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**March 4, 2015
10:00 a.m.
State Capitol, Room 4203**

Perspectives on California's Child Care and Development System

- I. Opening Remarks**
- II. Child Poverty in California**
 - Dr. Ross Thompson, Distinguished Professor, University of California, Davis
 - Alex Johnson, Executive Director, Children's Defense Fund – California
 - Kim Kruckel, Executive Director, Child Care Law Center
- III. Overview of California's Early Care and Childhood Education Programs**
 - Carolyn Chu, Senior Fiscal and Policy Analyst, Legislative Analyst's Office
 - Monique Ramos, Director of Government Affairs Division, California Department of Education (CDE)
 - Debra McMannis, Director of Early Education and Support Division, CDE
 - Jessica Holmes, Analyst, Department of Finance
- IV. Navigating California's Child Care System**
 - Stephanie Riisager, Parent Voices Butte County
 - Ana-Estella Calles, Parent Voices Sonoma County
- V. Local Perspectives**
 - Dr. Lisa Kaufman, Director of Early Learning Services Department, Santa Clara County Office of Education
 - Catherine Goins, Assistant Superintendent of Early Education and Administration, Placer County Office of Education
 - Dr. Michael Olenick, President and CEO, Child Care Resource Center
- VI. Public Comment**

Senate Budget and Fiscal Review Committee
“Perspectives on California’s Child Care and Development System”
March 4, 2015

Speaker Biographies

Dr. Ross Thompson is a distinguished professor of psychology at the University of California, Davis, and is director of the Social and Emotional Development Lab. His research focuses school readiness and its development, early childhood investments, and early mental health. He also studies early parent-child relationships, the development of emotion understanding and emotion regulation, conscience development, and the growth of self-understanding in young children. Dr. Thompson has served twice as associate editor of *Child Development*, was a Senior NIMH Fellow in Law and Psychology at Stanford University in 1989-90, and served on the Committee on Integrating the Science of Early Childhood Development (1998-2000) and the Committee on the Science of Children Birth to Age 8 (2013-15) of the National Research Council / Institute of Medicine. He received the Ann Brown Award for Excellence in Developmental Research in 2007, and received his Ph.D. in Psychology from University of Michigan.

Mr. Alex Johnson is the Executive Director of Children’s Defense Fund, California, and leads statewide advocacy and policy efforts for topics such as: ensuring quality affordable health coverage and care for children and low-income families; promoting educational equity; and ending child poverty. His work has focused on altering the social dynamic that begins with a student’s poor education in childhood, progresses to a high dropout rate during high school and ends with a young person’s future irrevocably altered by crime, conviction and incarceration. He is a member of the Los Angeles Board of Education, and earned his Juris Doctorate from American University, Washington College of Law.

Ms. Kim Kruckel is the Executive Director of the Child Care Law Center since 2012. She began her career as a community organizer, and helped start Parent Voices so low-income parents could advocate for child care. She earned her Juris Doctorate at the University of San Francisco, and worked at the Legal Aid Society-Employment Law Center to spearhead education efforts on Paid Family Leave and family-friendly work policies.

Ms. Catherine Goins is Assistant Superintendent for Early Education and Administration at Placer County Office of Education. She has over 25 years of experience with private, non-profit, and publicly funded early education programs, and currently services as the President for the statewide Child Development Policy Institute. She previously managed early childhood programs at Sacramento Employment and Training Agency Head Start, a \$47 million program serving 5,000 children.

Dr. Michael Olenick is the President and CEO of the Child Care Resource Center since 2004. He oversees all programs, projects, and services provided to over 50,000 children and families each month in a service area spanning 22,500 square miles (LA and San Bernardino counties). Prior to CCRC, he served as Senior Vice President of the California Community College Foundation, where he developed child, youth, and family development education programs. He received his Ph.D. in Education from UCLA.

