federal welfare reform legislation established the Temporary Assistance for Needy Families (TANF) program. In response, California created the CalWORKs program. CalWORKs provides cash grants and welfare-to-work services for families whose income is inadequate to meet their basic needs. Although the CalWORKs program is authorized in state law and funded through the Department of Social Services (DSS), the program is primarily administered by CWDs. The current CalWORKs program is expected to serve about 586,000 cases in 2012-13.

***Income Eligibility Requirements and Program Benefits.*** To be financially eligible to enter the CalWORKs program, a family's monthly income must be below a specified level, known as the Minimum Basic Standard of Adequate Care. This income cap varies by family size. For a family of three, the monthly income cap is \$1,168. Maximum monthly cash grants—known as the maximum aid payment (MAP)—vary by family size and place of residence. The current MAP for a family of three living in a high-cost county is \$638 per month. Once on cash aid, a family may remain eligible for aid despite having additional earnings, as a portion of earned income (the first \$112 dollars plus 50 percent of additional income) is not counted when determining a family's cash grant. This amount of disregarded income is known as the "earned income disregard." A family's aid is discontinued when its earned income (minus the disregard) exceeds its cash grant. In addition to cash assistance, CalWORKs families receive CalFresh (Food Stamps) benefits. Many CalWORKs families also are eligible for welfare-to-work services, including job search assistance, training, barrier removal (such as adult basic

education and mental health, substance abuse, and domestic abuse services), and subsidized child care.

**Three Sources of Funding Support the CalWORKs Program.** The CalWORKs program is funded by a combination of federal, state, and local funds. Federal funding is provided through an annual \$3.7 billion TANF block grant. While a majority of the TANF block grant is used to fund the CalWORKs program, TANF funds can be used for any activities that meet the broad purposes of the TANF program (see Figure 1). To receive the full TANF block grant, California must contribute at least \$2.9 billion from various nonfederal sources to meet a maintenance-of-effort (MOE) requirement. Although the MOE requirement is primarily met through state and county spending on CalWORKs, some state expenditures in other programs (such as subsidized child care) also count toward satisfying the requirement. County costs to administer the CalWORKs program, as well as provide employment services and child care to CalWORKs recipients, are funded through an annual block grant (known as the single allocation) provided by the state. In addition, as a result of the 2011-12 realignment, \$1.1 billion in local funds were redirected to cover a portion of CalWORKs cash grant costs.

**Federal Law Requires State to Meet Work Participation Rate (WPR).** Federal law generally

requires states to ensure that at least 50 percent of able-bodied TANF recipients participate in certain categories of work activities for a specified number of hours. Federal law also provides states with credits (known as caseload reduction credits) that reduce this obligation if they reduce their welfare caseloads. California currently does not receive any caseload reduction credits. Failure to meet the federal WPR may result in substantial penalties on the state (starting at up to 5 percent reduction to its TANF block grant and increasing 2 percent each year). California has failed to meet its WPR since 2007 and has been notified that it will be assessed penalties of \$47 million and \$113 million, for 2008 and 2009 respectively. However, the state is appealing these penalties and, to date, no reduction in TANF funding has been enforced. For the foreseeable future, it is estimated that California’s WPR will be in the range of 25 percent to 30 percent—substantially below the federal 50 percent WPR.

**Federal and State Work Requirements Differ in Two Notable Ways.** As shown in Figure 2, California’s statutory work requirements differ in two notable ways from federal work requirements.

- **Allowable Activities.** Federal and state law designate specific activities as “core” and “noncore.” Although federal and state core activities generally are the same, some

state noncore activities are less restrictive than the federally allowable activities. Unlike federal law, state law also allows some noncore activities to count as core activities in special cases. One area in which state law is less restrictive relates to allowable education activities. Under state

**Figure 1**

**The Four Purposes of TANF**

- Provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives.
- End the dependence of needy parents on government benefits by promoting job preparation, work, and marriage.
- Prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies.
- Encourage the formation and maintenance of two-parent families.

TANF = Temporary Assistance for Needy Families.

law, an allowable activity is any type of higher education (not limited to vocational education) typically up to 24 months. By comparison, federal law allows recipients to count only 12 months of vocational education toward meeting program requirements. Another notable difference is that current state law has a less restrictive time line for mental health, substance abuse, and domestic violence treatment than federal law.

- **Required Hours.** California requires all single parents to participate in work activities for 32 hours a week whereas federal law requires 20 hours for single parents with children under six and 30 hours for single parents with older children. For two-parent families, federal law requires

30 hours of core work activities whereas state law requires only 20 hours.

**Program Has Sanctions and Time Limits.** If a family fails to meet its work requirement, it may be subject to a sanction. The sanction reduces the amount of the family’s cash grant by the amount attributable to the adult (usually about \$120 a month). Generally, able-bodied (also known as work-eligible) adults are limited to four years of cash assistance, while children are not subject to time limits. If an adult reaches the four-year time limit, the family’s grant is reduced by the amount attributable to the adult and the children continue to receive aid in a program known informally as the “safety net.” Families in which only the children are aided because the parent is not work eligible (such as individuals who are undocumented or receiving Supplemental Security Income [SSI]) are

**Figure 2**  
**Comparison of Federal and State Work Requirements**

Number of Hours Required Per Week				
Family Type	Federal		State	
	Total Hours	Core Hours	Total Hours	Core Hours
Single-parent with child under six	20	20	32	20
Single-parent with older children	30	20	32	20
Two-parent <sup>a</sup>	35	30	35	20

Allowable Activities				
Core		Non-Core		
Federal and State		Federal	State	
<ul style="list-style-type: none"> <li>• Unsubsidized employment.</li> <li>• Subsidized employment.</li> <li>• Work experience.</li> <li>• Community service.</li> <li>• Vocational education (up to 12 months).</li> <li>• On-the-job training.</li> <li>• Job search and job readiness training (six weeks per year, can include mental health and substance abuse treatment).</li> <li>• Providing child care to a community service program participant.</li> </ul>		<ul style="list-style-type: none"> <li>• Job skills training directly related to employment.</li> <li>• Education directly related to employment.</li> <li>• Satisfactory attendance at a secondary school or course leading to a certificate of GED.</li> </ul>	<ul style="list-style-type: none"> <li>• All activities listed under federal.<sup>b</sup></li> <li>• Mental health, substance abuse, and domestic abuse services beyond six weeks.</li> <li>• Any higher education (typically up to 24 months).<sup>b</sup></li> <li>• Other activities necessary to assist in obtaining employment.</li> </ul>	

<sup>a</sup> Must participate in a combined total of 35 hours.  
<sup>b</sup> These activities can count toward core hours in some circumstances.

known as “child-only” cases. There are currently about 232,000 child-only cases and 72,000 safety-net cases in the CalWORKs program.

**Recent Reductions to the CalWORKs**

**Program.** During the past three years, the state has made significant reductions to the CalWORKs program, including: lowering cash grants for families (total of a 12 percent reduction), reducing employment services and child care funding, shortening the adult time limit for assistance from 60 months to 48 months, reducing the earned income disregard, suspending intensive case management for pregnant and parenting teens, and reducing funding for substance abuse and mental health treatment. In the absence of these changes, which resulted in ongoing CalWORKs reductions of around \$780 million, expenditures in the CalWORKs program would have grown significantly due to increasing caseload levels. However, as a result of these reductions, total CalWORKs expenditures remained relatively flat between 2008-09 (\$5.3 billion) and 2011-12 (\$5.4 billion).

**OVERVIEW OF THE GOVERNOR’S BUDGET PROPOSAL**

In 2011-12, the CalWORKs program received \$5.4 billion in total funding (see Figure 3). Absent policy changes proposed by the Governor, expenditures in CalWORKs would increase to \$5.8 billion in 2012-13, primarily as a result of the restoration of a one-time \$377 million cut to county single allocation funding. The Governor proposes various changes to avoid this year-over-year increase in CalWORKs

expenditures, as well as make additional reductions totaling \$583 million, for total General Fund savings of \$985 million. The reductions proposed by the Governor would come primarily through a substantial reduction in cash grants for the majority of recipients and restricted eligibility for welfare-to-work services. These policy changes are encompassed in a redesign of the CalWORKs program administrative structure.

**CalWORKs Redesign**

The Governor’s proposal would replace the current CalWORKs program with a three-part system, consisting of two CalWORKs subprograms—CalWORKs Basic and CalWORKs Plus—and a Child Maintenance program. Figure 4 shows the process for determining which families qualify for each of these three programs. As the Governor’s CalWORKs proposal would involve significant programmatic changes, CWDs would need sufficient time to make automation and staffing changes, as well as notify recipients of changes to grant and service levels. The Governor requests that the Legislature enact his CalWORKs proposal by March 1 to provide sufficient implementation time for counties. (We believe enactment could be delayed as late as April 1 without eroding savings.) The Governor proposes to begin implementing these changes in October

**Figure 3  
CalWORKs Budget Summary**

*All Funds (Dollars in Millions)*

	2010-11	2011-12	2012-13 Proposed	Change From 2011-12	
				Amount	Percent
Cash grants	\$3,576	\$3,278	\$2,749	-\$529	-16%
Employment services	1,074	946	938	-8	-1
Stage 1 child care	488	435	483	48	11
Administration	585	631	495	-136	-22
Other	620	97	139	42	43
<b>Totals</b>	<b>\$6,343</b>	<b>\$5,387</b>	<b>\$4,804</b>	<b>-\$583</b>	<b>-11%</b>

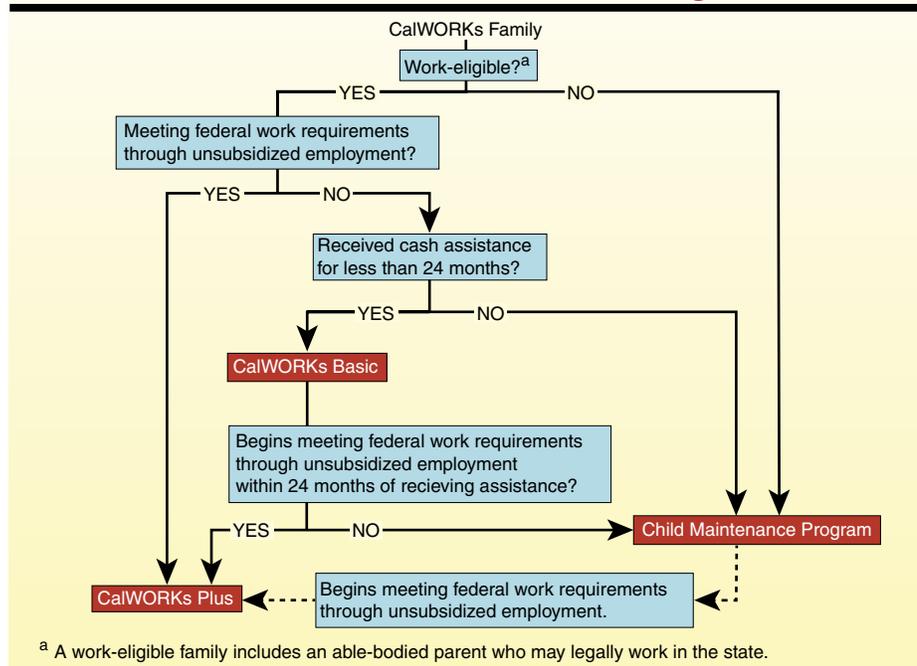
2012, with full implementation in April 2013. Over this six-month period, families that would otherwise be removed by the Governor’s proposal to shorten time limits would continue to receive services.

