*Senate Budget and Fiscal Review—Nancy Skinner, Chair*

# JOINT HEARING SUBCOMMITTEES No. 1 and 3

**Subcommittee No. 1**
Senator John Laird, Chair
Senator Dave Min
Senator Rosilicie Ochoa Bogh

**Subcommittee No. 3**
Senator Susan Talamantes Eggman, Ph.D, Chair
Senator Melissa Melendez
Senator Richard Pan, M.D.

**Tuesday, February 16, 2021**
**9:00 a.m.**
**State Capitol - Room 4203**

Consultant: Elisa Wynne

**AGENDA PART A**



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**Issue 1: Child Care Overview**

**Panel:**

- Sara Cortez, Legislative Analyst's Office
- Sarah Burtner, Department of Finance
- Carlos Aguilera, Department of Finance
- Sarah Neville Morgan, Deputy Superintendent, Department of Education

**Background**

Generally, programs in the early care and education system have two objectives: to support parental work participation and to support child development. Children, from birth to age five, are cared for and instructed in child care programs, State Preschool, transitional kindergarten, and the federal Head Start program.

The administration of child care programs is currently in transition as SB 98 (Committee on Budget and Fiscal Review), Chapter 24, Statutes of 2020, established the Early Childhood Development Act to transfer the administrative responsibility of all state child care programs, with the exception of the California State Preschool Program, from the Department of Education (CDE) to the Department of Social Services (DSS), commencing July 1, 2021.

**Child Care.** California provides child care subsidies to some low-income families, including families participating in CalWORKs. Families who have participated in CalWORKs are statutorily guaranteed child care during "Stage One" (when a family first enters CalWORKs) and "Stage Two" (once a county deems a family "stable", defined differently by county). In the past, the state has funded "Stage Three" (two years after a family stops receiving cash aid) entirely while it is not a statutorily guaranteed entitlement program. Families remain in Stage Three until their income surpasses a specified threshold or their child ages out of the program. For low-income families who do not participate in CalWORKs, the state prioritizes based on income, with lowest-income families served first. To qualify for subsidized child care: (1) parents demonstrate need for care (parents working, or participating in an education or training program); (2) family income must be below 85 percent of the most recent state median income (SMI) calculation; and (3) children must be under the age of 13.

**California State Preschool Program.** State Preschool provides both part-day and full-day services with developmentally-appropriate curriculum, and the programs are administered by local educational agencies (LEAs), colleges, community-action agencies, and private nonprofits. State preschool can be offered at a child care center, a family child care network home, a school district, or a county office of education (COE). The State Preschool program serves eligible three- and four-year old children, with priority given to four-year olds whose family is either on aid, is income eligible (family income may not exceed 85 percent of the SMI), is homeless, or the child is a recipient of protective services or has been identified as being abused, neglected, or exploited, or at risk of being abused, neglected or exploited.

**Transitional Kindergarten.** SB 1381 (Simitian), Chapter 705, Statutes of 2010, enacted the "Kindergarten Readiness Act" and established the transitional kindergarten program, beginning in 2012-13, for children who turn five between September 1 and December 1. Each elementary or unified school district must offer developmentally-appropriate transitional kindergarten and kindergarten for all eligible children, regardless of family income. Transitional kindergarten is funded through an LEA's Local Control Funding Formula allocation. LEAs may enroll children in transitional kindergarten that do not meet the age criteria if they will turn five by the end of the school year, however, these students will not generate state funding until they turn five.

**State Child Care and Preschool Programs**

| Program | Description |
|---|---|
| **CalWORKs Child Care** | |
| Stage 1 | Child care becomes available when a participant enters the CalWORKs program. |
| Stage 2 | Families transition to Stage 2 child care when the county welfare department deems them stable. |
| Stage 3 | Families transition to Stage 3 child care two years after they stop receiving cash aid. Families remain in Stage 3 until the child ages out (at 13 years old) or they exceed the income-eligibility cap. |
| **Non-CalWORKs Child Care** | |
| General Child Care | Program for other low-income, working families. |
| Alternative Payment | Another program for low-income, working families. |
| Migrant Child Care | Program for migrant children from low-income, working families. |
| Care for Children with Severe Disabilities | Program for children with severe disabilities living in the Bay Area. |
| **Preschool** | |
| State Preschool | Part-day, part-year program for low-income families. Full-day, full-year program for low-income, working families. |
| Transitional Kindergarten | Part-year program for children who turn five between September 2 and December 2. May run part day or full day. |

Source: Legislative Analyst's Office

**Funding.** California provides child care and development programs through vouchers and contracts.

- **Vouchers.** The three stages of CalWORKs child care and the Alternative Payment Program are reimbursed through vouchers. Parents are offered vouchers to purchase care from licensed or license-exempt caregivers, such as friends or relatives who provide in-home care. Families can also use these vouchers at any licensed child care provider in the state, and the value of child care vouchers is capped. The state will only pay up to the regional market rate (RMR) — a different amount in each county and based on regional surveys of the cost of child care. The RMR is currently set to the 75th percentile of the 2016 RMR survey. If a family chooses a child care provider who charges more than the maximum amount of the voucher, then a family must pay the difference, called a co-payment. Typically, a Title 22 program – referring to the state Title 22 health and safety regulations that a licensed provider must meet — serves families who receive vouchers. The Department of Social Services (DSS) funds CalWORKs Stage One, and county welfare departments locally administer the program. The California Department of Education (CDE) funds the remaining voucher programs, which are administered locally by Alternative Payment (AP) agencies statewide. Alternative Payment agencies (APs), which issue vouchers to eligible families, are paid through the "administrative rate," which provides them with 17.5 percent of total contract amounts.