Perspectives on California's Child Care and Development System

An Oversight Hearing on Child Poverty and California's Child Care and Development System

SUMMARY

California is home to more than seven million children, and nearly one in four children in the state live in poverty.¹ Poverty is a powerful factor in child development, and can impact developmental trajectories in cognitive, socio-emotional, and physical health. Children who experience economic hardship when they are young, or who experience extreme and prolonged hardship, are at greatest risk for poor outcomes.² Today's hearing will examine child poverty statistics in California and identify various pathways, such as child care and early learning, that can alleviate child poverty. The hearing will also a) review how the state provides subsidized child care; b) consider how child care and early learning experiences support parental work engagement and provide work stability; and c) consider local experiences that layer federal-state funding streams to achieve quality environments for California's 0-5 aged children and beyond.

BACKGROUND

Child poverty in California. According to the Supplemental Poverty Measure, California's poverty rate from 2009-2011 averaged 23.8 percent – the highest of any state in the nation. Around 25 percent of California's children – nearly 2.3 million – are estimated to live in poverty, with 26.3 percent of all children under 6 years old in poverty.³ If not for social safety net program assistance, an additional 1.28 million children would live in families without resources to meet basic needs.

Demographics. A child's likelihood of living in poverty varies by race and ethnicity, family structure, and educational attainment. For example, statewide estimates⁴ show that 36 percent of African-American children and 38 percent of Hispanic or Latino children lived below the federal poverty level (FPL) in 2012, compared to 12 percent of Caucasian, 13 percent of Asian Pacific

¹ *Id.* at 5.

² "Why this Topic is Important." *Children in Poverty – Supplemental Poverty Measures (State & U.S. Only)*, by *Race/Ethnicity*. kidsdata.org: A Program of Lucile Packard Foundation for Children's Health. <http://www.kidsdata.org/topic/701/child-poverty-spm-race/table#jump=children-faring&fmt=995&loc=1,2&tf=76&ch=7,11,8,10,9,939&sortColumnId=0&sortType=asc>

³ Laurel Beck, Caroline Danielson, and Shannon McConville (2015 February) "Enrollment in Health and Nutrition Safety Net Programs among California's Children." *Public Policy Institute of California*. February 2015. http://www.ppic.org/content/pubs/report/R_215LBR.pdf

⁴ Based on 2010-2012 data according to the U.S. Census Bureau's Supplemental Poverty Measure, of children ages 0-17 years old.

Islander, and 18 percent of multiracial children. In addition, 40 percent of California children in single-parent households lived below the FPL in 2012, compared to 15 percent of children living with two parents.⁵ Lastly, the child poverty rate in families where neither parent has a high school diploma is high in California (48.5 percent), but not as high as in the rest of the country (54.8 percent).⁶

Poverty during childhood. The period from birth through age five is a critical time for a child to develop physical, emotional, social, and cognitive skills.⁷ Research finds that negative effects of deprivation on human development tends to cumulate, so individuals with greater exposure to poverty during childhood are likely to have more difficulty escaping poverty as adults.⁸ In addition, children who are low-income face challenges in scholastic performance. For example:

- Families living in poverty may struggle to afford sufficient food, and malnourished children can have trouble learning and concentrating at school.
- Low-income families may also struggle to afford adequate housing and may be forced to live in crowded or unsafe conditions that increase a child's vulnerability to illness and stress, which could lead to poorer school performance.
- Socio-demographic risk can be detrimental for the development of young children's self-regulation skills and other skills critical for academic success.^{9,10}
- Children who are low-income may hear many fewer words each week than children from more affluent families. One study found that by age four, high-income children had heard 30 million more words than children who were low-income.¹¹

Further, effects of poverty and associated stress can extend to later life, contributing to an increased risk for dropping out of school, poor adult health, poor employment outcomes, and low-income.