**Divides CalWORKs Into Two Subprograms.** The CalWORKs Basic program would effectively continue the current CalWORKs program (including maintaining current cash assistance levels and employment services) for work-eligible adults for up to 24 months. The CalWORKs Plus program would serve families that are working sufficient hours in unsubsidized employment to meet federal work participation requirements. These families would receive 48 months (or an additional 24 months if they were transitioning from the CalWORKs Basic program) of eligibility for cash assistance, employment services, and child care. Families that exceed the 48-month limit would be eligible to continue receiving cash assistance (less the portion attributable to the parent) and services for as long as they continue to meet work requirements. Additionally, the earned income disregard for families in the CalWORKs Plus program would be somewhat more generous, excluding the first \$200 (as opposed to \$112) of all income and 50 percent of remaining income from cash grant calculations. Time limits in both CalWORKs Basic (24 months) and CalWORKs Plus (48 months) would be applied retroactively to all current CalWORKs

recipients, including those previously exempted from work requirements or in sanction status.

**Creates a Child Maintenance Program.** This program would provide continued assistance for families that are no longer eligible for CalWORKs under the redesign. The Child Maintenance caseload would be comprised of families that: (1) have received 24 months of CalWORKs Basic assistance and are not working sufficient hours in unsubsidized employment, (2) have been in sanction status for three months, or (3) do not have a parent who is work-eligible. Cash assistance levels for families in the Child Maintenance program would be reduced in two ways: (1) MAP levels would be reduced by 27 percent as compared to what a family would receive in the current CalWORKs program, and (2) the earned income disregard would be reduced by \$112. Additionally, Child Maintenance families would not be eligible for ongoing employment services or subsidized child care. (Families that are work-eligible and have

**Figure 4**  
**Flowchart of Restructured CalWORKs Program**



not exceeded 48 months on aid may be provided one month of child care every six months to allow for job search.) The frequency of required income reporting would be reduced from quarterly (scheduled to change to semiannually in 2013) to annually for Child Maintenance families.

**Impact of the Governor’s Proposal on Caseload.** Figure 5 shows the impact of the Governor’s redesign on the existing CalWORKs caseload (586,000). As the figure shows, in October 2012, a total of 301,000 cases would be removed from the CalWORKs program. These cases would be comprised of existing child-only, safety-net, and chronically sanctioned (sanctioned three or more months in a 12-month period) cases. Of these cases, about 260,000 cases would transition to the Child Maintenance program while about 41,000 cases would be discontinued due to lower income eligibility thresholds resulting from the change in the earned income disregard and grant reductions. In April 2013, about 131,000 cases

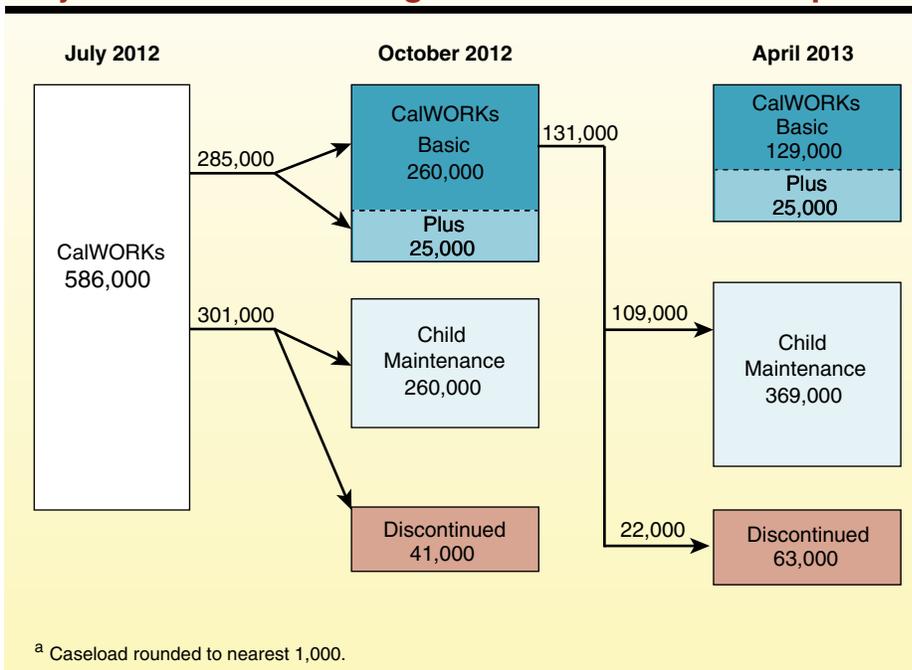
would be removed from CalWORKs Basic due to shortened time limits for eligibility. The majority of these cases (109,000) would be placed in the Child Maintenance program, while the remainder (22,000) would be discontinued (for the reasons indicated above). Altogether, about 432,000 existing cases (74 percent) would be adversely impacted by the Governor’s proposal either due to reduced cash assistance by being placed in the Child Maintenance program or having their cases discontinued.

**Governor’s Budget Likely Underfunds County Responsibilities**

The Governor’s budget calculates county single allocation funding for child care for current CalWORKs recipients and county administration of the CalWORKs program based on unit costs that are lower than actual costs in past years. While proposed administrative efficiencies (such as reducing the frequency of income reporting

requirements for Child Maintenance cases) could lead to somewhat lower administrative costs, the Governor likely is underestimating the actual costs counties will face. To accommodate insufficient funding for child care and county administration, counties could either redirect funds from employment services or request a midyear augmentation from the state (resulting in reduced budgetary savings).

**Figure 5**  
**Projected Caseload Changes Under Governor’s Proposal<sup>a</sup>**



**MAJOR BUDGET REDUCTIONS**

To achieve the bulk of his savings (\$890 million of the \$985 million), the Governor proposes three significant changes to the CalWORKs program: (1) reducing cash grants, (2) shortening the adult time limit for the receipt of benefits, and (3) modifying work requirements. These policy changes would be accompanied by proposed changes to the administrative structure of the CalWORKs program. We believe that the Governor’s proposed policy changes could be adopted and associated savings achieved without changing the administrative structure of the program. Moreover, the proposed administrative changes do not yield any apparent programmatic benefits in terms of efficiencies or effectiveness. Thus, we recommend the Legislature focus its evaluation on the major policy changes inherent in the Governor’s proposal and reject the Governor’s proposed administrative changes. Below, we describe, assess, and offer modifications to the Governor’s proposed policy changes. We also offer rough estimates of the full-year savings (if changes took effect July 1, 2012) associated with enacting these changes within the context of the current CalWORKs administrative structure. (These estimates consider each policy change in isolation and do not account for possible interactive effects.)

**Reduced Cash Grants**

*Governor’s Proposal Reduces Cash Grants*

*for the Majority of Cases.* The Governor proposes to reduce cash grants by 27 percent for current child-only, safety-net, and chronically sanctioned (sanctioned three or more months in a 12-month period) families. Upon full implementation of the Governor’s proposal, about 74 percent of the current CalWORKs caseload would face reduced cash assistance. Figure 6 provides a breakdown of cash grants and CalFresh benefits that would be received by a family of three living in a high-cost county in each of the CalWORKs Basic, CalWORKs Plus, and the Child Maintenance programs. As shown in the figure, a family currently receiving a child-only grant would face a reduction of 27 percent if shifted to the proposed Child Maintenance program. (Due to interaction with the Governor’s proposal to reduce the adult time limit, some families currently receiving a full cash grant—including an adult portion—would face a more substantial reduction of 41 percent

**Figure 6**  
**Comparison of Maximum Monthly Cash Assistance Levels<sup>a</sup>**

	Current Law	Governor’s Proposal	Change	Percent Change
<b>CalWORKs Basic</b>				
Cash grant	\$638	\$638	—	—
CalFresh benefits	478	478	—	—
<b>Totals</b>	<b>\$1,116</b>	<b>\$1,116</b>	<b>—</b>	<b>—</b>
Percent of FPL	72%	72%	—	—
<b>CalWORKs Plus</b>				
Earnings <sup>b</sup>	\$1,040	\$1,040	—	—
Cash grant	174	218	\$44	25.3%
CalFresh benefits	372	353	-19	-5.1
<b>Totals</b>	<b>\$1,586</b>	<b>\$1,611</b>	<b>\$25</b>	<b>1.6%</b>
Percent of FPL	103%	104%	1%	—
<b>Child Maintenance</b>				
Cash grant	\$516	\$375	-\$141	-27.3%
CalFresh benefits	487	487	—	—
<b>Totals</b>	<b>\$1,003</b>	<b>\$862</b>	<b>-\$141</b>	<b>-14.1%</b>
Percent of FPL	65%	56%	-9%	—

<sup>a</sup> Example shown for a family of three with an eligible adult in a high-cost county.  
<sup>b</sup> Assumes one parent working 130 hours per month (about 30 hours per week) at state minimum wage of \$8 per hour.  
 FPL = federal poverty level.

if shifted to the Child Maintenance program.) The combination of a Child Maintenance cash grant and CalFresh benefits (for families with an eligible adult) would provide an average family of three resources equal to 56 percent of the federal poverty level. The full-year savings of a 27 percent cash grant reduction for child-only, safety-net, and chronically sanctioned cases would be approximately \$610 million. If the Legislature were to reduce the magnitude of the Governor’s proposed cash grant reduction, savings would be reduced by roughly \$100 million for each 5 percent increment below 27 percent. For example, the state would receive full-year savings of around \$510 million if it reduced these cash grants by 22 percent.

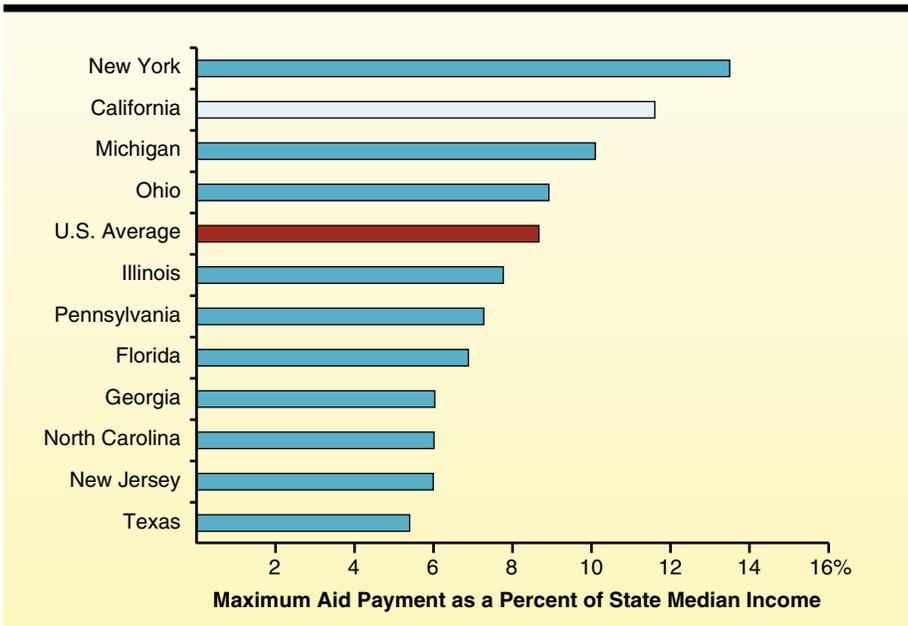
**California Provides Higher Monthly Cash Assistance Than Other States.** Figure 7 compares the MAP available for a family of three as a percentage of state median income in California and the ten other largest states. (Displaying the

MAP as a percentage of state median income adjusts for varying income levels across states.) The figure shows a CalWORKs cash grant currently is equal to 11.6 percent of California median income for a family of three. This cash grant level ranks fourth highest among all states and second highest among large states. This cash grant level is 3 percentage points higher than the national average and almost 4 percentage points higher than the average of the ten largest states excluding California.

