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9:30 a.m.
State Capitol, Room 4203**

Examining California's Child Care and Early Learning System

- I. Opening Remarks**
- II. Overview of California's Child Care and Early Learning Programs**
 - Virginia Early, Legislative Analyst's Office
- III. Governor's Budget**
 - Jessica Holmes, Department of Finance
 - Virginia Early, Legislative Analyst's Office
- IV. Local Perspectives**
 - Jack Hinojosa, Child Development Resources
 - Marco Jimenez, Central Valley Children's Services Network
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Examining California's Child Care and Early Education System

SUMMARY

California's child care and early learning system is comprised of a numerous, often overlapping, programs, which serve similar aged children in different settings, and which are subject to different regulatory requirements depending on funding. Programs in the early care and education system serve two key objectives: to provide quality programs that support child development and to support parental work participation. Although the state provides child care, to eligible families, until a child turns 13, this hearing and paper discuss the settings and programs that serve families and children from birth through age five. To provide context for the consideration of the Governor's budget proposals, the paper will: (1) provide a brief overview of California's current child care and early education programs; (2) summarize the Governor's budget proposals; and (3) present, for legislative consideration, themes and principles to strengthen the child care and early education infrastructure.

OVERVIEW

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.

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 1" (when a family first enters CalWORKs) and "Stage 2" (once a county deems a family "stable", defined differently by county). The Legislature has, in the past, funded "Stage 3" (two years after a family stops receiving cash aid) entirely. Families remain in Stage 3 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 these families 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 70 percent of the state median income (SMI), as calculated in 2007-08 (for a family of three, the SMI cap is \$42,216); and (3) children must be under the age of 13.

California State Preschool Program (CSPP). CSPP provides both part-day and full-day services with developmentally appropriate curriculum, and is 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). CSPP 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 70 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 (TK). SB 1381 (Simitian), Chapter 705, Statutes of 2010, enacted the “Kindergarten Readiness Act” and established the TK 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 TK and kindergarten for all eligible children, regardless of family income.

Head Start and Early Head Start. Head Start is a national program, administered by the Administration on Children, Youth, and Families, which offers a variety of services depending on local community needs. Care may be provided at centers, schools, family child care homes, or through home visits. Many Head Start programs also provide Early Head Start, which serves infants, toddlers, pregnant women, and their families who have incomes below the federal poverty level. To be eligible for Head Start, a family income’s must be no more than 100 percent of the federal poverty level. For a family of three, the annual household income, pre-tax, must be no more than \$20,090.

How are programs and providers funded? Child care programs are delivered through vouchers, or through contracts with the Department of Education (CDE).

- Vouchers. Families can use vouchers at any licensed child care provider in the state, provided there is space available, or for license-exempt caregivers, like friends or family. The value of the vouchers varies by county and is set by the Regional Market Rate, which are based on regional surveys of the cost of child care. The three stages of CalWORKs child care and the Alternative Payment (AP) programs are reimbursed through vouchers. Currently, the RMR is set to the 85th percentile of the RMR survey conducted in 2009, reduced by 10.11 percent, and then increased by 4.5 percent.¹ If the cost of care exceeds the value of the voucher, the family must pay the difference, called a co-payment. The Department of Social Services (DSS) administers CalWORKs Stage 1, and county welfare departments locally administer the program. CDE funds the remaining voucher programs, including CalWORKs Stages 2 and 3, which are administered locally by AP agencies statewide. AP agencies, which issue vouchers to eligible families, are paid through the “administrative rate,” which provides them with 17.5 percent of total contract amounts. License-exempt reimbursement rates are sixty-five percent of the rate established for family child care homes.
- 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 – contract with, and receive payments directly from, CDE. Contractors must meet additional requirements, such as development assessments for children, rating scales, and staff development. Title 5 providers are paid a Standard Reimbursement Rate

¹ Effective October 2015, SB 97 (Budget and Fiscal Review), Chapter 11, Statutes of 2015, amended Education Code §8447 (b)(2). If a county’s ceiling is less than the ceiling provided before January 1, 2015 under the RMR survey, state law authorizes a hold-harmless provision, so that CDE must use the ceiling from the RMR survey conducted in 2005.