- **Contracts.** Providers of General Child Care, Migrant Child Care, and State Preschool – known as Title 5 programs for their compliance with Title 5 of the California Code of Regulations — must meet additional requirements, such as development assessments for children, rating scales, and staff development. Title 5 programs contract with, and receive payments directly from, CDE. These programs receive the same reimbursement rate (depending on the age of the child), no matter where in the state the program is located. The rate is increased by a stautory adjustment factor for infants, toddlers, children with exceptional needs, severe disabilities, cases of neglect, and English learners. The current standard reimbursement rate (SRR) is $49.54 per child per day of enrollment for General Child Care and $49.85 for State Preschool. All Title 5 programs also operate through family child care home education networks, which serve children in those programs through family child care homes that are members of the network.

For license-exempt care, reimbursement rates are set at seventy percent of the regional reimbursement rate established for family child care homes, except for hourly rates, which are set by dividing the weekly rate by 45 hours, to arrive at a rate that can in some cases be around 25 percent of the family child care home hourly rate.

Child care and early childhood education programs are generally capped programs, meaning that funding is provided for a fixed amount of slots or vouchers, not for every qualifying family or child. The exception is the CalWORKs child care program (Stages One and Two), which are entitlement programs in statute.

Subsidized child care programs are funded by a combination of non-Proposition 98 state General Fund and federal funds. Until the 2011-12 fiscal year, the majority of these programs were funded from within the Proposition 98 guarantee for K-14 education. In 2012, funding for state preschool and the General Child Care Programs were consolidated; all funding for the part-day/part-year state preschool was budgeted under the state preschool program, which is funded from within the Proposition 98 guarantee. For LEA-run preschool, wrap-around care to provide a full day of care for working parents is provided with Proposition 98 funding, while non-LEA state preschool providers received General Fund through the General Child Care program to support wrap-around care. The 2019-20 Budget Act changed this structure and funded all non-LEA state preschool and wrap care with non-Proposition 98 and retained LEA state preschool and wrap care within Proposition 98.

California also receives funding from the federal Child Care and Development Fund (CCDF), which is comprised of federal funding for child care under the Child Care and Development Block Grant (CCDBG) Act and the Social Security Act and from federal TANF funds.

**Collective Bargaining.** In 2019, Governor Newsom signed legislation granting collective-bargaining rights to child care providers in California allowing them to negotiate with the state over matters related to the recruitment, retention, and training of family childcare providers. CalHR is currently negotiating with Child Care Providers United - California (CCPU) to establish a Master Contract Agreement. The CCPU represents both voucher and direct contract providers that are family child care homes, or license-exempt home providers.

**Pandemic Impacts and Response:**

The pandemic has affected child care providers and families. The COVID-19 emergency, has placed increased fiscal pressure on child care providers. The Center for the Study of Child Care Employment conducted a survey of 953 California child care providers at the end of June 2020. The vast majority of child care providers reported they were serving fewer children compared to before the pandemic and 77 percent of open providers reported they experienced a loss of income from families. Providers are also reporting higher costs. Of open providers, 80 percent reported higher costs for cleaning, sanitation, and personal protective equipment. Families receiving child care also have been affected, particularly due to school and child care closures that have required families to find new child care arrangements.

The LAO has provided the following table that shows an estimate of providers that remain open, and those that are closed permanently or temporarily. This data is from Community Care Licensing (CCL) and reflects both private and subsidized providers. This would not reflect license exempt providers and is a point-in-time snapshot before the most recent pandemic surge over the winter of 2020.

**CCL Child Care Licenses and Closures**
*As of October 2020*

| | Small Family Homes | Large Family Homes | Child Care Centers | Total |
|---|---|---|---|---|
| **Open and Operating**[a] | | | | |
| Facilities | 12,238 | 10,909 | 9,787 | 32,934 |
| Slots | 97,496 | 151,779 | 532,271 | 781,546 |
| **Temporarily Closed** | | | | |
| Facilities | 1,889 | 1,209 | 4,947 | 8,045 |
| Slots | 15,000 | 16,786 | 262,571 | 294,357 |
| **Permanently Closed Since March 2020** | | | | |
| Facilities | 1,289 | 516 | 355 | 2,160 |
| Slots | 10,232 | 7,174 | 15,981 | 33,387 |

a) Represents licenses that are not inactive or temporarily closed.

The state has taken several actions to support child care programs during the pandemic. The vast majority of these actions were provided on a temporary basis and are only available during the current fiscal year. Most of these actions were funded with one-time federal funds provided through the Coronavirus Aid, Relief, and Economic Security (CARES) Act. In addition to the $350 million in CARES Act funding specifically for child care, the state also used $110 million from the Coronavirus Relief Fund (CRF) to support child care programs. The state had substantial discretion to allocate CRF for various programs related to the COVID-19 emergency. The figure describes the pandemic-related actions in more detail.

**Pandemic-Related Child Care Actions**

*(In Millions)*

| Policy | Description | Total |
|---|---|---|
| **Alternative Payment Voucher Slots for Essential Workers** | Provided $50 million one time in 2019-20 to provide temporary vouchers and $47 million ongoing federal funds in 2020-21 to transition families to permanent vouchers. Provided an additional $138 million on a one-time basis for 2020-21. | $235 |
| **Voucher Reimbursement Flexibility** | In 2020-21, voucher-provider payments are based on a child's authorized hours of care instead of the amount of care used. This holds voucher providers harmless if a child temporarily does not attend child care. | 63 |

| | | |
|---|---|---|
| **Family Fees** | From April 2020 through August 2020, the state temporarily waived family fees for those receiving subsidized care. From September 2020 through June 2021, the state has waived family fees for families not receiving in-person care. | 62 |
| **Cleaning Supplies and Protective Equipment** | The state provided funds for gloves, face coverings, cleaning supplies, and labor costs associated with cleaning child care facilities. | 50 |
| **Voucher Paid Operation Days** | Provides an additional 14 paid non-operation days. Funds used so child can attend another provider while the original provider is closed. | 40 |
| **School-Aged Care** | Funds were to cover the additional cost of providing care to school-aged children. During the school year, school-aged children would typically receive care before and/or after school. As schools in most of the state remain closed, many school-aged children participating in distance learning also are receiving care from a child care provider during the school day. | 38 |
| **Voucher Stipends** | Stipends to voucher providers based on the number of subsidized children enrolled. | 31 |
| **Direct Contract Reimbursement Flexibility** | Direct contract providers were provided reimbursement flexibility in 2020-21. To receive this flexibility, providers must have opened to begin the school year or have been closed due to local or state public health guidance. Providers also must provide distance learning services to children enrolled in its programs and submit a distance learning plan to CDE. For providers that meet these conditions, reimbursement will be the lesser of their contract amount or program costs. Typically, provider reimbursement is also generally based on the attendance of eligible children. | — |
| **Attendance Record Requirements** | Trailer legislation allows voucher providers to submit attendance records during 2020-21 without a parent signature if the parent is | — |