Value of early childhood education. Early childhood interventions demonstrate consistent positive effects for a child's long-term health and well-being, including better health outcomes,

⁵ "How Children are Faring." <http://www.kidsdata.org/topic/701/child-poverty-spm-race/table#jump=children-faring&fmt=995&loc=1,2&tf=76&ch=7,11,8,10,9,939&sortColumnId=0&sortType=asc>

⁶ Sarah Bohn and Matt Levin, "Just the Facts: Child Poverty in California." Public Policy Institute of California (2013 August), http://www.ppic.org/main/publication_show.asp?i=721

⁷ U.S. Department of Health and Human Services (2003, June). *Strengthening Head Start: What the evidence shows* <http://aspe.hhs.gov/hsp/StrengthenHeadStart03/index.htm>

⁸ Adelman, Robert Lee Wagmiller and Robert M. "Childhood and Intergenerational Poverty: The Long-Term Consequences of Growing Up Poor." *Columbia University, Mailman School of Public Health, Department of Health Policy and Management*, National Center for Children in Poverty, November 2009. http://www.nccp.org/publications/pub_909.html.

⁹ Mistry, R. S., Benner, A. D., Biesanz, J. C., Clark, S. L., & Howes, C. (2010). Family and social risk, and parental investments during the early childhood year as predictors of low-income children's school readiness outcomes. *Early Childhood Research Quarterly*, 25, 432–449. doi:10.1016/j.ecresq.2010.01.002

¹⁰ Blair, C., & Razza, R. P. (2007). Relating effortful control, executive function, and false belief understanding to emerging math and literacy ability in kindergarten. *Child Development*, 78, 647–663. doi: 10.1111/j.1467-8624.2007.01019.x

¹¹ <http://www.childrensdefense.org/library/PovertyReport/EndingChildPovertyNow.html#sthash.dePIBXZD.dpuf>

higher cognitive skills, higher school attainment, and lower rates of delinquency and crime.¹² Research also finds that brain circuitry and self-regulation may be a malleable and teachable mechanism for improving school success, especially for young children.¹³

Some academic literature finds that investing in quality early childhood education can produce future budget savings. For example, James Heckman, a University of Chicago Nobel Laureate economist, found that quality preschool investments generate seven to ten cents per year on every dollar invested.¹⁴ On the other hand, it is estimated that one percentage point increase in child poverty rate might cost the national economy an extra \$28 billion a year in the future because children who experience poverty tend to grow up earning less.¹⁵

Conceptions about poverty. According to a 2014 California Budget Project report, “poverty largely reflects low-paying jobs, not the absence of employment.” In 2012, two-thirds of California families living in poverty (67 percent) were supported by one or more workers in the household.¹⁶

Some argue that economic hardship is more common than the official poverty rate suggests, and it has become widespread as low-paying jobs have become more prevalent. Specifically, low-wage jobs may be more common, despite the fact that the state’s workforce has become more educated.¹⁷ In addition, others argue that the quality of employment has changed in recent decades. Temporary employment, including part-time shifts, nonstandard hours, is more common; and layoffs are more frequent during economic expansions.¹⁸

Possible pathways. The field suggests that the following policies could reduce child poverty and alleviate its harmful impacts. For example:

- **Pursue multi-generational approaches.** Research by the Center for Poverty Research at University of California, Davis finds that a mother’s educational attainment was the

¹² A. Reynolds, J. Temple, S. Ou, D. Robertson, J. Mersky, J. Topitzes, and M. Niles (2007) *Effects of a School-Based, Early Childhood Intervention on Adult Health and Well-being: A 19-year follow-up of low-income families*. ArchPediatrics Adolescent Med/Vol. 161 (No. 8), pp.730-739.

¹³ Sara A. Schmitt, Megan M. McClelland, Shauna L. Tominey, and Alan C. Acock, “Strengthening School Readiness for Head Start Children: Evaluation of a Self-Regulation Intervention,” *Early Childhood Research Quarterly*.

¹⁴ J. Heckman (2011). “The Economic of Inequality: The value of early childhood education.” *American Educator*, pp.31-47.

¹⁵ Nichols, A. (2013). Explaining changes in child poverty over the past four decades: Low-Income Working Families Discussion Paper 2. Washington D.C.: Urban Institute. Retrieved from: <http://www.urbaninstitute.org/UploadedPDF/412897-Explaining-Changes-in-Child-Poverty-Over-the-Past-Four-Decades.pdf>

¹⁶ “Five Facts about Poverty.” California Budget Project (2014 August), http://www.cbp.org/pdfs/2014/140805_Five_Facts_About_Poverty.pdf

¹⁷ Arne L. Kalleberg, *Good Jobs, Bad Jobs: The Rise of Polarized and Precarious Employment Systems in the United States, 1970s to 2000s* (New York: Russell Sage Foundation, 2011).