(SRR) that is set in the Education Code and the annual budget act. Currently, the SRR is \$38.29.

In 2015-16, the full-day CSPP rate is \$38.53 per day, and the part-day CSPP rate is \$23.87 per day. Child care and most CSPP are funded through General Fund allocations. In contrast, TK, is funded through Average Daily Attendance (ADA) within Proposition 98. A local district receives the same per ADA funding for a TK student as for a kindergarten student. Based on the current level of funding, the estimated average cost per child in TK is \$9,100 annually.

RECENT BUDGET ACTIONS

From 2009-2013, overall funding for child care and preschool programs decreased by \$984 million; and approximately 110,000 slots, across all programs, were eliminated. Over the last two years, the budget and trailer bills² included investments that focus on quality, access, increased reimbursement rates and slots. The below table summarizes investments in the Budget Act of 2015:

Budget Act of 2015: Child Care and Preschool Investments Summary

2015-16 Child Care and Preschool Changes			
<i>(In Millions)</i>			
Change	Proposition 98	Other	Total
Reimbursement Rates			
Increases the Standard Reimbursement Rate 5 percent starting July 1, 2015	\$38	\$23	\$61
Increases Regional Market Rate 4.5 percent starting October 1, 2015	—	44	44
Annualizes Regional Market Rate increase initiated January 1, 2015	—	34	34
Increases license-exempt rate from 60 percent to 65 percent of family child care home rates starting October 1, 2015	—	18	18
Provides 1.02 percent COLA to Standard Reimbursement Rate	6	8	14
Increases part-day State Preschool rate 1 percent starting July 1, 2015	6	—	6
Subtotals	(\$50)	(\$127)	(\$177)
Slots			
Provides 6,800 Alternative Payment Program slots starting July 1, 2015	—	\$53	\$53
Provides 7,030 full-day State Preschool slots starting January 1, 2016 ^a	\$31	3	34
Annualizes funding for 4,000 full-day State Preschool slots initiated June 15, 2015	15	19	33
Provides 2,500 part-day State Preschool slots with priority for children with disabilities starting July 1, 2015	12	—	12
Increases non-CalWORKs slots for statutory growth ^b	2	3	5
Subtotals	(\$60)	(\$78)	(\$138)
Other			
Makes CalWORKs child care caseload and average cost of care adjustments	—	\$116	\$116
Provides one-time infant and toddler quality activity block grant	—	24	24
Carries forward one-time funds for federally required quality activities	—	3	3
Shifts LEA full-day State Preschool "wrap" into Proposition 98	\$145	-145	—
Removes one-time funding for State Preschool facilities and quality activities	-35	—	-35
Subtotals	(\$110)	(\$2)	(\$108)
Totals	\$220	\$203	\$423

^a Of these slots, 5,830 are for local educational agency (LEA) providers, with the remainder for non-LEA providers.
^b Applies 1.39 percent growth to Alternative Payment Program slots and 0.37 percent growth to all other non-CalWORKs child care programs.
 COLA = cost-of-living adjustment.
 Posted October 2015.

Source: Legislative Analyst's Office 2015

² SB 852 (Budget and Fiscal Review Committee), Chapter 25, Statutes of 2014; SB 858 (Budget and Fiscal Review Committee), Chapter 32, Statutes of 2014; SB 876 (Budget and Fiscal Review), Chapter 687, Statutes of 2014.