**Proposed Cash Grant Reductions May Increase the Incentive for Recipients to Work.** The Governor’s reduction in cash grants for the proposed Child Maintenance cases could increase the incentive for these families to work by increasing the difference in cash assistance for families that are and are not working. Figure 8 demonstrates the effect of increasing the difference in cash assistance available to working and non-working families. As this figure shows, if

the parent of a family of three currently in sanction status with no earned income were to obtain a part-time job earning \$1,040 monthly, the family’s overall monthly resources would increase by \$839 under the Governor’s proposal (after adjusting for a reduced CalWORKs cash grant), as compared to \$698 under current law. (Incorporating the Governor’s proposed increased earned income disregard, the family’s monthly resources would increase by \$883.)

**Figure 7**  
**Comparison of California’s Cash Grant Level With Those of Ten Other Largest States**



However, the proposed Child Maintenance caseload is likely to face more barriers to self-sufficiency than other families, possibly dampening the impact of these increased work incentives.

**Proposed Child Maintenance Cases May Face More Barriers to Self-Sufficiency Than Other Cases.** Review of caseload characteristics and relevant research suggests that Child Maintenance cases may face more barriers to self-sufficiency than the average CalWORKs family. Figure 9 provides a breakdown of the caseload of the Governor’s proposed Child Maintenance program. The largest segment of this population is cases with an undocumented parent (44 percent), followed by safety-net cases (16 percent). Overall, only 19 percent of these families are headed by a parent with a high school diploma or General Education Development credential, as compared to 53 percent of all other CalWORKs families. Additionally, only 50 percent of these families speak English as a first language, as compared to 86 percent of all other CalWORKs families. Our review of relevant research indicates that the second largest segment of the child-only population—safety-net and chronically sanctioned cases—are more likely to face one or more barriers to self-sufficiency, such as limited education or work experience, physical or mental health problems, or issues with transportation. Altogether, this evidence suggests that the target population of the Governor’s proposed CalWORKs cash grant reductions faces more barriers to self-sufficiency than the CalWORKs caseload as a whole. This therefore dampens

**Figure 8  
Comparing Work Incentives**

	Current Law	Governor's Proposal
<b>Nonworking Family<sup>a</sup></b>		
Earnings	—	—
Cash grant	\$516	\$375
<b>Totals</b>	<b>\$516</b>	<b>\$375</b>
<b>Working Family<sup>b</sup></b>		
Earnings	\$1,040	\$1,040
Cash grant	174	174
<b>Totals</b>	<b>\$1,214</b>	<b>\$1,214</b>
<b>Benefit of Working</b>		
Earnings	\$1,040	\$1,040
Change in cash grant	-342	-201
<b>Net Benefit</b>	<b>\$698</b>	<b>\$839</b>

<sup>a</sup> Assumes single-parent family of three in sanction status.  
<sup>b</sup> Assumes one parent working 130 hours per month (about 30 hours per week) at state minimum wage of \$8 per hour. Maintains current-law earned income disregard.

the potential for the Governor’s proposed cash reductions to serve as a work incentive.

**Cash Grant Reductions Could Instead Be Applied to All CalWORKs Families.** If the Legislature wishes to avoid concentrating the impact of cash grant reductions on a population of recipients that may, in some cases, have more difficulty securing employment, it could consider making an across-the-board cash grant reduction. To generate an equivalent amount of savings as

**Figure 9  
Breakdown of the Child-Maintenance<sup>a</sup> Caseload**

Type	Cases	Percent of Child-Only
Undocumented parents	133,083	44.2%
Safety-net <sup>b</sup>	46,884	15.6
Non-needy caretaker relative	39,198	13.0
Supplemental Security Income parents	38,239	12.7
Chronically sanctioned (more than three months)	22,328	7.4
Other	16,160	5.4
Drug and fleeing felon parents	5,108	1.7
<b>Totals</b>	<b>300,999</b>	<b>100.0%</b>

<sup>a</sup> Includes traditional child-only cases, as well as safety-net and chronically sanctioned cases.  
<sup>b</sup> Defined as a case in which a parent has exceeded his/her time limit but the family continues to receive aid on behalf of the children.

the Governor through an across-the-board grant reduction, we estimate that cash grant levels would need to be reduced by 17 percent—10 percentage points less than the Governor’s targeted cash grant reduction. In general, savings of around \$190 million (with some additional savings associated with larger reductions due to a greater number of discontinued cases) could be achieved for every 5 percent reduction in cash grants for all cases.

***Phasing in Cash Grant Reductions Could Lessen Immediate Impact on Recipients.*** The Legislature also may wish to consider mitigating the impact of any cash grant reduction that it might choose to make. A potential option would be to phase in any reduction over several months. A phase-in period could provide families time to adjust to changes in available resources and help to mitigate problems associated with a sudden decrease in benefits. Implementing a 27 percent cash grant reduction for child-only, safety-net, and chronically sanctioned cases over a six-month phase-in period (for example, three months of no reduction followed by three months of partial reduction) would result in savings of about \$390 million in 2012-13 (a loss of \$70 million in savings relative to the Governor).

### **Shortened Time Limit for Assistance**

***Governor’s Proposal Significantly Shortens Time Limit for Access to Full Array of CalWORKs Services.*** The Governor’s proposal to divide CalWORKs into two subprograms is generally equivalent to reducing the adult time limit for the current CalWORKs program to 24 months, while continuing to maintain a 48-month time limit for adults that are working sufficient hours in unsubsidized employment. The Governor proposes to implement this change retroactively and to count prior months in which families were exempt from welfare-to-work or sanctioned for noncompliance

towards the new time limit. An estimated 131,050 adults that have received aid for more the 24 months would lose cash assistance and services under the Governor’s proposal. We estimate that the full-year savings of implementing this proposal under the current program structure would be around \$380 million.

***Shortened Time Limits Could Increase Imperative for Recipients to Move Toward Self-Sufficiency.*** Decreasing the amount of time nonworking CalWORKs adults can receive cash assistance could encourage CalWORKs recipients to more aggressively pursue work. Though little research exists on the impact of shortening time limits, the evidence that they serve to induce increased work among welfare recipients is mixed. Several older studies have found time limits generally can produce an “anticipation effect” that increases employment among recipients prior to reaching time limits. While the majority of these studies examined time limits that result in full grant elimination, there is some evidence that partial grant elimination—as is the case in California—can have a positive but less pronounced effect on employment. More recent work by the Public Policy Institute of California, however, does not find evidence that time limits resulting in partial grant elimination have a significant impact on employment among low-income single mothers. Based on this available evidence, the Governor’s time limit proposal likely would have a positive, but limited, effect on employment of CalWORKs recipients.

***Counting Prior Months in Exemption Toward Time Limit Is Inconsistent With Prior Policy.*** Under current law, adults are granted exemptions from participating in welfare-to-work activities under various circumstances, such as when the adult is disabled, of advanced age, or caring for a very young or ill child. Under current law, months during which an adult is exempt from

work requirements do not count against the adult's 48-month time limit. More recently, in connection with budget reductions, exemptions have been expanded to include parents caring for one child under the age of two or multiple children under the age of six. (Exemptions generate savings for the state because employment and child care services generally are no longer provided.) Generally, exemptions give recipients the option to defer welfare-to-work activities with the understanding that they will be able to resume those activities at some point in the future without reducing their duration of eligibility. There are currently a total of about 105,000 cases that have received exemptions. The Governor's proposal would retroactively count months in exemption towards an adult's time limit, thereby significantly reducing the availability of future services. By doing so, the proposal would be inconsistent with prior policy under which recipients may have elected not to volunteer for welfare-to-work with the understanding that these services would be available in the future. To mitigate this issue, the Governor proposes to provide a six-month transition period for all current work-eligible CalWORKs families.

***In Considering Time Limit Reductions, Recommend Legislature Not Count Prior Months in Exemption.*** Given the adverse effect on certain families, we recommend the Legislature not count prior months in exemption towards an adult's time limit. Our full-year savings estimate of implementing the Governor's time-limit proposal would be reduced by approximately \$90 million if the prior months in exemption were not counted.

***Legislature Could Consider Aligning Time Limit With Average Time on Aid.*** If the Legislature believes the Governor's shortened time limit is too severe, it could consider making a less dramatic change to the time limit. One option would be to align the adult time limit with the historical average time on aid among CalWORKs recipients

(about three years). Reducing the adult time limit to 36 months without counting prior months in exemption would result in annual savings of roughly \$140 million.

### **Changes to Work Requirements**

***Governor's Proposal Aligns State and Federal Work Requirements.*** As part of his redesign of the CalWORKs program, the Governor proposes to align the current CalWORKs work requirements with federal TANF requirements. Aligning to the federal requirements would reduce the required number of hours of participation for single parents (a majority of the caseload) but restrict the scope and time line for higher education activities and mental health, substance abuse, and domestic violence treatment. Altogether, about 35,000 cases (about 30 percent of those participating in work activities) are currently participating in activities that could be affected by the Governor's proposal. The Governor's budget does not directly attribute any fiscal effect to this proposal. We find that the net savings of aligning state and federal work requirements are difficult to predict due to uncertain behavioral responses among CalWORKs recipients. However, such a policy change would somewhat reduce the risk of future TANF losses due to federal WPR-related penalties.

***Aligning to Federal Work Requirements Would Likely Increase the State's WPR.*** Under current law, a CalWORKs recipient could be in compliance with state work requirements, while failing to meet federal requirements and, therefore, not contribute to the state's WPR. This occurs primarily because the work activities allowed by state law are more permissive than those allowed by federal law. If state and federal requirements were aligned, CalWORKs recipients no longer would be permitted to participate in activities that do not contribute to the state meeting its WPR. This likely would redirect recipients to participate in federally

allowable activities, thus increasing the state's WPR. Increasing the state's WPR would reduce the risk of future federal penalties.

***Changes in Work Requirements Likely Would Have a Mixed Impact on Welfare-to-Work Sanctions.*** Aligning to federal work requirements could potentially have offsetting effects on the number of CalWORKs families subject to sanctions for noncompliance. On the one hand, reducing the required hours likely would make meeting work requirements easier, thus reducing the likelihood of sanction. (For single mothers with a child under six—a majority of the work-eligible caseload—required hours would drop by 38 percent.) Conversely, restricting the list of allowable work activities could make meeting work requirements more difficult, thus increasing the likelihood of sanctions. Although specific behavioral responses are difficult to predict, aligning state and federal work requirements would likely, on balance, reduce the number of cases subject to sanctions. A reduction in the number of sanctioned cases would likely result in increased CalWORKs cash grant costs.

***Requiring Breaks in Treatment for CalWORKs Purposes Problematic.*** Under current law, generally no limit exists on the amount of time mental health, substance abuse, and domestic violence treatments can count towards a CalWORKs recipient's required hours of participation. The Governor's proposal would limit these activities for CalWORKs purposes to: (1) a total of 180 hours per year (360 hours during periods of growth in the state's unemployment rate or CalFresh caseloads) and (2) no more than four consecutive weeks. Due to these proposed changes, a CalWORKs recipient in a treatment program might, in some circumstances, be required to interrupt treatment every four weeks. (In some circumstances counties could use administrative

workarounds to allow continued treatment.) Individual treatment time in these programs is likely to vary significantly. Thus, determining how many recipients would be affected by the Governor's proposal is difficult. However, due to variation in individual treatment times, establishing a single time limit for all recipients is problematic, as some recipients likely would be moved into other work activities before adequate treatment has been provided.