| | | |
|---|---|---|
| | unable to sign due to the COVID-19 pandemic. Typically, providers are required to submit attendance records with a parent signature to receive reimbursement. | |
| **Total** | | **$518** |

Source: Legislative Analyst's Office

**Governor's Budget Proposal:**

The Governor's Budget includes the following adjustments and proposals:

- **Non-CalWORKs Child Care.** The proposed budget includes $19.9 million for a 1.5 percent COLA adjustment for non-CalWORKs child care. The proposed budget also includes an increase of $21.5 million ongoing in 2020-21 and an additional $44 million ongoing for 4,700 additional Alternate Payment Program slots due to updated Proposition 64 cannabis tax revenues.

- **CalWORKs Child Care.** The proposed budget includes several adjustments to reflect changes in the CalWORKs child care caseload and cost of care for a net decrease of $141 million, reflecting a $62 million decrease in Stage 1, a $112 million decrease in Stage 2, and a $33 million increase in Stage 3.

- **COVID-19 Related Support.** The proposed budget includes $55 million one-time General Fund to support child care providers' and families' needs as a result of the pandemic.

The following table reflects available slots for child care and preschool, including the proposals above and any other workload changes:

## Child Care and Preschool Subsidized Slots

| | 2019-20 Revised | 2020-21 Revised | 2021-22 Proposed | Change from 2020-21 Amount | Change from 2020-21 Percent |
|---|---|---|---|---|---|
| **CalWORKs Child Care** | | | | | |
| Stage 1 | 32,454 | 36,590 | 37,477 | 887 | 2.4% |
| Stage 2 | 55,054 | 55,484 | 45,231 | -10,253 | -18.5% |
| Stage 3 | 59,290 | 66,073 | 68,939 | 2,866 | 4.3% |
| **Subtotals** | **(146,799)** | **(158,147)** | **(151,647)** | **(-6,500)** | **(-4.1%)** |
| **Non-CalWORKs Programs** | | | | | |
| Alternative Payment Program | 54,340 | 78,749 | 63,185 | -15,563 | -19.8% |
| General Child Care | 32,190 | 32,190 | 32,191 | 1 | 0.0% |
| Migrant Child Care | 3,018 | 3,018 | 3,018 | — | — |
| Care for Children with Severe Disabilities | 102 | 102 | 102 | — | — |
| **Subtotals** | **(89,650)** | **(114,059)** | **(98,496)** | **(-15,562)** | **(-13.6%)** |
| **Preschool Programs** | | | | | |
| State Preschool— part day | 124,525 | 110,469 | 110,469 | — | — |
| State Preschool— full day | 60,752 | 53,894 | 53,894 | — | — |
| Transitional Kindergarten | 90,188 | 89,701 | 89,216 | -484 | -0.5% |
| **Subtotals** | **(275,465)** | **(254,064)** | **(253,579)** | **(-484)** | **(-0.2%)** |
| **Totals** | **511,914** | **526,269** | **503,723** | **-22,547** | **-4.3%** |

Notes: Generally based on appropriation and annual average rate per child. Slot numbers reflect DSS estimates for CalWORKs Stage 1; DOF estimates for CalWORKs Stage 2 and 3, General Child Care, Migrant Child Care, and Care for Children with Severe Disabilities; and LAO estimates for all other programs. Table reflects actuals for all stages of CalWORKs child care in 2019-20 and updated DSS estimates for Stage 1 in 2020-21. Stage 2 does not include certain community college child care slots (900 to 1,200 slots annually). Transitional Kindergarten reflects preliminary estimates because enrollment data is not yet publicly available for 2019-20, 2020-21 or 2021-22.

Source: Legislative Analyst's Office

**Suggested Questions:**

- When will the additional Proposition 64 slots in the current year be available to families? How will they be distributed to providers?
- Did the Administration or Departments have any commentary about the reductions in CalWORKs child care, particularly in Stage 2?
- Does the LAO or CDE have data on the number and type of providers that have closed permanently or temporarily during the pandemic? And how this may impact re-opening of the state and economy?

**Staff Recommendation:**

Hold Open.

**Issue 2: Federal Stimulus Funds and Child Care Needs**

**Panel:**

- Sarah Burtner, Department of Finance
- Carlos Aguilera, Department of Finance
- Sara Cortez, Legislative Analyst's Office
- Sarah Neville Morgan, Deputy Superintendent, Department of Education

**Background:**

With the recent passage of H.R. 133 in December 2020, the Coronavirus Response and Relief Supplemental Appropriations Act, the state has received an additional $964 million in supplemental CCDBG funds. This additional funding can be used for most of the priorities outlined in the 2020-21 budget package, as well as any other child care purposes related to the COVID-19 emergency. Funds will be available for appropriation in the current and budget year.

SB 820 (Committee on Budget and Fiscal Review) Chapter 110, Statutes of 2020, contemplated the receipt of additional federal funds for child care during the 2020-21 fiscal year. The language included a trigger that dedicated the first $300 million of new federal funds for the following priorities:

- Up to $30 million for reimbursing child care providers for family fees waived for families enrolled, but not receiving in-person care, from September 1, 2020, to June 30, 2021, inclusive.