ASSESSMENT OF THE CURRENT SYSTEM

In April 2014, the Legislative Analyst's Office (LAO) released, *Restructuring California's Child Care and Development System*, making the following findings:

- Similar families have different levels of access. The prioritization of families, in or formerly in, CalWORKs over otherwise similar non-CalWORKs families results in different access to services. As a result, a family formerly in CalWORKs remains eligible for up to 13 years of child care, whereas a similar low-income family may not receive the same level of benefits.
- Similar families have different amounts of choice in selecting care. Sometimes a slot may not meet the parent's needs, such as the center's location or non-traditional hours. Families participating in CSPP are particularly affected because a majority of the programs only offer part-day care.
- Similar families are provided different standards of care. Families receiving vouchers are guaranteed providers that meet Title 22 health and safety standards, while families who have contract slots can receive care that meets health, safety, and developmental standards under Title 5.
- State has higher reimbursement rate for lower standard of care. The RMR is used to pay Title 22 providers, which are subject to health and safety standards, whereas the SRR is used to pay Title 5 providers, which are subject to health, safety, and developmental standards. In 19 counties, the RMR is higher than the SRR for preschool-age children, based only monthly reimbursements.
- Resources not always used strategically. The existing system does not target resources to low-income children to promote school readiness. The state pays a higher rate – nearly 50 percent more – for non-need-based TK than need-based preschool.

GOVERNOR'S BUDGET

The budget includes \$3.6 billion total funds (\$948 million federal funds; \$1.7 billion Proposition 98 General Fund; and \$998 million non-Proposition 98 General Fund) for child care and early education programs. For specific information by program, see tables below.

**Child Care and Preschool Budget
(Dollars in Millions)**

Program	Governor's Budget
CalWORKs Child Care	
Stage 1	\$394
Stage 2	\$422
Stage 3	\$316
Subtotal	\$1,132
Non-CalWORKs Child Care	
General Child Care	\$450
Alternative Payment	\$255
Other	\$31
Subtotal	\$736
Preschool-Age Programs	
State Preschool	--
Transitional Kindergarten	--
Preschool Quality Rating Improvement System Grant	--
Proposed Block Grant	\$1,654
Totals	\$3,600*

*\$3.6 million reflects the subtotals plus an additional \$79 million for support programs.

2016 Child Care and Preschool Subsidized Slots

Program	Description	2015 Budget Act	Proposed Slots for 2016-17	Percent Change
CalWORKs (based on estimated caseload)				
Stage 1	Provides cash aid and services to eligible families. Begins when a participant enters CalWORKs.	44,154	42,995	-3%
Stage 2	When the county deems a family “stable.” Participation in Stage 1 and/or Stage 2 is limited to two years after an adult transitions off cash aid.	50,971	49,777	-2%
Stage 3	When a family expends time limit in Stage 2, and as long as family remains otherwise eligible.	35,845	36,335	1%
Subtotals for CalWORKs child care		130,970	129,107	-1%
Non-CalWORKs (based on proposed number of slots to be funded)				
General Child Care	State and federally funded care for low-income working families not affiliated with CalWORKs. Serves children from birth to 12 years old.	28,738	42,134	47%
Alternative Payment	State and federally funded care for low-income working families not affiliated with CalWORKs. Helps families arrange and make payment for services directly to child care provider, as selected by family.	32,852	29,344	-11%
Migrant Care	Serves children of agricultural workers.	3,060	3,064	0%
Care for Children with Severe Disabilities	Provides supervision, therapy, and parental counseling for eligible children and young adults until 21 years old.	105	105	0%
Subtotals for non-CalWORKs care		64,755	74,647	15%
Preschool and TK programs				
State Preschool	Part-day (PD) and full-day (FD) care for 3 and 4-year old children from low-income families.	98,956 PD 58,504 FD	0	-100%
Transitional Kindergarten	Eligible children are 5 years old between Sept. 2 and Dec. 2.	83,000	0	-100%
Early Ed. Block Grant	Restructures funding for above programs into a to-be-defined block grant.	0	251,409	100%
Subtotals for Preschool/TK programs		240,460	251,409	5%
Total		436,185	455,163	4%