¹⁸ Arne L. Kalleberg, *Good Jobs, Bad Jobs: The Rise of Polarized and Precarious Employment Systems in the United States, 1970s to 2000s* (New York: Russell Sage Foundation, 2011) and Heather D. Hill and Marci A. Ybarra, “Less-Educated Workers’ Unstable Employment: Can the Safety Net Help?” *Fast Focus 19-2014* (Institute for Research on Poverty: March 2014).

strongest, most direct predictor of a child's understanding of emotions at age four.¹⁹ As poverty is often multi-generational, pathways out of poverty may include services for parents and children, such as subsidized employment, availability of child care and early learning programs during non-traditional work hours, mental health services, and housing resources.

- **Increase participation in the federal earned income tax credit (EITC).** The EITC is a federal income tax credit that gives low to moderate-income households a credit equal to a percent of their earned income. This refundable tax credit, which means that the Internal Revenue Service will refund the balance if it exceeds a low-wage worker's income tax liability, kept 3.2 million children nationally out of poverty in 2013.²⁰ According to the New American Foundation, on average, California families not claiming the credit would have received a refund amounting to \$1,400.²¹
- **Make refundable the Tax Credit for Child and Dependent Care Expenses.** California's Child and Dependent Care Expenses Credit is a tax credit that an individual can claim for specified household and dependent care expenses incurred during the year that allowed him or her to seek and/or maintain employment. In 2011, SB 86 (Budget and Fiscal Review Committee), Chapter 14, Statutes of 2011, made the credit nonrefundable for tax years beginning January 1, 2011. According to the Children's Defense Fund, "As a result [of the elimination of the refundability of the state credit], more than 220,000 households with annual incomes less than \$50,000 lost a total of \$85.7 million in tax benefits; more than 56,000 households with annual incomes less than \$20,000 lost nearly \$25 million in tax benefits."

CALIFORNIA'S EARLY CARE AND CHILDHOOD EDUCATION SYSTEM

Programs in the early care and education system, generally, serve two key objectives: to provide quality programs that support child development and to support parental work participation. Subsidized child care is for families whose incomes are below 70 percent of the state median income; where parents are working or participating in an education or training program; and, children are under the age of 13.

Types of programs. California provides several types of child care and development programs, as specified in the table below.

¹⁹ Abby C. Winer and Ross Thompson . *How Poverty and Depression Impact a Child's Social and Emotional Competence*. Vo. 1 (No. 10), http://poverty.ucdavis.edu/sites/main/files/file-attachments/policy_brief_thompson_risk.pdf .

²⁰ Center for Budget and Policy Priorities. 2014. "Policy Basics: The Earned Income Tax Credit." Washington DC, <http://www.cbpp.org/cms/?fa=view&id=2505>.

²¹ Antonio Avalos and Sean Alley, "Left on the table: Unclaimed Earned Income Tax Credits cost California's economy and low-income residents \$1 billion annually." New America Foundation (2010 March): http://newamerica.net/sites/newamerica.net/files/policydocs/Left_on_the_table_NewAmerica.pdf

California's Child Care and Development Programs

| Program | Description | 2014 Budget Act Slots | Proposed Slots for 2015-16 | Percent Change |
|--|--|-----------------------------|----------------------------------|-------------------|
| CalWORKs (based on estimated caseload) | | | | |
| Stage 1 | Provides cash aid and services to eligible families. Begins when a participant enters the CalWORKs program. | 38,363 | 40,847 | 6% |
| 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. | 51,956 | 46,968 | -10% |
| Stage 3 | When a family expends time limit in Stage 2, been off cash assistance for at least two years, and as long as family remains otherwise eligible. | 34,563 | 35,908 | 4% |
| | Subtotals for CalWORKs child care | 124,882 | 123,723 | -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 program. Serves children from birth to 12 years old. | 51,287 | 53,323 | 4% |
| Alternative Payment | State and federally funded care for low-income working families not affiliated with CalWORKs program. Helps families arrange and make payment for services directly to child care provider, as selected by family. | 26,554 | 27,146 | 2% |
| Migrant Child Care | Serves children of agricultural workers while parents work. | 2,505 | 2,609 | 4% |
| Severely Handicapped Program | Provides supervision, therapy, and parental counseling for eligible children and young adults until 21 years old. | 145 | 146 | 1% |
| State Preschool | Part-day and full-day care for 3 and 4-year old children from low-income families. | 148,588 | 153,177 | 3% |
| | Total | 353,961 | 360,124 | 2% |