- Up to $35 million to support alternative payment programs, including migrant alternative payment programs, to reimburse providers for providing short-term child care to eligible children when a provider is closed. (The 2020-21 budget allowed an additional 14-paid non-operational days for providers, for a total of 24 days per year. These funds would cover costs for families to receive alternate childcare during the closures)

- Up to $100 million for alternative payment providers to extend access to child care for children of essential workers, at risk children, and other eligible children, as specified, in order of priority.

- Up to $30 million to increase capacity for up to two years for general child care programs and state preschool programs.

- Up to $15 million in stipends to assist child care providers with the costs of re-opening.

- Up to $90 million in stipends to assist all subsidized child care providers with costs related to the pandemic.

While the above priorities reflected potential additional needs at the time SB 820 was enacted, since then needs have shifted, other funds have been used to cover some of these needs, and the realities of the impact of the pandemic may require different uses of federal funds.

Staff notes that stakeholders have weighed in with a request for immediate action to move federal funds out and with priority needs from the field including, but not limited to the following:

- Extending and expanding vouchers for essential workers
- Stipend funds for all types of providers to cover additional costs related to the pandemic
- Family fees waivers for all families
- Additional paid non-operational days to stabilize providers who close temporarily due to the pandemic.
- Continued hold harmless policies to ensure providers are paid based on enrollment rather than attendance
- Increased reimbursement rates and related reforms, including the establishment of a “crisis factor” rate
- Additional slots across the system.
- Technology upgrades
- Facilities and re-opening funds to assist with expansion and costs to re-open closed providers.
- A “Whole Child Equity Need Index" to allocate dollars more effectively and equitably across child-focused systems.
- Professional development funds

Staff notes that CalHR and the Child Care Providers United - California (CCPU); have reached a Tentative Agreement/MOU to address COVID relief funding that includes:

- A one-time stipend of $525 per child enrolled in a subsidized child care program will be provided to all subsidized childcare providers operating Alternative Payment Programs, Migrant Child Care and Development Programs, Child Care, Family Child Care Home Education Networks, Child Care and Development Services for Children with Special Needs, and Child Care under the CalWORKs Program

- An additional 16 paid non-operational days for voucher-based providers applicable from September 1, 2020, through June 30, 2021, to provide up to a total of 40 paid non-operational days in 2020-21. These additional authorized non-operational days will reimburse providers while they are closed for COVID-19 related reasons and will provide short-term child care to eligible children impacted by those closures. Eligible providers include those participating in alternative payment programs pursuant to Alternative Payment Programs, Migrant Alternative Payment, Family Child Care Home Education Networks, and Child Care under the CalWORKs Program.

Staff notes that the details of the agreement were received on February 9th and the agreement is currently under review. Upon legislative approval, the Tentative Agreement/MOU will be effective through June 30, 2022.

**Legislative Analyst's Office Comments:**

The LAO recently released their analysis, *The 2021-22 Budget: Child Care Proposals*, and noted that the Legislature will want to prioritize actions the state can implement quickly to get support to child care providers as soon as possible. Such actions could include the following:

- ***Use Existing Systems and Programs.*** While there is merit to considering new ideas for supporting child care providers and families, using existing systems and programs will deliver funding to providers more quickly and make implementation easier. Creating new programs and processes takes time, as the state would have to develop regulations and/or guidance, collect relevant data, and communicate program rules to providers. The state could use existing programs and systems to avoid these delays in implementation. For example, in spring 2020, the state used Resource and Referral agencies to distribute personal protective equipment to subsidized and nonsubsidized providers. The state could use these agencies in the future if it is interested in providing similar support.

- ***Extend Existing Pandemic Actions.*** Virtually all pandemic actions for child care providers were enacted by the state on a temporary basis, ending June 30, 2021. Extending these flexibilities would be administratively simple, as the guidance has already been written and implemented. Child care providers are already clear on how these actions impact their local programs.

- ***Use Simple Allocation Methodology.*** The state may want to allocate one-time funds by using a simple formula instead of opting for a more sophisticated approach. Although complex formulas can more effectively target funding, allocating funds can be delayed as state agencies spend time developing models and collecting the appropriate data. For example, calculating stipends to providers based on a percent of their total contract would be simpler and quicker than temporarily increasing rates based on the regional market rate survey.

***Consider Spreading Funds Across the Current and Budget Year.*** Given the one-time nature of the General Fund and federal funds being provided, spreading funding over several fiscal years ensures the state can sustain the temporary support for a longer time period. For lump sum payments, such as stipends, spreading the funds over several years also gives providers more flexibility for spending the funds. However, the Legislature will want to ensure it fully expends federal funds during the allowable time period.

***Consider Modifying Flexibilities to Ease Administrative Burden.*** Some of the policies implemented in the current year can be modified to ease the administrative burden for the state, local providers, and families. For example, family fees for September through July 2021 are waived for families not receiving in-person services or sheltering in place. Since pandemic-related child care closures and shelter-in-place requirements happen unexpectedly, this policy requires child care providers to revisit family fees throughout the month. Under typical circumstances, child care providers would only collect family fees at the beginning of the month. Waiving all family fees temporarily during the pandemic would be administratively simpler for all parties involved. We estimate this approach would have an annual cost in the high tens of millions of dollars.

***Without Ongoing Funding, Temporary Slots Will Lead to Disenrollment Down the Line.*** During the pandemic, the Legislature has prioritized using one-time funds to provide temporary slots for essential workers. The Legislature may want to consider providing similar funding with the additional CCDBG funding to continue to provide subsidized child care for families. Without ongoing funding, however, families receiving temporary slots will eventually be disenrolled. Providing additional one-time funding for slots creates additional cost pressure to create ongoing slots that allow families to continue receiving child care. Although the temporary slots are intended to address temporary increases in the need for care, we would note that demand for subsidized child care from low-income families has exceeded state funding for decades. As a result, we do not expect that demand for slots will decrease notably when the pandemic is over.