***Recommend Making Allowances for These Treatments.*** Aligning state and federal work requirements generally merits consideration as it would help to improve the state's WPR and reduce the risk of associated federal penalties. However, we believe that the Governor's proposed limitations for mental health, substance abuse, and domestic violence treatments are impractical and detrimental to the successful implementation of these treatments. Therefore, we recommend the Legislature reject the proposal and not adopt the federal limitations relating to these treatments.

## OTHER PROPOSALS

### Cal-Learn

***Eliminates the Case Management Portion of the Cal-Learn Program.*** The Cal-Learn program provides intensive case management to about 12,000 CalWORKs teen parents who remain in school. Depending on a student's academic performance, the teens may earn bonuses or be subject to sanctions (a decrease in the CalWORKs cash grant). The *2011-12 Budget Act* suspended the case management portion of the Cal-Learn program (the bulk of the program's expenditures) but maintained funding for the performance bonuses. The Governor proposes to permanently eliminate the case management portion of the Cal-Learn program (avoiding \$35 million in otherwise higher costs in 2012-13).

***In Light of Budget Constraints, Proposed Elimination Has Merit.*** Under the Governor's proposal, counties would be allowed to continue funding Cal-Learn using the employment services allotment of their single allocation funding. Thus, counties would be allowed to prioritize limited employment services resources between Cal-Learn recipients and the general CalWORKs population based on local needs. In light of budgetary constraints in the CalWORKs program, we believe this proposal merits serious consideration by the Legislature.

### **Cash Grants for Work-Exempt Families**

***Eliminates Higher Grants for "Work-Exempt" Families.*** Under current law, a CalWORKs family may qualify for a higher cash grant (about 10 percent greater) if the adult in the family is either a caretaker relative or a parent who is receiving: (1) SSI, (2) In-home Supportive Services, (3) State Disability Insurance, or (4) workers' compensation temporary disability payments. These families are referred to as work-exempt. Currently, about 18 percent of CalWORKs families are classified as work-exempt. Higher cash grants for work-exempt families were originally established to compensate for the inability of many of these cases to augment their cash grant through employment, unlike families with able-bodied adults. The Governor proposes to eliminate these higher cash grants, reducing the grant for these families by about \$54 per month, on average, for total associated savings of \$50 million.

***Eliminating Higher Grants for Some Work-Exempt Families Merits Consideration.*** Although most work-exempt families have limited or no ability to obtain earned income, the majority are receiving disability-related income. For this reason, we think eliminating the higher cash grants warrants legislative consideration. The merit of eliminating higher cash grant levels for caretaker

relatives is less clear, as this could discourage relatives from assuming care of children, resulting in potentially increased costs in child welfare services.

### **Using TANF Funds for Cal Grant Costs**

***Uses Freed-Up TANF Funds for Cal Grant Costs.*** Because of federal MOE requirements, the Governor cannot reduce state spending for the CalWORKs budget. Thus, to realize General Fund savings from his CalWORKs changes, he proposes to use TANF funds freed up from the CalWORKs reductions for Cal Grant costs and, in turn, achieve General Fund savings in that program. Specifically, the Governor proposes to transfer \$736 million in TANF funds to the Student Aid Commission to fund Cal Grants, resulting in General Fund savings of a like amount. According to the administration, the use of TANF funds for Cal Grants is allowable under the third and fourth purposes of TANF. This proposal is simply a change in fund source and would not have a programmatic effect on the Cal Grant program.

***Transfer of TANF to Student Aid Commission Is Needed to Realize General Fund Savings.*** The Governor's proposal to use TANF funds for a portion of Cal Grants is needed to realize maximum General Fund savings from making reductions in the CalWORKs program while continuing to meet MOE requirements. Once the Legislature decides upon a level of CalWORKs savings, we recommend using the Governor's TANF transfer/Cal Grants approach as the mechanism to achieve General Fund savings.

### **Expansion of Work Incentive Nutritional Supplement (WINS) Program**

***Expands Supplemental Work Bonus Program Scheduled to Begin in 2013-14.*** As part of the 2008-09 budget package, the Legislature established the WINS program, which is intended

to provide \$40 in additional monthly benefits to CalFresh families who are meeting federal TANF work requirements but are not in the CalWORKs program. Subsequent budget actions in 2009 and 2011, however, postponed implementation of the program until October 2013. A primary purpose of this program is to increase the state's WPR, thereby helping the state meet federal requirements. The Governor proposes to implement the program as scheduled, as well as increase the monthly benefit from \$40 to \$50. Additionally, the Governor would create a new WINS Plus program that would provide a \$50 monthly benefit to families receiving subsidized child care who are meeting federal TANF work requirements but are not in the CalWORKs program. This change also is intended to help the state meet the federal WPR requirement. The Governor's proposed expansion would not result in costs in 2012-13 but would increase ongoing annual costs for WINS by about \$53 million (increasing total program costs from \$72 million to \$126 million) following implementation in 2013-14.

***Proposal Reduces the Risk of Future Federal Penalties . . .*** Absent corrective action, the state is likely to fall short of its federal WPR by as much as 20 percentage points to 25 percentage points for the foreseeable future. The WINS program, as designed under current law, would help to increase the state's WPR by an anticipated 10 percentage points beginning in 2013-14. The Governor's proposed expansion of the WINS program would likely further increase the state's WPR. While these increases alone would not allow the state to meet its WPR, it would bring the state considerably closer to its goal and reduce the risk of future federal penalties.

***. . . But Legislature Could Modify the Proposal to Reduce Costs.*** Under the Governor's proposed expansion of WINS, ongoing costs are \$126 million. The following modifications could

be made to the Governor's proposal to reduce ongoing costs by as much as \$100 million, while still receiving all or most of the WPR benefit: (1) require that all new CalFresh and subsidized child care applicants also apply for WINS or WINS Plus at time of application, (2) require application for WINS and WINS Plus as a condition of ongoing eligibility for current CalFresh and subsidized child care recipients, and (3) reduce the monthly benefit from \$50 to \$10. We recommend the Legislature adopt the Governor's proposal to expand the WINS program, with the modifications described above. (If the Legislature does not adopt the Governor's income and work-related child care eligibility proposals, the administrative complexity and potential costs of WINS Plus likely would be somewhat greater.)

### **LEGISLATURE HAS OTHER OPTIONS FOR ACHIEVING CALWORKS SAVINGS**

The Legislature may wish to modify the Governor's proposals or pursue alternative options for achieving CalWORKs savings. Figure 10 provides a "menu of options" that summarizes the reductions proposed by the Governor, ways the Legislature could modify those proposals, as well as four additional approaches to consider. We discuss the four additional options below.

***Continue the Current-Year Single Allocation Reduction.*** The Legislature could consider continuing recent unallocated reductions to county block grants. In each of the last three years, the state has reduced county single allocation funding for employment services and child care as a means of achieving budgetary savings. In 2011-12, single allocation funding was reduced by \$377 million. These reductions have been accompanied by expanded exemptions from work requirements, which allowed counties to manage the single allocation reduction by reducing employment services and child care caseloads. (With the

Figure 10

## Options for Generating CalWORKs Savings

## Maximum Aid Payment Levels

**Current Law:** A family of three with an eligible adult receives a monthly cash grant of \$638. A family of three without an eligible adult (child-only, safety-net, and sanctioned cases) receives a monthly cash grant of \$516.

**Governor's Proposal:** Reduce cash grants for child-only, safety-net, and chronically sanctioned (three sanctions in prior 12 months) by 27 percent (family of three receives a monthly cash grant of \$375). Full-year savings would be around \$610 million.

**Option:** Implement a lesser reduction. Savings are reduced by about \$100 million for each 5 percent increment below the Governor's proposed 27 percent reduction.

**Option:** Implement cash grant reduction on all CalWORKs cases. For each 5 percent reduction, savings are approximately \$190 million. A reduction of 17 percent would generate roughly equivalent full-year savings to the Governor's proposal.

**Option:** Phasing in a 27 percent cash grant reduction for child-only, safety-net, and chronically sanctioned cases over six months would save about \$390 million in 2012-13.

## Adult Time Limit

**Current Law:** Able-bodied adults are eligible for up to 48 months of cash assistance, employment services, and subsidized child care.

**Governor's Proposal:** Reduce the adult time limit to 24 months for adults not meeting federal work participation requirements through unsubsidized employment. Prior months in which families were exempt from welfare-to-work would be counted toward the limit. Around \$150 million in 2012-13 savings and \$380 million in full-year savings.

**Option:** Do not count prior months in exemption toward 24-month time limit, resulting in forgone full-year savings of about \$90 million.

**Option:** Shorten time limit to 36 months, resulting in savings of approximately \$140 million.

## Cal-Learn

**Current Law:** The Cal-Learn program provides supplementary intensive case management for CalWORKs teen parents who remain in school. This case management was suspended in 2011-12.

**Governor's Proposal:** Eliminate most of the Cal-Learn program, resulting in savings of \$35 million.

## Higher Cash Grants for Work-Exempt Families

**Current Law:** Work-exempt families (such as recipients of disability income and non-parent relative caretakers) receive a cash grant which is about 10 percent higher than other families.

**Governor's Proposal:** Eliminate higher cash grants for work-exempt families, saving about \$50 million.

## County Single Allocation

**Current Law:** A reduction to county single allocation funding and associated expanded welfare-to-work exemptions will expire at the end of 2011-12, resulting in increased CalWORKs expenditures of \$377 million.

**Governor's Proposal:** None.

**Option:** Continue the current-year single allocation reduction, resulting in savings of \$377 million.

## Earned Income Disregard

**Current Law:** A portion of a family's earned income (the first \$112 and 50 percent of the remainder) is disregarded in cash grant calculations.

**Governor's Proposal:** Decrease the earned income disregard by \$112 for proposed Child Maintenance cases and increase earned income disregard to \$200 and 50 percent for families meeting work participation requirements through unsubsidized employment.

**Option:** Modify earned income disregard for all families to \$225 and 25 percent resulting in savings of about \$70 million.

## Sanctions

**Current Law:** Families with an eligible adult who is not compliant with work requirements for three or more months are assessed a sanction equal to the adult portion of the cash grant.

**Governor's Proposal:** None.

**Option:** Reducing cash grants for these families by 50 percent would result in savings of about \$40 million.

## Time Limits for Long-Term Cases

**Current Law:** Regardless of adult time limits, a family may receive aid on behalf of a child until the child turns 18-years old.

**Governor's Proposal:** None.

**Option:** Reduce cash grants for families after an extended period on aid. Each 10 percent reduction in cash grants for families on aid for eight years or longer results in about \$50 million in savings (ten years or longer results in about \$30 million in savings).

exemptions, the number of sanctions for failure to meet work requirements has also declined accordingly.)

To generate savings in 2012-13, the Legislature could extend the current-year single allocation reduction and associated exemptions and continue to save \$377 million. One specific advantage of this option would be that these reductions have already been in place for three years, therefore continuing them would likely not result in a new reduction of service levels. However, the current single allocation reduction and exemptions come with a trade-off, as they weaken the work component of the CalWORKs program. That is, since the implementation of the expanded welfare-to-work exemptions, the percentage of adults participating in some work activities has decreased by 11 percent. Although some of this reduced participation could be attributable to other factors, such as the recent economic downturn, maintaining the current-year policies would likely have some negative effect on the state's WPR, increasing the risk of federal penalties.