How are programs funded? California provides child care and development programs through vouchers and contracts.

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 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 85th percentile of the RMR survey conducted in 2009, minus 10.11 percent. 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 license provider must meet — serves families who receive vouchers. The Department of Social Services (DSS) funds CalWORKs Stage 1, and county welfare departments locally administer the program. The California Department of Education (CDE) funds the remaining voucher programs, which are administered locally by 76 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. As the state cut the number of child care slots, APs issued fewer vouchers, which generated less funding for programs.

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. Since 2007, the standard reimbursement rate (SRR) was \$34.38 per child per day of enrollment, and increased to \$36.67 following a five percent increase in last year’s budget. Over the past few years, some small and medium-sized providers have been absorbed by larger providers that have greater economies of scale. This is one indication that the SRR may not be sufficient for them to operate.

For license-exempt care, reimbursement rates remains at sixty percent of the regional reimbursement rate established for family child care homes.

California State Preschool Program (CSPP)²²

CSPP provides both child care and early education, and serves eligible three- and four-year old children, with priority given to four-year olds who meet one of the following criteria:

- The family is on aid,
- The family is income eligible (family income may not exceed 70 percent of the state median income as adjusted for family size),
- The family 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.

²² AB 2759 (Jones), Chapter 308, Statutes of 2008, consolidated funding for State Preschool, Prekindergarten and Family Literacy, and General Child Care center-based programs to create the California State Preschool Program (CSPP).

As administered by Local Educational Agencies (LEAs), colleges, community-action agencies, and private nonprofits, CSPP provides both part-day and full-day services with developmentally appropriate curriculum.

The 2015-16 budget provides that state preschool programs that do not provide child care services are around \$22.63 per child per day, approximately \$4,073 per pupil for a 180-day program. For full-day state preschool programs with child care services, the average cost is \$36.67 per child per day, or \$9,168 per pupil for 250 days. Family fees, or the cost a family must pay for child care if their income is above a certain level, are based on a sliding scale. In general, a family pays a family fee if their income is above 50 percent of the state median income. Additionally, AB 2759 (Jones), Chapter 308, Statutes of 2008, authorizes contractors to blend State part-day Preschool funds and General Child Care program funds to provide three- and four-year-olds with State Preschool and wrap-around child care that is needed to help support working parents.

Transitional Kindergarten (TK)

SB 1381 (Simitian), Chapter 705, Statutes of 2010, enacted the “Kindergarten Readiness Act,” which changed the required birthday for admission to kindergarten and first grade, and established a TK program beginning in 2012-13, for children who turn five between September 1 and December 1. The program uses a modified kindergarten curriculum that is age and developmentally appropriate. While state law requires school for six-year-olds, TK, like kindergarten, is not compulsory for a child.

Each elementary or unified school district must offer TK and kindergarten for all eligible children. TK programs must also have 36,000 minutes per year, or 180 minutes per school day, of instructional teaching. According to CDE, there is no state mandated curriculum for TK, so LEAs must modify current kindergarten curriculum to make it appropriate. Also, LEAs may determine the standards, or learning foundations, for TK. Similar to kindergarten, the teacher-to-student ratio is 1:24, and teachers must be credentialed.

This year, CDE estimates that there are about 51,000 students enrolled in TK. We can reasonably assume that TK, under current law, could grow to about 75,000 students.