***Applying Same Flexibilities to State Preschool Will Require General Fund Spending.*** During the pandemic, the state has so far provided the same flexibilities to State Preschool as it has for other child care programs. If the state wants to continue this practice in the budget year, it would likely need to fund the flexibilities with one-time General Fund. This is because State Preschool programs do not meet all of the eligibility requirements to be funded with CCDBG.

**Suggested Questions:**

- Can the Administration, Departments, or LAO comment on potential priority uses for the funds?

**Staff Recommendation:**

Hold Open

**Issue 3: Transition of Child Care Programs to the Department of Social Services**

**Panel:**

- Kim Johnson, Director, Department of Social Services
- Jennifer Troia, Chief Deputy Director for Children, Families, and Adult Programs, Department of Social Services
- Salena Chow, Chief Operating Officer, Department of Social Services
- Sarah Neville Morgan, Deputy Superintendent, Department of Education
- Leisa Maestretti, Director, Fiscal and Administrative Services Division, Department of Education
- Sara Cortez, Legislative Analyst's Office

**Background.**

Existing law provides for various programs, responsibilities, services, and systems relating to childcare and childhood development that are administered by the California Department of Education (CDE) and the Superintendent of Public Instruction. General childcare and development programs are state and federally funded programs that use centers and family child care home networks operated or administered by either public or private agencies and local educational agencies. The agencies deliver child development services for children from birth through 12 years of age, and for older children with exceptional needs. These programs provide an educational component that is developmentally, culturally, and linguistically appropriate for the children served. These programs also provide meals and snacks to children, parent education, referrals to health and social services for families, and staff development opportunities to employees. Approximately 1,300 contracts are dispersed through approximately 713 public and private agencies statewide to support and provide services to approximately 400,000 children.

The administration of the state's child care and preschool programs differs based on the type of program and the state level entity administering the program. The California Department of Social Services (DSS) administers California Work Opportunity and Responsibility to Kids (CalWORKs) Stage 1 child care and the bridge program for foster children, while CDE administers all other child care and preschool programs such as CalWORKs Stage 2 and Stage 3 child care and General Child Care. Both departments work with a variety of local entities to provide services. For example, DSS provides funding for CalWORKs Stage 1 child care to county welfare departments that use this funding to determine eligibility and issue voucher payments to the child care provider of the family's choice, while for General Child Care and State Preschool, CDE directly contracts with the providers.

**Recent Budget Action.** SB 98 (Committee on Budget and Fiscal Review), Chapter 24, Statutes of 2020, the education omnibus budget trailer bill, established the Early Childhood Development Act to transfer the administrative responsibility of all state child care programs, with the exception of the California State Preschool Program, from CDE to the DSS, commencing July 1,

2021. Having all child care programs administered within one agency is intended to allow for greater collaboration, including improved eligibility processes, across the various departments and programs in supporting the needs of young children and their families. Further, data from child care and development programs would be folded into the agency's overall data integration efforts. SB 98 also established the position of Deputy Director of Child Development within DSS, to be appointed by the Governor and confirmed by the Senate. The 2020-21 budget provided DSS with $2 million one-time General Fund to plan for the transition.

Pursuant to the Early Childhood Development Act, the following child care and development programs will be shifted from CDE to DSS:

- Stages Two and Three of the CalWORKs Child Care Programs
- General Child Care and Development Programs
- Alternative Payment Programs
- Migrant Alternative Payment Programs
- Migrant Child Care and Development Programs
- Child Care and Development Services for children with severe disabilities
- Child Care and Development facilities capital outlay
- The Early Learning and Care Workforce Development Grants Program
- Child Care Resource and Referral
- Local Child Care and Development Planning Councils
- The California Child Care Initiative Project
- Other Child Care Quality Improvement Projects
- The Child and Adult Care Food Program
- The Child Development Management Information System and other related data systems

Administration of the Child Care and Development Fund (CCDF) will also transfer to DSS on July 1, 2021. The CCDF is an aggregate of several funding sources that is distributed in block grants by the federal government to the states and territories. The purpose of the CCDF is to increase the availability, affordability, and quality of child care services. The majority of the funds are used to provide child care services to low income families. States and territories receiving CCDF funds must prepare and submit to the federal government a plan detailing how these funds will be allocated and expended. DSS and CDE are working collaboratively to develop the next CCDF State Plan which is due to the federal government June 30, 2021, and will cover 2022-2024. The draft plan will be released for stakeholder input and will be submitted to the Legislature for review. The DSS has recently noted that the review process may take longer than anticipated and review timelines may need to be adjusted, however the plan will still be completed by the federal deadline.

DSS maintains a Child Care Transition webpage where it publishes quarterly reports on the Child Care transition (https://www.DSS.ca.gov/inforesources/DSS-programs/calworks-child-care/child-care-transition). The most recent progress report was published in January 2021. The report details the significant stakeholder engagement opportunities that have occurred and plans for additional engagement, as well as information on the transfer of staff and recruitment of a new Deputy Director position. The department has been holding regular stakeholder webinars to provide information on the transfer process and topically based listening sessions. The department is also coordinating with the Early Childhood Policy Council to help inform the transition. CDE staff have met with DSS staff on multiple occasions to walkthrough the programs, their operations, and administrative components.

**Governor's Budget Proposal:**

The budget includes a transfer of $31.7 million ($900,000 General Fund) and 185.7 positions from CDE starting July 1, 2021, to support the transition of child care programs responsibilities, services, and systems from CDE to DSS. The corresponding local assistance shift reflects $2.8 billion in current service levels. The Governor's Budget also proposes to add $12.598 million and 82 positions for CDE's Early Learning and Nutrition services divisions.

| CDE Division | Positions shifting to DSS | Positions added to CDE | Funds added to CDE |
|---|---|---|---|
| Audits and Investigations | 17.0 | 7 | 0.684 |
| Early Learning and Care | 72.5 | 17 | 2.747 |
| Fiscal and Administrative Services | 19.0 | 6 | 0.567 |
| Legal | 1.5 | 0 | 0 |
| Nutrition Services | 69.0 | 53 | 8.6 |
| Technology Services | 6.7 | 0 | 0 |
| **Total** | **185.7** | **83** | **$ 12.598** |

As a result of the programs being shifted to DSS, CDE has submitted the following BCP's to replace a portion of the positions and funding that will be transferred:

- $1.8 million General Fund and 9 positions for continued audit services and support related to the State Preschool Program and various nutrition programs.