***Reduce the Earned Income Disregard.*** The Legislature could consider altering existing earned income disregard policies. In general, an earned income disregard has two primary effects: (1) to increase the incentive for families to begin working by reducing the amount of cash assistance lost from earnings and (2) to increase the earned income threshold at which families "income out" of CalWORKs. Reducing the earned income disregard generates savings primarily by decreasing benefits for families with relatively more resources. Such a change would also be likely to reduce incentives for CalWORKs recipients to pursue employment. However, it is possible to mitigate this effect by structuring the earned income disregard in a way that allows families to benefit considerably from initial earnings, while decreasing the amount of earned income disregarded at higher levels of

earnings. For example, changing the earned income disregard to exclude the first \$225 and 25 percent of all remaining earned income (current law excludes the first \$112 and 50 percent of the remainder) would maintain about the same disregard for low levels of earnings, while reducing cash grants for families with the highest levels of earned income. Such a change would result in annual savings of roughly \$70 million.

***Increase Sanctions Imposed for Noncompliance With Work Requirements.*** The Legislature could impose stricter sanctions on CalWORKs participants who fail to meet welfare-to-work requirements. Under current law, if a CalWORKs family with an able-bodied adult is not complying with work requirements, the family may be subject to a sanction, which reduces the family's grant by the amount attributable to the adult. The severity of California's sanction policy is less than most other states, many of which discontinue aid for an entire family due to continued noncompliance with work requirements. Research on the impact of sanctions suggests that the effects on welfare recipients are disparate. The segment of cases that respond to more severe sanctions with increased work participation generally experience increased economic well-being, while those that do not respond experience a state of increased poverty. In this regard, more severe sanction policies involve a difficult trade-off of likely increases in work participation with equally likely increases in poverty among some families. One possible option for increasing the severity of sanctions would be to reduce a family's grant by 50 percent upon three months of noncompliance with work requirements. This option recognizes the trade-offs discussed above by not fully eliminating benefits for any family. This option would result in annual savings of around \$40 million.

***Impose Time Limits After Long Periods of Aid.*** The Legislature also could consider reducing

benefits for families that have received aid for an extended period of time. Currently, slightly more than 100,000 cases in the CalWORKs program have received aid for eight or more years. Of these cases, around 65,000 have received aid for ten or more years. The largest segments of this caseload are safety-net families and families with undocumented parents. While many long-term cases are likely to face significant barriers to self-sufficiency, the needs of families that have already received extended assistance could be

weighed against the needs of other CalWORKs families—especially newer cases that have received comparatively less assistance. Reducing cash grants for families that have received aid for ten or more years by 10 percent would result in savings of around \$30 million. Similarly, reducing cash grants for families that have received aid for eight or more years by 10 percent would result in savings of around \$50 million. (In both cases, savings would be roughly equivalent for each additional 10 percent reduction.)

## CHILD CARE

As with CalWORKs, the Governor has major proposals related to the state’s subsidized child care and development (CCD) programs, including several policy proposals designed to achieve budgetary savings, as well as a proposal to restructure the CCD system. Below, we provide background on California’s CCD programs and a high-level overview of the Governor’s CCD budget package. We next describe and assess the Governor’s major savings proposals and identify other savings options the Legislature could consider were it to reject some or all of the Governor’s proposals. We then describe, assess, and offer modifications to the Governor’s restructuring plan.

### BACKGROUND

***Subsidized Child Care Provided Through a Variety of Programs.*** Figure 11 (see next page) provides a description, as well as participation levels, for each of the state’s CCD programs. All programs currently are administered by the California Department of Education (CDE), with the exception of CalWORKs Stage 1, which is overseen by DSS. California traditionally has guaranteed subsidized child care for families that

currently are participating or have participated in the CalWORKs program. However, budget reductions in 2010-11 and 2011-12 resulted in some eligible families not being served in the Stage 1 and Stage 3 programs. The state also funds subsidized child care slots for low-income working families that have not participated in CalWORKs. Because demand typically exceeds funded slots in these programs, waiting lists are used to prioritize access to non-CalWORKs care. As noted in the figure, about one-third of children attending the California State Preschool Program (CSPP) are supported by funding redirected from the General Child Care (GCC) budget.

***Families Currently Qualify for Subsidized Child Care for a Variety of Reasons.*** Under current law, families generally must meet two criteria to be eligible for subsidized child care. They must display “need” for care and earn less than 70 percent of state median income (SMI). (The part-day state preschool program is an exception in that need is not an eligibility requirement and up to 10 percent of families can exceed the SMI cap.) As long as families meet these requirements, their children can continue to receive services until they turn 13 years of age. Most families—over 90 percent

**Figure 11**  
**Overview of State’s Child Care and Development Programs<sup>a</sup>**

2011-12

Program	Description	Estimated Number of Slots
<b>CalWORKs Child Care</b>		
Stage 1	Stage 1 begins when a participant enters the CalWORKs grant program.	45,000
Stage 2	CalWORKs families are transferred into Stage 2 when the family is deemed stable. Participation in Stage 1 and/or Stage 2 is limited to two years after an adult transitions off cash aid.	65,000
Stage 3	A family may enter Stage 3 when it has exhausted its limit in Stage 2, and remain as long as it is otherwise eligible for child care.	25,000
<b>Non-CalWORKs Child Care</b>		
California State Preschool Program	Part-day and full-day early childhood education programs for three- and four-year old children from low-income families. (Family does not need to be working to be eligible for part-day program.)	145,000 <sup>b</sup>
General Child Care	One type of care for low-income working families not affiliated with CalWORKs program.	33,000
Alternative Payment	Another type of care for low-income working families not affiliated with CalWORKs program.	33,000
Migrant and Severely Handicapped	Programs targeted for specific populations of children.	6,600
<b>Total</b>		<b>352,600</b>

<sup>a</sup> Excludes support programs, which do not provide direct child care services.  
<sup>b</sup> Includes about 45,000 children funded through General Child Care program budget.

of current child care cases—need care because parents are engaged in work, vocational training, or pursuing an education. Parents who are employed may receive child care benefits for the hours they are working, with no set hourly requirements or time limits. Parents engaged in vocational training or attending school can receive benefits for up to six years, provided they pass at least half of their courses or maintain a 2.0 grade point average. (Parents whose children attend a publicly funded child care center located on a college or university campus, however, are not subject to the six-year limit.) Additionally, about 6 percent of parents currently receive subsidized child care benefits because they are medically incapacitated, seeking a job, or seeking permanent housing. (In each of these latter two categories, a parent may receive child care benefits for up to 60 days per year.) The remaining caseload is made up of children under the care of child protective services (CPS) or at risk

of abuse or neglect. These children qualify for care regardless of family income.

**State Has Two Child Care Systems.** As described in Figure 12, the state essentially has two distinct child care systems. One system consists of the three stages of CalWORKs child care and the Alternative Payment (AP) program—programs for which parents are offered vouchers to purchase care from licensed or license-exempt caretakers. The CalWORKs Stage 1 program is funded by DSS and locally administered by CWDs. The remaining voucher programs are funded by CDE and locally administered by 82 AP agencies across the state. The CDE distributes funding to AP agencies, and they in turn issue payments to child care providers and monitor parents’ eligibility to receive services. (In 30 counties, CWDs have subcontracted with AP agencies also to run the Stage 1 program.) In contrast, under the second system, providers for the GCC, CSPP, Migrant, and

Severely Handicapped child care programs contract with and receive payments directly from CDE. These mostly center-based programs also include additional programmatic components not required for providers paid through the voucher system. Because these additional program requirements (including developmental assessments for children, rating scales for classroom environments, and professional development for staff) are contained in Title 5 of the California Code of Regulations, these direct contractors often are referred to as “Title 5 centers.” Voucher payments are based on regional market rates (RMR) and therefore vary across different areas of the state, whereas Title 5 providers all receive the same Standard Reimbursement Rate (SRR).

**Recent Reductions to Child Care Programs.**

In recent years, the state has made significant reductions to CCD programs and operations. Since 2008-09, overall funding for the CCD system has dropped by about one-quarter. In the past three years, the state has: eliminated funding for approximately 20 percent of slots, reduced payment rates for license-exempt providers, lowered income eligibility thresholds, eliminated the “Latchkey” after school program, reduced administrative allowances for AP agencies and reserve balances for Title 5 centers, eliminated the state’s Centralized Eligibility List, and reduced or eliminated several of the state’s quality improvement projects.

**Figure 12**

**State Has Two Subsidized Child Care Systems**

	Voucher-Based System	Direct Contractor System
<b>Description</b>	The California Department of Education (CDE) allocates funding to local Alternative Payment (AP) agencies. <sup>a</sup> The AP agencies issue vouchers to families, who in turn choose their own child care providers.	The CDE contracts directly with child care providers for a certain number of slots. Eligible families enroll in these subsidized slots.
<b>Programs</b>	<ul style="list-style-type: none"> <li>• CalWORKs Stages 1, 2, and 3</li> <li>• AP Program</li> </ul>	<ul style="list-style-type: none"> <li>• General Child Care</li> <li>• State preschool</li> <li>• Migrant child care program</li> <li>• Severely Handicapped Program</li> </ul>
<b>Types of Providers</b>	<ul style="list-style-type: none"> <li>• Licensed centers and family child care homes (FCCHs)</li> <li>• Relatives or friends providing child care without a license (“license-exempt”).</li> </ul>	<ul style="list-style-type: none"> <li>• Licensed centers and FCCHs</li> </ul>
<b>Standards</b>	Licensed providers must meet basic health and safety standards and adhere Title 22 regulations.	Must meet health and safety standards and adhere to more rigorous Title 5 regulations.
<b>Payment Rates</b>	<ul style="list-style-type: none"> <li>• Maximum voucher amounts are based on Regional Market Rates (RMR) and differ by county and age of child, with higher rates for infant/toddler care.</li> <li>• Current maximum rates for licensed providers are set at the 85<sup>th</sup> percentile of RMR, based on 2005 data. License-exempt providers can earn up to 60 percent of the region’s licensed rate.</li> <li>• Maximum monthly voucher rates for a preschool-age child in full-time licensed care range across counties from about \$650 to about \$1,110.</li> </ul>	<ul style="list-style-type: none"> <li>• Contractors are paid at a daily Standard Reimbursement Rate (SRR) for each eligible child they serve.</li> <li>• The SRR is the same in all regions of the state, with additional funds provided to centers that care for infants/toddlers and children with special needs.</li> <li>• The monthly rate for a preschool-age child in full-time care is about \$715.</li> </ul>

<sup>a</sup> CalWORKs Stage 1 child care is funded through the Department of Social Services, not CDE, and is administered locally by county welfare departments.

## OVERVIEW OF THE GOVERNOR'S BUDGET PROPOSAL

***Reduces Support for Subsidized Child Care Programs by 19 Percent.*** As shown in the top part of Figure 13, the Governor proposes to spend a total of \$1.6 billion for child care programs in 2012-13—a reduction of \$391 million, or 19 percent, compared to the current year. Total state funding would decrease by \$468 million, offset by a \$77 million increase in federal funds.

Because the *2011-12 Budget Act* shifted state support for all CCD programs other than the part-day preschool program from Proposition 98 to non-Proposition 98 General Fund monies, we display funding levels for part-day preschool separately at the bottom of the figure.