Source: Legislative Analyst’s Office 2016

Early education block grant. The budget proposes to consolidate Proposition 98 funding from CSPP (\$880 million), TK (\$725 million Proposition 98 General Fund), and the Preschool Quality Rating and Improvement System Grant (QRIS) (\$50 million Proposition 98 General Fund) to create a \$1.65 billion block grant, intended to benefit low-income and “at-risk” preschoolers, as locally defined. Funds from the new block grant would be given to LEAs and potentially other entities that currently offer CSPP to operate a developmentally-appropriate preschool program. According to the Administration, the proposal would build on the tenets of the Local Control Funding Formula (LCFF) and distribute funding based on factors, such as population and need, to ensure funds are equitably distributed to schools with large populations of disadvantaged children. The budget provides a hold-harmless provision, ensuring that no LEA will receive less funding under the block grant than under prior funding models. Of note, the proposal does not move funds currently supporting the wrap component of full-day State Preschool provided by non-LEAs into the block grant. In addition, the Governor’s proposal does not shift \$33 million in CSPP funds that support preschool programs at 55 community colleges.³

Trailer bill language. The budget proposes trailer bill language that requires the Department of Education to develop a plan to transition contracted funding into vouchers over the next five years. Approximately two-thirds of California’s child care is voucher-based care, meaning a voucher is provided to a family who can then choose its own provider.

ISSUES TO CONSIDER

More development is required before further consideration of the Early Education Block Grant proposal. The budget provides minimal detail about the proposal, but the Administration intends to refine the details by the May Revision with input from stakeholders on the following: (1) how to define eligibility criteria and “at risk” children, who will be prioritized for services; (2) program structure, such as class size and teacher ratios and curriculum; (3) role of private providers; (4) distribution of future funding; and (5) accountability measures. As more information of the Governor’s proposal emerges, the budget subcommittees on education and health and human services will hold a joint hearing to discuss the issues.

How can the state improve access and affordability of child care? Some families, despite similar characteristics, are provided different funding and educational opportunities. In addition, the LAO’s 2014 report identified that most (54 of 58) counties serve less than 20 percent of low-income children. The Legislature may wish to consider the barriers to access and discuss how to encourage creating full-day programs in a parent’s choice of environment.

The state’s current rate reimbursement structure poses challenges to transparency, quality, and efficiency. Despite recent investments to the reimbursement rates for both voucher-based care (RMR) and for direct-contractors (SRR), providers indicate that they are still at-risk of closing. School districts and voucher and center-based providers struggle with paying high rental costs and keeping a high-quality program afloat. The Legislature may wish to consider how to create a funding structure that recognizes the quality investments of a given program, and also provides parents the knowledge with the actual value amount of the voucher.

³ Care offered at community colleges are often preschool programs for community college students’ children, and also serve as a lab school for students training to become teachers or aides.

How can the state define and create outcomes based on quality? The last two budgets included significant investments in supporting quality programs, including professional development opportunities for instructors and aides. The Legislature may wish to consider accountability measures, linked to “quality,” to ensure developmentally-appropriate curriculums, enriching environments for children, and support for professionals.

Differing perspectives on child care. Programs in the early care and education system generally have two key objectives: (1) to provide high-quality programs that support child development, and (2) to support parental work participation. The budget distinguishes between the provision of these two objectives, stating that “child care is to support the gainful employment of working families”, while noting that the goals of the Early Education Block proposal include implementing pre-kindergarten education programs. As academic literature supports the social, cognitive, and developmental benefits of investing in early childhood interventions, advocates and early education professionals have invested heavily in incorporating more developmentally-appropriate curriculum, and supporting instructors in the child care system. The Legislature may wish to clarify how quality can be ensured in child care delivery, and how these differing perspectives on child care may influence the tenor of the proposal’s development.