- $3.785 million General Fund and 16 positions in the Early Learning and Care Division to administer the State Preschool Program.

- $778,000 General Fund and 5.5 positions in the Fiscal and Administrative Services Division to administer the State Preschool Program.

- $186,000 General Fund for legal services related to the various programs that will be transferred.

- $8.6 million General Fund for continued support of the remaining federal school meal programs, including the National School Lunch Program and the Summer Food Service Programs.

- $1.5 million General Fund and 9.7 positions for the development, modification, maintenance, and management of new and existing information technology systems that support the State Preschool and child nutrition programs.

**Legislative Analyst's Office Analysis:**

***Funds and Positions Shifting Not Based on Workload Analysis.*** The Governor's proposed shift is almost entirely based on the fund source associated with these positions. For example, the Governor proposes moving all state operations positions funded with federal CCDBG funds that are set aside for state administration. This is consistent with the proposed shift of all local assistance CCDBG funding from CDE to DSS. Aligning local assistance and state operations funding within the same department makes sense. However, the administration has not conducted a workload analysis to determine whether the funding and positions at DSS are in line with its new administrative responsibilities. As a result, it is uncertain whether the level of proposed resources is fully justified. Given the magnitude of the proposed backfill for CDE, it does appear that DSS would likely have more funding and positions under the Governor's proposal than required to address its new workload. Since there is no new workload across both departments, a cost neutral shift would be reasonable.

***Cost of Shift Higher Than Anticipated, Full Cost Unclear.*** In his proposed 2020-21 budget last January, the Governor proposed providing $10.4 million to create a new Department of Early Childhood Development and having child care programs administered under this department. As part of the May Revision for 2020-21, the proposal was modified to instead shift child care programs to DSS. The Administration indicated it was modifying the proposal due to cost concerns. The amount of funding requested in 2021-22 ($13 million), however, now exceeds the cost of the initial proposal to create a separate department. Furthermore, the cost of the shift could grow in the future as the Administration is still determining the resources it needs. The Administration's draft transition plan released in early February 2021 states DSS is "continuing to assess the resources and staffing needed" to administer the new programs.

***Other Elements of Transition Also Lack Detail.*** In addition to lacking key information about costs, the Administration also has not been able to answer several key questions regarding the administration of programs under DSS. For example, the plan is required to specify how the Administration plans to maintain existing provider flexibility to transfer funds across General Child Care and State Preschool contracts. This flexibility allows providers that have both of these contracts to effectively meet the enrollment needs of their communities. While the Administration indicates in its draft plan that it is "actively collaborating to develop processes to maintain these flexibilities," it has not disclosed any details to help the Legislature evaluate whether these new processes would be more or less burdensome for providers compared to current processes.

***Lack of Detail Potentially Due to Large Workload in the Current Year.*** Based on our conversations with both CDE and DSS, planning for the shift of programs within the time line specified in statute has been a large administrative workload on existing staff at both departments. For example, both departments have been involved in key workload to administer child care programs, such as developing the state's Child Care and Development Fund Plan (a plan required by the federal government once every three years). In addition to the program shift, staff at both departments also have had higher-than-average workload as a result of the coronavirus disease 2019 (COVID-19) pandemic. The state has implemented a number of pandemic related policies, such as providing temporary child care slots, stipends, and reimbursement flexibility. (We describe these policies in more detail in the next section of this post.) Staff time has been split between these priorities (the transition and pandemic response). Moreover, the significant workload has likely made it difficult for staff to dedicate sufficient time to preparing for the transition.

***Given These Concerns, the Legislature May Want to Reconsider Continuing With Transition.*** Although the Legislature approved shifting programs from CDE to DSS as part of the 2020-21 budget package, it may want to reconsider the shift given the various issues discussed above. The administrative costs associated with the shift are higher than anticipated and appear to result in administrative inefficiencies. Moreover, the Administration has yet to provide key details of several important elements of the transition. While the main rationale for the shift was to better integrate and coordinate programs, the Governor has not provided concrete examples to explain how this outcome will in fact be achieved. The LAO discusses the lack of specificity below.

- ***Child Care Programs.*** The Administration has not yet provided any specific examples of how the programs will be better integrated and coordinated at DSS. Rather, the Administration indicates it is in the process of engaging with stakeholders to identify options. The Administration also stated that under DSS, its implementation of child care programs will "build upon prior efforts," such as leveraging data-driven decisions to determine allocation of child care funds. It is unclear how these efforts under DSS will result in greater benefits to children and families compared to CDE's current efforts.

- ***CACFP.*** In addition to providing nutrition support to child care providers, CACFP supports adult day care, emergency shelters, and after school care. The Administration plans to "connect the existing CACFP with other nutrition and child care programs currently housed at DSS." However, it is unclear why these connections cannot be made within the current structure with CDE administering the program. CDE and DSS have collaborated on nutrition issues, the most recent example being the pandemic response to provide increased Cal Fresh benefits to families impacted by school closings. If the Administration has specific concerns with how CDE is administering the program, more cost effective solutions likely exist to address these concerns.

***Legislature Has Several Options on How to Proceed.*** In view of the concerns raised above, the Legislature has a range of options it could consider. Specifically, the Legislature could:

- ***Stop Transition***. The Legislature could decide transitioning child care and CACFP to DSS is no longer a priority. This would "free up" $13 million in ongoing General Fund relative to the Governor's budget proposal that would be available to support legislative priorities.

- ***Delay Transition.*** The Legislature could delay the transition. This would allow the Administration to focus its entire attention on the pandemic response and plan for the transition on a slower time line. We think delaying the transition until a year after the COVID-19 emergency declaration has ended would be a reasonable approach.