## BUDGET REDUCTIONS

***Governor's Proposal Generates Savings From Three Major Changes.*** Figure 14 provides

**Figure 13**  
**Child Care and Development Budget Summary**

(Dollars in Millions)

	2010-11	2011-12 Revised <sup>a</sup>	2012-13 Proposed	Change From 2011-12	
				Amount	Percent
<b>Child Care</b>					
<b>Expenditures</b>					
CalWORKs child care					
Stage 1	\$486	\$429	\$482	\$54	13%
Stage 2	458	442	292 <sup>b</sup>	-151	-34
Stage 3	288	152	121 <sup>b</sup>	-30	-20
Subtotals	(\$1,232)	(\$1,023)	(\$895)	(\$127)	(-12%)
Non-CalWORKs child care					
General Child Care <sup>c</sup>	\$785	\$675	\$470	-\$205	-30%
Alternative Payment	271	213	158 <sup>b</sup>	-55	-26
Other child care	28	30	26	-4	-13
Subtotals	(\$1,083)	(\$918)	(\$654)	(\$264)	(-29%)
Support programs	\$100	\$76	\$76	—	—
<b>Totals</b>	<b>\$2,415</b>	<b>\$2,017</b>	<b>\$1,626</b>	<b>-\$391</b>	<b>-19%</b>
<b>Funding</b>					
State General Fund					
Proposition 98	\$856	—	—	—	—
Non-Proposition 98	29	\$1,069	\$609	-\$460	-43%
Other state funds	350	8	—	-8	—
Federal funds					
CCDF	602	533	548	15	3
TANF	467	406	468	62	15
ARRA	110	—	—	—	—
<b>Part-Day State Preschool</b>					
Expenditures <sup>d</sup>	\$397	\$368	\$310	-\$58	-16%

<sup>a</sup> Includes midyear trigger reductions totaling \$23 million across all programs. Also includes \$8 million midyear augmentation to Stage 3.

<sup>b</sup> Governor's proposal would combine funding for Stage 2, Stage 3, and Alternative Payment into one program.

<sup>c</sup> Funding totals include about \$400 million used for the California State Preschool Program.

<sup>d</sup> All funding for part-day preschool program is from Proposition 98.

CCDF = Child Care and Development Fund; TANF = Temporary Assistance for Needy Families; and ARRA = American Recovery and Reinvestment Act.

additional detail on the Governor’s specific changes to the child care budget. The Governor has three major savings proposals: (1) increasing parental work requirements, (2) lowering family income eligibility thresholds, and (3) reducing reimbursement rates for two categories of child care providers (displayed separately in the table). These proposals would lead to a combined \$391 million in savings and over 63,000 fewer slots. About 75 percent of the savings results from the stricter work eligibility requirements. Below, we discuss each of the major proposed reductions, as well as offer some alternative options for the Legislature to consider if it were to reject some or all of the Governor’s proposals and decide to make different policy changes and/or achieve a different level of overall CCD savings. (The figure also shows a \$35 million augmentation for CWDs to ramp up their activities in anticipation of the proposed restructuring.)

**Work Requirements**

***Governor Reduces Child Care Eligibility by Applying Stricter Work Participation Requirements.***

The Governor proposes to institute minimum hourly work requirements and restrict the kinds of activities that qualify parents for subsidized care, generally consistent with the changes proposed for CalWORKs. Specifically, single-parent families with older children would have to work at least 30 hours of subsidized or unsubsidized employment each week. This requirement would be higher for two-parent households (35 hours) and lower for single parents with young children

(20 hours). These new eligibility standards would apply to both CalWORKs participants and other low-income families receiving subsidized child care. The administration estimates these changes would eliminate eligibility for about 46,000 children from families whose parents are engaged in other activities—which is about one-fifth of the state’s current child care caseload—and yield savings of \$294 million.

***New Eligibility Criteria Would Not Provide Subsidized Child Care on the Basis of Education and Training Activities.*** The Governor’s proposal would have the most notable effect on the roughly 31,000 children currently receiving subsidized child care while their parents are engaged in training or attending educational programs at adult schools, community colleges, four-year universities, and graduate schools. Under the Governor’s proposal, these families would have to make other child care arrangements (and assume any associated costs) or elect to stop going to school/training and instead find a job in order to maintain child care eligibility. Families working fewer than the required number of hours also would be affected by the proposed changes, though the administration estimates that most currently employed parents already are meeting the new minimum work requirement.

**Figure 14**  
**Governor’s Proposed Reductions to Child Care Programs**

(In Millions)

	Funding
County “ramp-up” for child care restructuring	\$35
Limit eligibility to families meeting new work requirements	-294
Reduce reimbursement rates for centers that contract with CDE <sup>a</sup>	-68
Reduce income eligibility ceiling to 200 percent of federal poverty level <sup>a</sup>	-44
Reduce maximum reimbursement rates for child care vouchers	-17
Technical/caseload/adjustments	-4
<b>Total</b>	<b>-\$391</b>

<sup>a</sup> Governor’s proposal also includes Proposition 98 reductions to part-day preschool program, not shown here. Specifically, proposal assumes \$58 million savings (\$34 million for lower reimbursement rates and \$24 million for income eligibility change).  
CDE = California Department of Education.

***Administration's Estimates Likely Overstate Savings by Roughly \$50 Million.*** We believe the administration has overestimated the number of children who would lose eligibility based on the proposed changes. As a result, we believe his savings estimate is overstated. Specifically, since the administration has clarified that the roughly 7,000 children under the care of CPS or living with an incapacitated caretaker would retain current eligibility, no savings should be scored associated with these populations. Accordingly, we estimate the Governor's proposed changes would only eliminate about 39,000 slots and yield about \$250 million in savings.

***Legislature Could Consider Modified Version of Governor's Proposal.*** If the Legislature wishes to continue supporting low-income families furthering their education, it could consider adopting a modified version of the Governor's proposal. The state could continue to provide child care to low-income parents engaged in training or education, but for a more limited period of time. Instead of the current six years (or indefinitely for parents using campus-based Title 5 child care centers), the state could limit child care eligibility based on educational activities to two years. This would allow parents a limited-term opportunity to pursue nonwork activities that might make them more employable in the long run, while at the same time prioritizing limited resources for those who currently are working. Because the state does not currently collect precise information on length of time in care, however, estimating how many families this would affect or the associated savings is difficult. Based on available data, we estimate the change could yield roughly \$50 million in savings. To implement this change, the state would have to start keeping track of each family's duration of and reason for care.

## **Income Eligibility**

***Governor Reduces Income Eligibility Ceilings to 200 Percent of FPL.*** Currently, families eligible for the state's CCD programs can earn up to 70 percent of the SMI. (The income ceiling was reduced from 75 percent to 70 percent of SMI in 2011-12.) The Governor proposes to lower this income eligibility threshold to 200 percent of the FPL, or about 62 percent of SMI. For a family of three, this would drop the maximum eligible monthly income from \$3,518 to \$3,090. (This change is linked to the Governor's attempt to improve the state's WPR through bringing non-CalWORKs families receiving subsidized child care into his proposed WINS Plus program. Under federal law, 200 percent of FPL is the maximum amount a family can earn to receive TANF-funded services.) After accounting for the reduced caseload from the stricter work participation requirements, the Governor estimates that changing income ceilings would terminate child care eligibility for about 8,400 children currently being served. The Governor would eliminate the funding associated with these slots, saving \$44 million. (The Governor also would apply this change to Proposition 98-funded part-day preschool, saving an additional \$24 million and eliminating an additional 7,300 slots.)

***Because It Prioritizes Service for Lowest Income Families, Governor's Proposal Merits Consideration.*** While the Governor's proposed change would reduce the number of families eligible to receive child care, as well as the overall number of available child care slots, it also would prioritize remaining slots for the state's lowest income families. Moreover, our review of other states' eligibility standards for subsidized child care indicates the Governor's proposed level would be more comparable to policies in other states. Our review suggests that only ten other states set maximum income eligibility for child

care at or above 70 percent of their respective SMIs. In contrast, over half of all states set income ceilings at or below 62 percent of their SMIs and almost two-thirds of states set them at or below 200 percent of FPL. To achieve greater savings, the Legislature also could consider reducing income ceilings (and associated slots) even lower, to 50 percent of SMI (or 163 percent of FPL). We estimate about 15 states set child care eligibility at or below that threshold.

### Provider Payments

***Governor Reduces Maximum Reimbursement Rates for Most Child Care Providers.*** The Governor proposes to reduce the maximum amount the state will pay for licensed providers under both the voucher-based and direct contractor systems but maintain existing payments for caretakers who are not licensed by the state.

- ***Lowers RMR for Licensed Providers Paid Through Voucher System.*** Currently, the maximum voucher amounts the state will pay for licensed providers are set at the 85<sup>th</sup> percentile of RMR based on a 2005 survey of regional child care markets. The Governor proposes to reduce rates to the 50<sup>th</sup> percentile of RMR using 2009 survey data. Due to the updated data, the effective reduction to rates would be between 12 percent and 14 percent, on average. In Los Angeles county, for example, the proposal would drop the maximum daily voucher for a preschool-age child in full-time care from \$43.27 to \$37.79.
- ***Lowers SRR for Title 5 Direct Contractors.*** The Governor also would reduce the SRR by 10 percent, dropping the Title 5 per-child rate for full-day services from \$34.38 to \$30.94 and the part-day preschool rate from \$21.22 to \$19.10.

- ***Maintains Current Funding Rates for License-Exempt Providers.*** Because maximum voucher payments for license-exempt providers were reduced in both 2010-11 and 2011-12, the Governor does not propose additional reductions for this category of caretaker. The proposed rates for these providers would shift from 60 percent of current licensed rates to 73 percent of the newly lowered licensed rates—leaving actual dollar amounts essentially flat.

### ***Proposed RMR Voucher Ceilings Are Comparable to Policies in Many Other States.***

Based on our review, the Governor's proposed voucher rates are similar to—and in some cases exceed—reimbursement policies in other states. While nonbinding federal guidance recommends that states set maximum rates at the 75<sup>th</sup> percentile of RMR based on current data, only six states met this target in 2010. Many states set their rates at or below the 50<sup>th</sup> percentile of current regional rates. While lower voucher amounts would mean families might not be able to afford to patronize some providers who charge higher rates, the Governor's proposal still would assure families access to half of all licensed child care providers in their region. (As under current law, families would have the option of selecting providers who charge more than the state's maximum reimbursement level, but they would be responsible for paying the difference.)

### ***RMR Rate Reduction Merits Consideration . . .***

Because lowering RMR rates would generate savings without eliminating child care slots, we believe the Legislature should carefully consider the Governor's proposal. Child care providers serving families that pay with vouchers would have to decide if they could (1) reduce their operating budgets to accommodate the voucher reduction or (2) continue to charge the same amount and have

subsidized families to make up the difference. In the latter case, parents who could not afford to pay more could switch to a provider that charges less. While the RMR proposal would limit families' access to some higher-priced providers, parents still would be able to afford to choose from half of the providers in the region—greater access to the market than is provided to families receiving subsidized child care in many other states. The Legislature also could consider lowering the maximum amounts paid to license-exempt providers—which the Governor does not propose—although these rates have already been notably reduced in recent years.

***. . . But Recommend Rejecting SRR Proposal.***

We believe the Governor's proposed 10 percent rate reduction for Title 5 centers is more problematic. While parents and providers working with the voucher system could respond to the proposed RMR reduction in a number of ways, Title 5 centers receiving lower state reimbursements would have no choice but to reduce their operating budgets. That is, state requirements around adult-to-child ratios and days of operation—and, in many cases, school district collective bargaining agreements—leave these centers little flexibility to accommodate such a reduction. State law also prevents Title 5 centers from continuing to charge existing rates and asking parents to make up the difference. Moreover, the state rate for these centers already is somewhat low—in several areas in the state, the SRR currently is lower than the rates charged by the majority of other providers in the county. As a result of these factors, we believe such a reduction could lead to many Title 5 centers closing, thereby reducing access to child care services. For all these reasons, we recommend the Legislature reject the proposed SRR rate reduction.