Funding for TK. TK is entirely funded through Average Daily Attendance (ADA), so a local district receives the same ADA funding rate as kindergarten students. During the Local Control Funding Formula²³ phase-in, it is not yet possible to determine the statewide rate for TK; however, based on the current level of funding, CDE estimates average cost per child in TK as \$7,676, depending on whether a pupil receives a supplemental grant amount.

Head Start and Early Head Start

Head Start is a national program, administered by the Administration on Children, Youth, and Families, which aims to serve preschool-age children and their families in Head Start programs around the state. Head Start programs offer a variety of service models, depending on the needs

²³ For more information on LCFF, please see the Education Section of this report. Nothing about LCFF requires specified funding for specified programs. Districts can identify money as supplemental/concentration funds, or for another use.

of the local community. 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. Programs may be based in:

- Centers or schools that children attend for part-day or full-day services;
- Family child care homes; and/or
- Children's own homes, where a staff person visits once a week to provide services to the child and family. Children and families who receive home-based services gather periodically with other enrolled families for a group learning experience facilitated by Head Start staff.

In 2013-14, approximately, 107,000 children were served by Head Start with a program budget of over \$984 million. California's Head Start programs are administered through a system of 74 grantees and 88 delegate agencies. A majority of these agencies also have contracts with the CDE to administer general child care and/or State Preschool programs. CDE indicates it has over 1,316 contracts through approximately 718 public and private agencies, providing services to approximately 400,000 children.

Other Funding Sources that Support CCD and Early Education Programs

Race to the Top -- Early Learning Challenge (RTT-ELC).²⁴ In 2012, California was one of nine states awarded a Race to the Top -- Early Learning Challenge grant, which aims to improve the quality of early learning programs and to close the achievement gap for children from birth to age five. California's grant totals \$52.6 million over four years (January 2012 to December 2015). State agencies, including the State Board of Education, DSS, Department of Public Health, Department of Developmental Services, and First 5 California, work with a voluntary network of 17 Regional Leadership Consortia (Consortia)²⁵ to operate or develop a local Quality Rating and Improvement System (QRIS). The grant is also making one-time investments in state capacity, such as teacher/provider training and professional development, kindergarten readiness, home visitation, and developmental screenings. Around 74 percent of California's grant is spent in 16 counties²⁶ to support a voluntary network of early learning programs. CDE estimates that nearly 1.9 million children, or 70 percent of children under five, can benefit from this grant.

California First 5 and County First 5 Commissions. In 1998, voters approved Proposition 10, the California Children and Families First Act, which created the California Children and Families Program, known as First 5. There are 58 county First 5 commissions, as well as the State California and Families Commission (State Commission), which provide and direct early development programs for children through age five. A cigarette tax (50 cent per pack) is the primary funding mechanism, of which about 80 percent is allocated to the county commissions

²⁴ For more information on California's Race to the Top -- Early Learning Challenge Grant, please see the May 2013 Report to the Governor, the Legislature, and the Legislative Analyst's Office at <http://www.cde.ca.gov/sp/cd/rt/documents/rttelc2012legprpt.pdf>

²⁵ The Consortia includes the counties of Alameda, Contra Costa, El Dorado, Fresno, Los Angeles, Merced, Orange, Sacramento, San Diego, San Francisco, San Joaquin, Santa Barbara, Santa Clara, Santa Cruz, Ventura, and Yolo.

²⁶ The Consortia includes 17 members in the counties of Alameda, Contra Costa, El Dorado, Fresno, Los Angeles, Merced, Orange, Sacramento, San Diego, San Francisco, San Joaquin, Santa Barbara, Santa Clara, Santa Cruz, Ventura, and Yolo.

and 20 percent is allocated to the State Commission. According to the Legislative Analyst's Office, the tax generates approximately \$400 million annually.²⁷

Local School Districts. Local school districts have also made considerable investments in early childhood education. Many elementary schools have preschool programs and child care programs on site, such as Head Start, First 5 funded programs, or State Preschool. However, some programs are funded directly by school districts using other funds, including local property tax and parent fees. School districts have flexibility to use their funding streams on early childhood education. There are other funding mechanisms that can also be used to support early childhood education, such as:

- Title I federal funding, which is dedicated to improving the academic achievement of the disadvantaged,
- Federal special education funding,
- After School Educational and Safety (Proposition 49) state funding, including \$547 million for the budget year.