- ***Modify Scope of the Transition.*** The Legislature could reduce the number of programs shifting to DSS. If the Legislature takes this approach, the LAO recommends keeping CACFP at CDE. The Legislature could further minimize the scope of the transition by also shifting certain child care programs to DSS, such as California Work Opportunity and Responsibility to Kids Child Care Stages 2 and 3.

***Key Issues for the Legislature to Consider if it Decides to Move Forward With the Transition.*** If the Legislature does decide to move forward with the transition, the LAO has identified two issues that it will want to consider:

- ***Revisiting State Preschool Oversight and Support.*** The requested backfill of positions for CDE are intended to maintain the existing level of administration for State Preschool. Historically, the level of administration was based on federal and state requirements, as State Preschool was funded in part with CCDBG funding. Since 2019-20, however, State Preschool has been funded entirely from the state General Fund and no longer has to comply with federal CCDBG requirements. The state has an opportunity to revisit the state-level oversight and support providers receive. For example, instead of having staff conduct activities formerly required by federal law, the Legislature may instead want to redirect these positions to provide more programmatic support to providers. If the state does decide to revisit the level of support and oversight, staff levels should align with these oversight and support expectations.

- ***Maintaining Legislative Oversight.*** In order for the Legislature to maintain its oversight role, the LAO recommends modifying the proposed provisional language allowing the Administration to shift expenditure authority between CDE and DSS. If the Administration needs to make any budget revisions, the LAO recommends it notify the Joint Legislative Budget Committee prior to making any adjustments. The LAO further recommends amending the proposed budget bill so that funds are appropriated to child care in a similar structure as the 2020-21 budget act. Specifically, the LAO recommends that funding for each child care program be scheduled out in separate budget items instead of being consolidated together as proposed. This approach maximizes transparency and more effectively facilitates the ability of the Legislature to provide oversight of child care programs.

**Suggested Questions:**

- Can the Administration provide details on how the $2 million one-time funding provided to plan the transition has been expended up until this point?

- What work still needs to be done to finalize the assessment of resources and staffing needs? At what point will the Legislature have a full cost estimate of this transition?

- According to stakeholders, the child care contracting process begins in March, where are the Departments in transferring this responsibility? Are there backup plans if this workload cannot be operationally transferred in time to provide stability for the field?

- Given the significant additional workload related to the pandemic for all state agencies, but particularly for the DSS, is there a need to extend the timelines for the full transition of child care programs to DSS?

- How will the need to transfer responsibility and activities to DSS interact with the need to ensure immediate COVID relief can be provided through CDE during the current fiscal year?

- Can the Administration or Departments explain the rationale for transferring the proposed number of positions to DSS if workload remains at CDE?

- Can the Administration or CDE justify the increase for new positions at CDE if many of the administrative responsibilities will be shifted to DSS?

**Staff Recommendation:**

Hold Open.

**Issue 4: Master Plan for Early Learning and Care**

**Panel:**

- Kris Perry, Deputy Secretary and Senior Advisor to the Governor at California Health and Human Services Agency
- Jannelle Kubinec, Chief Administrative Officer, WestEd
- Sara Cortez, Legislative Analyst's Office

**Background**

The Budget Act of 2019 provided $5 million in one-time non-Proposition 98 General Fund to the Department of Health and Human Services to contract with one or more entities to complete designated research to inform the ultimate development of a Master Plan for Early Learning and Care. In developing the master plan, the Health and Human Services Agency was required to produce at least one report by October 1, 2020. The report must study several specified areas, including revenue options for expanding current programs, statewide facility needs, and the need for early learning and care among eligible families.

The Master Plan statute (Education Code Section 8207) specifically required the Secretary of California Health and Human Services (CHHS), in concurrence with the executive director of the state board, and in consultation with the Superintendent, to contract *"with one or more nongovernmental research entities to review existing research and data and to conduct research on priority areas of study identified pursuant to subdivision (d). This work shall be compiled in a report, or series of reports, released on a continuing basis and shall be completed on or before October 1, 2020, and provided to the Governor, the chairpersons of the relevant legislative policy and budget committees, the Secretary of California Health and Human Services, the executive director of the state board, the Superintendent, and the Director of Finance."* The legislation also called out specific areas of study that the funding in the Budget Act of 2019 was provided for in Education Code Section 8207 (d) (1-5). These include 1) Fiscal Framework; 2) Early Learning and Care Facility Needs; 3) Need for Early Learning and Care; 4) Quality Improvement; and 5) Universal Pre-Kindergarten as shown below:

*"(1) A fiscal framework that provides options for ongoing funding to significantly expand early learning and care in the state, including options to generate needed revenues and examine alternate funding streams. This framework shall incorporate the principles of shared responsibility, fiscal sustainability, and regional variability, including by examining the appropriate role for government, businesses, and parents in meeting high-quality, affordable childcare and prekindergarten education needs.*

*(2) Early learning and care facility needs statewide, including surveys of subsidized early learning and care providers to collect information regarding ownership or rental of the facilities, monthly facility payments, ancillary costs, interest in expanding existing facilities, and*

*any associated challenges, including ongoing facility maintenance. This study shall identify areas of the state most in need of early learning and care facility expansion and shall recommend the most appropriate setting types given the unique geographic and capacity characteristics of the region. Additionally, this study shall also seek input from relevant regional entities to identify existing publicly owned facilities that could house early learning and care programs with modifications to meet health and safety requirements, including those facilities owned by school districts, county offices of education, cities, and counties.*

*(3) Need for early learning and care services by families eligible for subsidies, including those not currently receiving services. The study shall include, but not be limited to, surveys of parents to collect information on current early learning and care arrangements, hours of care needs, key considerations regarding choice of provider and setting, and data about the racial, ethnic, and linguistic diversity of eligible families. This study shall include the need for early learning and care with a priority focus on those children from birth through 5 years of age, but shall also include children from birth through 12 years of age, and shall highlight regions of the state with the lowest relative access to care. The study shall also make recommendations on how to support and promote types of early learning and care that meet families' cultural and linguistic needs.*