***Regardless of Whether Legislature Adopts Reductions, Recommend Basing Voucher Rates on Updated Data.*** Even if the Legislature opts not

to reduce voucher rates for licensed providers, we recommend realigning the existing rates to the 2009 RMR survey data. We estimate that holding existing rate ceiling *amounts*—currently based on the 85<sup>th</sup> percentile of 2005 RMR survey—roughly constant would equate to about the 63<sup>rd</sup> percentile of the 2009 RMR survey. This change would allow the state to be transparent about what access current rates really provide to subsidized clients.

**Other Options for Making Reductions**

Figure 15 summarizes six CCD policy areas, including the three discussed above, that the Legislature could explore if it desired a different overall level of CCD savings or wanted to achieve savings in different ways than the Governor. Below, we discuss the three additional CCD policy areas not addressed in the Governor's plan that the Legislature may wish to consider.

***Eliminate Care for Older School-Age Children During Traditional Hours.*** Because more supervision options are available for school-age children, the Legislature could consider prioritizing funds for infants and toddlers—for whom care typically is more costly and harder to find. California funds an extensive before and after school program in which slots could be prioritized for school-age children displaced from CCD programs. Specifically, the state annually spends almost \$550 million on the After School Safety and Education (ASES) program and an additional \$130 million in federal funds for the 21<sup>st</sup> Century Community Learning Centers. Many schools and communities also run a multitude of other locally based after-hours programs for school-age children. The Legislature could consider eliminating subsidized child care during traditional hours (7:00 a.m. to 6:00 p.m.) for older school-age children given many of them could instead be served in school-based programs. (The Legislature adopted this policy for 11- and 12-year olds in its

initial 2011-12 budget plan, but the final 2011-12 Budget Act did not include the change.)

If it chooses to pursue this option, we recommend the Legislature make corresponding

**Figure 15**

**Options for Generating Child Care Savings**

**Work Requirements**

**Current Law:** Families are eligible for subsidized child care if they are engaged in work, training, or education.  
**Governor’s Proposal:** Limits eligibility to families working at least 30 hours in subsidized or unsubsidized employment (20 hours for parents of young children). Savings: \$294 million.  
**Option:** Could limit child care for parents engaged in education/training to two years. Savings: Roughly \$50 million, though precise data are not currently available.

**Income Ceilings**

**Current Law:** Families are eligible for subsidized child care if income is less than 70 percent of state median income (SMI).  
**Governor’s Proposal:** Limits eligibility to families making less than 200 percent of federal poverty level (about 62 percent of SMI). Savings: \$44 million.  
**Option:** Could reduce the maximum allowable income level for families eligible for subsidized child care to 50 percent of SMI. Savings: Additional \$100 million.

**Voucher Rates**

**Current Law:** The maximum state voucher rate for licensed providers is set at the 85<sup>th</sup> percentile of regional market rates (RMR) based on 2005 data. License-exempt providers get 60 percent of licensed rate.  
**Governor’s Proposal:** Reduces licensed rate to 50<sup>th</sup> percentile of RMR, based on 2009 data. Equates to average reduction of between 12 percent and 14 percent. Maintains current dollar amounts for license-exempt providers, increasing percentage of licensed rates from 60 to 73. Savings: \$17 million.  
**Option:** Could reduce the maximum voucher rate for license-exempt providers. Savings: About \$20 million if licensed-exempt rate set at 60 percent of lowered licensed rate.

**Age Limits**

**Current Law:** A child is eligible to receive state subsidized child care through age 12 (with some exceptions for children with special needs).  
**Governor’s Proposal:** None.  
**Option:** Could provide subsidized care for school-age children ages 6-12 only during nontraditional hours, while prioritizing slots in school-based programs for displaced children. Savings: Approximately \$65 million for 11- and 12-year olds and additional \$50 million for 10-year olds.

**Parent Fees**

**Current Law:** Families must pay a child care fee if their income is at or above 40 percent of SMI. Family fees range from \$2 to \$19 per day and are capped at 10 percent of total family income. These fees partially offset state reimbursement.  
**Governor’s Proposal:** None.  
**Option:** Could reduce income level at which parents must begin to pay fee and/or increase amount of fee required for families at each existing income level and/or charge fees per child rather than per family. Savings: Tens of millions depending on how fee schedule changed.

**Time Limits**

**Current Law:** Families can receive subsidized child care as long as they meet income and child age eligibility. There are no maximum time limits for receiving care.  
**Governor’s Proposal:** None.  
**Option:** Could institute time limits for the total number of years a family is eligible to receive subsidized child care. Savings: Uncertain; data not currently available. Over time, limit of six years could yield at least \$100 million.

changes to ASES and 21st Century requirements, including prioritizing enrollment for low-income children and extending days of operation to cover summer vacation and school breaks. (Because most ASES programs are fully enrolled, under this option some higher-income students who currently attend ASES programs would lose their slots.) To make this transition easier, the Legislature could explore offering ASES funding directly to child care centers. Even these changes, however, would not accommodate children whose parents work evenings and weekends when school-based programs are closed. As such, the Legislature could continue providing child care funding for school-age children during nontraditional hours. We estimate that about one-third of current school-age caseload relies on services provided during nontraditional hours. Assuming the Legislature stopped providing CCD funds for two-thirds of currently served 11- and 12-year olds (and gave these children priority for ASES), we estimate the state could save approximately \$65 million. The state could save an additional \$50 million by extending this policy to 10-year olds.

**Increase Parent Fees.** The Legislature also has various options for increasing family fees to generate savings, including (1) lowering the income threshold at which families must begin to pay fees, (2) increasing the fee amount required per family, and/or (3) charging fees on a per child basis rather than a flat fee per family. While other states structure fees in various ways—making comparisons difficult—California’s sliding scale for fees seems generally lower than most other states. Though savings would depend upon the specific changes enacted, we estimate raising family fees could generate tens of millions of dollars in savings.

**Impose Time Limits for Child Care Services.** The Legislature also could consider instituting a cap on the number of years a family can receive subsidized child care services. Similar to the

option of imposing time limits for CalWORKs cash assistance, the state could institute a cap on the total number of years each family can receive subsidized child care. In the short-term, the state would generate savings by eliminating funding for slots currently used by families who have been receiving care for many years. In the long-term, instituting a cap would allow limited resources to serve a greater number of families, as slots would “turn over” more often. However, given the limitations of existing data, it is unclear whether this change could take effect immediately because it may be difficult to ascertain how long currently served families already have received services. (Data may be easier to obtain for families who have received care through the CalWORKs system.) We estimate that a time limit of six years ultimately could generate at least \$100 million in annual savings.

**Interaction of Different Proposals Will Affect Amount of Overall Savings.** The savings estimates provided in Figure 15 assume the policy changes are implemented in isolation. Adopting multiple policy changes simultaneously would have interactive effects that could alter the amount of savings generated from each option. For example, were the Legislature to lower income eligibility to 200 percent of FPL, it would have eliminated eligibility for most of the families that currently pay the bulk of family fees, so a simultaneous increase to family fee levels no longer would generate as much savings. These interactive effects need to be taken into account when estimating the total savings associated with any particular package of changes.

## RESTRUCTURING CHILD CARE SYSTEM

### Governor’s Proposal

**Begins Restructuring in 2012-13 by Consolidating Some Funding, Eliminating Some Program Distinctions.** In 2012-13, the Governor

proposes to combine CalWORKs Stage 2 and Stage 3 funding with non-CalWORKs AP funding into one voucher-based block grant to be administered locally by AP agencies. First priority for vouchers would be for families receiving cash assistance through CalWORKs (in either the Basic or Plus program). Eligible working poor families not participating in CalWORKs also could apply to an AP agency for subsidized child care vouchers and be served to the extent the agency still has funding available after accommodating cash-aided families. (Remaining funding for vouchers would be prioritized for the lowest income eligible families.) As under current law, CWDs would continue to administer child care for families just entering the CalWORKs program (comparable to the existing Stage 1 program), and CDE would continue to contract directly with Title 5 centers for non-CalWORKs care in the CSPP, GCC, Migrant, and Severely Handicapped programs. Eligibility for child care services would be contingent on families meeting the Governor's stricter work and income requirements. (The part-day preschool program would be subject to the lower income eligibility threshold but, as under current law, parents would not have to work or show need to receive services.)

***Shifts Child Care Administration to DSS and CWDs in 2013-14.*** Beginning in 2013-14, the Governor would collapse all remaining child care programs into one voucher-based program to be administered locally by CWDs. (The proposal includes \$35 million for CWDs in 2012-13 to begin preparing for this shift.) The state no longer would contract directly with AP agencies or Title 5 child care centers. (Local CWDs could choose to subcontract with AP agencies to administer child care vouchers, as many do now for the CalWORKs Stage 1 program.) The CDE would continue to administer the part-day/part-year preschool program currently funded with Proposition 98

funds but no longer would oversee any child care services. All child care monies—including both state General Fund and the federal child care block grant—would be appropriated to DSS to allocate to local CWDs. Families meeting work requirements and receiving cash assistance would continue to have first priority for receiving child care.

***Shifts Administration of Federally Required Quality Improvement Activities.*** As a condition of receiving federal child care block grant funds, the state must spend a certain amount on quality improvement activities. In 2011-12 the state is spending \$72 million on 27 applicable projects, including professional development, stipends for child care providers that pursue additional education, and activities related to health and safety. Some of these projects—including the 60 Resource and Referral agencies operating across the state—are specified in the annual budget act, and some have been selected by CDE in consultation with stakeholders. Because the Governor's plan would shift all program administration and funding—including the federal child care grant—to DSS beginning in 2013-14, DSS would then assume responsibility for reviewing and potentially revising the state's approach to spending these quality improvement funds. During the transition in 2012-13, the Governor would have DSS and CDE jointly develop a spending plan, to be approved by the Department of Finance.

***Governor's Proposals Also Would Shift Administration of Recent Federal Grant Award.*** California recently attained a \$53 million federal "Race to the Top (RTTT) Early Learning Challenge Grant" to develop locally based quality rating systems for CCD programs. The CDE is the lead agency charged with administering this grant, which is to be expended over four years beginning in spring 2012. The Governor's proposal would shift responsibility for administering this grant to DSS beginning in 2013-14. It is unclear whether

the administration also proposes to change the plan for using these funds. Any modification likely would require federal approval. (The state also is in the middle of spending an \$11 million federal American Recovery and Reinvestment Act grant received in 2010. Because federal guidelines require that this grant be fully expended by September 2013, these activities are not likely to be altered by the Governor's proposed restructuring.)

***Enhances Overpayment Prevention Activities Beginning in 2013-14.*** The Governor also is proposing to increase prevention and enforcement related to child care overpayments. Specifically, beginning in 2013-14 state law would require CWDs and AP agencies to identify and recapture funding in instances where (1) a family received care for hours they were not eligible or (2) providers received payments for hours in which they did not actually provide care. The proposed legislation also would impose sanctions both on agencies that do not reduce the incidence of overpayments and on providers and families who commit intentional program violations. Any recaptured monies would be redirected to fund child care slots.