*(4) An actionable quality improvement plan that includes, but is not limited to, both of the following:*

*(A) A cohesive set of minimum quality and program guidelines for all subsidized childcare providers by and across settings that balances the improved social, emotional, cognitive, and academic development of children with the resources available to providers, and that takes into account gender, class, race, language access, implicit bias, and lived experience in the construction of quality.*

*(B) An accessible and cohesive career pathway for all types of childcare professionals, including those whose primary language is not English, that considers a ladder of mobility, aligned with the state's system of provider reimbursement, based on competencies that are evidence based and driven by characteristics of quality, and that may consider educational attainment to produce a trained and stable workforce.*

*(5) Necessary steps to provide universal prekindergarten education for all three- and four-year-old children in California, including by considering both of the following:*

*(A) Recommendations to address the overlap between the transitional kindergarten, state preschool, and Head Start programs, and ensure that all children, regardless of family income, have access to the same level of prekindergarten program quality.*

*(B) Recommendations to align prekindergarten education with the subsidized childcare system and the elementary and secondary education system, to ensure that children have access to a full day of care, as needed, and ensure seamless matriculation to elementary and secondary education."*

**Master Plan for Early Learning and Care.** In November 2019, the CHHS engaged a team of researchers led by WestEd to develop the Master Plan and address five interrelated substantive issue areas within California's early learning and care system: access, quality, universal preschool, facilities, and financing. The Master Plan was eventually submitted on December 1, 2020. In addition to WestEd, a number of experts and practitioners collaborated on the plan, including the RAND Corporation, Child Trends, American Institutes of Research, Glen Price Group, the Neimand Collaborative, Low Income Investment Fund, Stanford University, and SparkPlace. The Master Plan builds upon the past work of the Assembly Blue Ribbon Commission and offers a roadmap for building a comprehensive, equitable early learning and care system over the next decade. Specifically, it indicates that 'the Master Plan is a framework with which to realize the vision of ensuring that all California children thrive physically, emotionally, and educationally in their early years, through access to high-quality early learning and care resources; equitable outcomes for children; and greater efficiencies to the state today and every day through structures for continuous improvement."

To achieve this vision by 2030, the Master Plan focuses on four key objectives:

- Improve the life outcomes of infants and toddlers by providing comprehensive early learning and care.

- Ensure that all families can easily identify and access a variety of quality early learning and care choices that fit the diverse needs of their children, their financial resources, and workday and nonstandard schedules.

- Promote school readiness through preschool for all three-year old children experiencing poverty and universally for all four-year old children.

- Advance better outcomes for all children by growing the quality, size, and stability of the early learning and care workforce through improved and accessible career pathways, competency-based professional development supports, and greater funding.

**Master Plan Goals and Recommendations.** To achieve these objectives, the Master Plan identified four policy goals that set high standards, create cohesion, fill gaps, and foster sustainability:

- Unify programs to improve access and equity. Streamline requirements for birth through age three programs, providing access to care and learning for all three-year olds experiencing poverty, and providing universal preschool access to all four-year olds.

- Support children's learning and development by enhancing educator competencies, incentivizing, and funding career pathways, and implementing supportive program standards. Enhance standards and provide affordable and accessible pathways for the entire workforce to advance in their competency and compensation.

- Unify funding to advance equity and opportunity. Adopt a reimbursement and rate model that brings all types of care and learning support into one structure that acknowledges costs associated with quality, including characteristics of children and competencies of the workforce.

- Streamline early childhood governance and administration to improve equity. Design and implement data systems that support positive impacts on the results and quality of care for children through sharing and integration of data that impact the ways in which families and the workforce experiencing the system.

Specific recommendations include:

- Unify programs for infants and toddlers under the Child Care and Development Division of the Department of Social Services to help the state assess its child development services through an equity lens focused on better and more consistent outcomes for all young children.

- Improve access to Paid Family Leave so more low-income families can choose to spend more time with their newborns.

- Provide universal preschool for all four-year olds and income-eligible three-year olds or those with disabilities.

- Prohibit the suspension and expulsion of any child in state-subsidized early learning and care programs so that children are not deprived of opportunities to learn.

- Implement funding reform to address regional cost of care differences.

- Support stronger training for caregivers and teachers in the early learning workforce and provide opportunities for greater compensation and career advancement.

- Strengthen quality standards and technical assistance to programs so that they serve all children well in culturally and linguistically responsive settings.

Of the $5 million appropriated for Master Plan for Early and Care contracts, roughly $1.8 million may be available savings, based on conversations with CHHS.

**Suggested Questions:**

- What are the Administration's proposed next steps to achieve the Master Plan's goals and recommendations?

- How do the Governor's Budget proposals align with the Master Plan recommendations?

- The Master Plan contract ultimately came in under-budget. Did the Administration sweep the remaining funds as part of the Governor's budget?

- In the authorizing statute, the Legislature had some specific priorities for new research to fill knowledge gaps at the state level, related to:

    - Need for early learning and care services by families eligible for subsidies, including those not currently receiving services; and

    - Early learning and care facility needs statewide, including surveys of subsidized early learning and care providers to collect information regarding ownership or rental of the facilities, monthly facility payments, ancillary costs, interest in expanding existing facilities, and any associated challenges, including ongoing facility maintenance. This study shall identify areas of the state most in need of early learning and care facility expansion and shall recommend the most appropriate setting types given the unique geographic and capacity characteristics of the region.

  What type of research was done on these areas, and what were the outcomes of the specific research?

- The Master Plan recommendations include those around aligning State Preschool and Transitional Kindergarten Standards, and moving to Universal Preschool with a combined increase in Transitional Kindergarten and State Preschool. The budget proposal only addresses incentivizing (not fully funding) transitional kindergarten. What it the first step needed in this process? Why does the budget not address standards alignment or state preschool?

**Staff Recommendation:** Information Only.