### **Governor's Proposal Would Streamline Complicated System**

We believe the Governor's restructuring proposal has many advantages. However, we also have a number of concerns and questions about how the plan would be implemented.

***Program and Funding Consolidation Would Create One Unified Child Care System.*** We believe the Governor's attempt to consolidate, streamline, and prioritize the state's overly complicated child care delivery systems has merit. The proposal would replace multiple state programs—and multiple reimbursement rates, contract administration, standards, and eligibility criteria—with one unified approach. A streamlined system would treat similar families and similar providers similarly, and hold

all to the same set of requirements using the same funding model. Moreover, the proposal offers opportunities for child care to become a part of a coordinated and integrated system of local services, as CWDs oversee CalWORKs as well as a wide array of other social service programs.

***Restructuring Provides Opportunity to Revisit Current Quality Improvement Activities.*** Some have raised concerns that shifting administration of the federal child care block grant and oversight of associated quality improvement projects from CDE to DSS would discontinue the "educational focus" of the CCD system. However, appointing DSS as the lead agency over the child care system does not necessarily mean that current projects would be terminated or that the state's commitment to providing quality CCD services—and CDE's involvement in these efforts—necessarily would end. The large majority of other states administer their federal child care funds (and associated required quality improvement projects) through their state social services agencies, and many have well-respected early childhood education systems. Moreover, many of California's existing 27 quality improvement projects might be worthwhile, but they have not been rigorously evaluated and it is unclear the degree to which they are coordinated or effective. The Governor's proposal offers an opportunity for the state to rethink how best to support and improve CCD services—particularly in coordination with the new federal RTTT grant. Because of CDE's experience and expertise in this area, as well as its continuing role in the state preschool program, CDE could continue to play a collaborative role in these statewide efforts—even if DSS and CWDs administer most CCD program payments at the local level.

***Unaddressed Issues Relating to Child Care Services for Non-CalWORKs Families.*** At the time this analysis was being prepared, the administration had not yet released details as

to how child care funding would be allocated to CWDs in the future. In particular, the administration had not yet clarified whether the funding would be a part of the county single allocation or one or more separate grants restricted for child care services. The current system earmarks funding explicitly to provide subsidized child care to some non-CalWORKs low-income families through the GCC and AP programs, although demand typically exceeds the number of funded slots. Depending on the specific funding structure for the new county-based system, local funding constraints and competing priorities could result in even more limited access to care for non-CalWORKs families. Specifically, “first calls” on single allocation funding would go not just to fund child care for families on cash assistance but also to employment support services and county administrative costs.

***Proposal Ignores Reality of State’s Current Preschool Program.*** We also have a technical concern with the Governor’s proposal for 2013-14. Chapter 308, Statutes of 2008 (AB 2759, Jones), allows local providers to merge monies from the Proposition 98 part-day preschool budget item and the GCC budget item to offer the preschool services that best meet the needs of working families and three- and four-year olds in their local communities. The Governor’s proposal treats these as two separate programs—preserving one and eliminating the other. However, in reality these funding sources have been supporting one blended preschool program at the local level. The state currently serves approximately 145,000 low-income children in the CSPP, with about two-thirds in part-day programs and one-third in full-day programs. Data from CDE suggest that in 2011-12, local providers funded CSPP services by blending \$368 million in Proposition 98 funds with about \$400 million from the GCC program (or about 60 percent of total GCC funding).

***Proposal Likely Would Reduce State’s Center-Based Preschool Services.*** By eliminating the entire GCC program in 2013-14 and shifting the associated funding to a CWD-administered voucher system, the proposal would abolish the blended CSPP and revert to only a Proposition 98 funded part-day/part-year program. This part-day program would serve about 91,000 children (a reduction of roughly 54,000 compared to how many children were served in CSPP in 2011-12 when combined with proposed Proposition 98 preschool reductions). Preschool providers’ ability to serve additional children or offer full-day/full-year services to meet the needs of working families would be limited to how many enrolled families could afford to pay out of pocket or obtain one of the limited number of state-subsidized vouchers from the CWD.

***Relying Solely on Voucher System Would Be Notable Departure From Current Practice.*** The Governor’s proposal to shift local administration of voucher-based child care services from AP agencies to CWDs would maintain a similar structure to what currently exists. By comparison, the proposal to eliminate direct-contracting practices for existing GCC and migrant child care centers would represent a more substantial departure from current practice. Many of these centers likely would continue to operate and serve subsidized families but be paid with vouchers rather than directly from the state. Presumably, switching to a solely voucher-based system means the state no longer would require these centers to follow existing Title 5 programmatic standards regarding classroom practices and activities, child assessments, and staff development. (These requirements would remain for state preschool programs, and the CSPP currently accounts for 80 percent of all children attending Title 5 centers. As noted, however, the Governor’s proposal would shift the GCC-funded portion of the CSPP to the new voucher program.)

Though presumably no longer required, centers could opt to continue Title 5 practices, as many non-Title 5 centers currently do.

### **Adopt Modified Version of Governor's Restructuring Proposal**

We recommend the Legislature adopt the Governor's proposal to streamline the state's CCD system—with some important modifications.

***Adopt Governor's Restructuring Proposal but Maintain Child Care Funding as Separate County Block Grant.*** Because it would streamline the state's overly complex and poorly designed child care delivery systems, we recommend the Legislature adopt the Governor's restructuring proposal, including the plan to use 2012-13 as a transition year. As part of this restructuring, the Legislature could apply generally consistent child care eligibility requirements to all qualifying low-income families (both CalWORKs and non-CalWORKs families). We believe this restructuring makes sense regardless of what budgetary reductions the Legislature adopts for CalWORKs and subsidized child care. However, we recommend that when funds shift to CWDs in 2013-14, they be maintained as a separate county-administered block grant dedicated for child care services, rather than included as part of the CWDs' single allocation. This would ensure the monies are used for their intended purpose, and make it more likely that some child care funding would continue to be available for non-CalWORKs families after accommodating families receiving cash assistance. We also recommend the Legislature restrict the amount of the block grant that counties can dedicate to administrative costs (as it does for AP agencies under the current system).

***Align Full CSPP Funding Within One Proposition 98 Budget Item.*** Before consolidating other child care programs, we recommend the Legislature accurately reflect the existing CSPP

budget and align all funding for the program within Proposition 98. (As part of the alignment, we recommend a comparable adjustment to the Proposition 98 minimum guarantee to avoid the need for a corresponding reduction to K-12 programs.) Specifically, we recommend the Legislature reduce non-Proposition 98 General Fund for GCC by \$400 million (the amount of GCC funds spent for CSPP services in 2011-12) and increase Proposition 98 funding for preschool by a like amount. This would allow the state to make policy and budget decisions affecting preschool services for four-year olds based on actual programmatic funding and caseload counts. It also would preserve Title 5 programmatic requirements for the majority of current centers, focusing on the age-group that research suggests benefits the most from school-readiness activities. We also recommend the Legislature preserve the existing flexibility for CSPP providers to offer full-day services for working families who want to send their children to preschool and still have their care needs met.

### ***Maintain Legislative Oversight Over Quality Improvement Activities and Federal Grant.***

We recommend the Legislature continue to take an active role in encouraging and overseeing activities that support a high-quality CCD system. Specifically, the Legislature could provide guidance to DSS by including broad spending objectives or even specific activities for the quality improvement funds within the annual budget act. It also could direct DSS to work collaboratively with CDE and legislative representatives to develop future priorities for these funds. Based on these collaborative plans, the budget act could assign roles and/or allocate funds to CDE for specific projects where expertise in early childhood education is important. Additionally, through its appropriation authority, we recommend the Legislature monitor the activities and expenditures

associated with the \$53 million RTTT grant to ensure the projects are meeting intended outcomes, particularly if grant administration shifts from CDE to DSS in the middle of implementation.

Regular reports to budget subcommittees could help identify issues, improve state oversight, and inform the Legislature as to how best to encourage local efforts to support quality programs.

## ADOPT A PACKAGE OF REDUCTIONS BASED ON PRIORITIES

We recommend the Legislature use the menus of options provided in the earlier sections of this report to construct its own CalWORKs and CCD budget packages. Figures 16 and 17 provide illustrations of potential CalWORKs and CCD budget packages, respectively. While we present CalWORKs and CCD packages separately, the Legislature could consider the two policy areas together and adopt policy changes that result in savings across both programs—as the Governor does with his work participation proposals.

**Final Packages Would Depend Upon Magnitude of Savings Sought.** Both CalWORKs and CCD programs have experienced notable reductions in recent years. Given the magnitude of these recent reductions, the Legislature may choose not to cut as deeply in 2012-13 as the

**Figure 16**  
**Illustrative CalWORKs Budget Packages**

Savings of Approximately \$500 Million
Continue the current-year single allocation reduction. Eliminate higher work-exempt cash grants. Eliminate Cal-Learn case management. Reduce the earned income disregard.
Savings of Approximately \$750 Million
All items above. Reduce cash grants for all families by 6 percent.
Savings of Approximately \$1 Billion
All items above. Reduce cash grants by 10 percent after eight years of aid. Reduce cash grants by 15 percent after ten years of aid. Shorten adult time limit to 36 months.

**Figure 17**  
**Illustrative Child Care and Development Budget Packages**

Savings of Approximately \$100 Million
Subsidize child care only during nontraditional hours for 12-year olds. Reduce income ceilings from 70 percent to 60 percent of state median income (SMI). Raise parent fees.
Savings of Approximately \$250 Million
All items above. Subsidize child care only during nontraditional hours for 11-year olds. Reduce income ceilings from 60 percent to 50 percent of SMI. Reduce licensed voucher rates to 50 <sup>th</sup> percentile of 2009 regional market rates.
Savings of Approximately \$400 Million
All items above. Subsidize child care only during nontraditional hours for 10-year olds. Set license-exempt voucher rates at 60 percent of lowered licensed rates. Limit eligibility for child care for parents engaged in training or education to a total of two years. Limit eligibility for child care to total of six years (achieves saving in future years).

Governor proposes. Additionally, due to the nature of these programs and the vulnerable populations they serve, any reductions made to these programs will have negative effects on families that will lose cash assistance and child care. We therefore present examples of CalWORKs and CCD budget packages that include fewer reductions than the Governor proposes. However, in recognition of the state's need to address its budget problem, we also offer illustrative packages that achieve approximately the same level of savings as the Governor. Each CalWORKs and CCD package builds upon the previous set of reductions. For example, the CCD package worth \$250 million assumes all of the policy changes that are included in the \$100 million package, and then makes an *additional* \$150 million in reductions. To the extent the Legislature adopts a combined package that results in fewer savings, it would need to make additional reductions to other areas of the state budget to achieve the same overall level of solution as the Governor.

***Final Packages Will Depend on How Legislature Weighs Trade-Offs.*** Similar to the past several years, the state faces a number of trade-offs

and challenges in putting together its overall budget plan for 2012-13. In general, the Legislature will have to weigh the trade-offs of further reducing CalWORKs and child care programs and the resulting effects on the populations they serve, against its need for savings and the limited options for making reductions in other areas of the budget. As it grapples with a specific approach to building budget packages for these programs, we recommend the Legislature consider striking a balance between various competing program objectives. For CalWORKs, this means balancing efforts to encourage greater work participation with a recognition of the barriers some families face to working. For child care, this means balancing efforts to maximize the number of children who can be served with the quality of their supervision. For the overall state budget, this means balancing efforts to achieve needed savings while still protecting those services the Legislature deems essential. By identifying a broad menu of savings options, we hope this report helps the Legislature as it determines how best to balance these multiple sets of competing objectives.

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**Contact Information**

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