Community College Districts. There is also a small amount of funding allocated to the Community College Districts to support subsidized child care for students. The budget includes funding for the following programs:

- CalWORKs: \$9.2 million for subsidized child care for children of CalWORKs recipients.
- Cooperative Agencies Resources for Education (CARE): Administered by the State Chancellor's Office, CARE operates 113 programs in all 72 districts of the Community Colleges system. For fiscal year 2013-14, the program was allocated \$9.3 million to provide eligible students with supplemental support services designed to assist low-income single parents, around 6,432 students statewide in 2012-13, to succeed in college.²⁸
- Child Care Tax Bailout: This program was first established in 1978 to mitigate the effect of Proposition 13 on 25 community colleges that had previously dedicated local taxes to child care and development centers. This program was included in the categorical flex item with funding of \$3.4 million in the 2009-10 budget, but there has been no change to this program since that time.

Reductions during the Great Recession. 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.

²⁷ A February 24, 2014 analysis on AG File No. 14-0005 estimated that Proposition 10 generated estimated net revenue of \$469 million in 2012-13, <http://www.lao.ca.gov/ballot/2014/140042.aspx>.

²⁸ The Chancellor's Office temporarily suspended the Board of Governors-approved CARE allocations' funding formula, so each CARE program is awarded the same allocation received in the past four years. For more information about CARE's final allocations, please see <http://extranet.cccco.edu/Divisions/StudentServices/CARE/Allocations.aspx>

Recent Funding and Slot/Caseload Reductions to Child Care and Preschool Programs

(Dollars in Millions)

| Year Change | Reductions |
|--|---------------------------|
| 2009-10 | |
| Exemptions for Stage 1 families | \$69 |
| Eliminate Latchkey after school program | 27 |
| Technical/caseload adjustments | -14 ^a |
| Total Funding Reduction | \$82 |
| Total Slot/Caseload Reduction | 10,400 |
| 2010-11 | |
| Cap Title 5 provider reserves at 5 percent | \$83 |
| Reduce CalWORKs Stage 3 (Governor's veto) | 70 ^b |
| Reduce license-exempt rates from 90 percent to 80 percent of licensed rates | 31 |
| Reduce administrative payments from 19 percent to 17.5 percent of total contract amounts | 17 |
| Reduce some quality improvement activities | 6 |
| Technical/caseload adjustments | 83 |
| Total Funding Reduction | \$290 |
| Total Slot/Caseload Reduction | 35,200^c |
| 2011-12 | |
| Across-the-board cut of 11 percent ^d | \$177 |
| Reduce license-exempt rates from 80 percent to 60 percent of licensed rates | 68 |
| Lower income eligibility from 75 percent to 70 percent of state median income | 28 |
| Reduce or eliminate some quality improvement activities | 16 |
| Eliminate Centralized Eligibility List | 8 |
| Additional across-the-board cut of 4 percent ^d (midyear trigger cut) | 23 |
| Technical/caseload adjustments | 107 |
| Total Funding Reduction | \$427 |
| Total Slot/Caseload Reduction | 37,100 |
| 2012-13 | |
| Across-the-board cut of 9 percent ^{d,e} | \$130 |
| Institute family fees for part-day preschool | 3 |
| Technical/caseload adjustments | 52 |
| Total Funding Reduction | \$185 |
| Total Slot/Caseload Reduction | 27,300 |
| Total Funding Reduction | \$984 |
| Total Slot/Caseload Reduction | 110,000 |

^a Reflects net increase in funding, not reduction.

^b Governor originally vetoed \$256 million in CalWORKs Stage 3 funding. Legislature restored \$186 million.

^c Reductions primarily due to CalWORKs Stage 3 families not returning to the program after the veto.

^d Except for CalWORKs Stage 1 and Stage 2.

^e Alternate Payment Program was reduced by 18 percent.

Governor's 2015-16 Budget. The Governor's budget provides \$2.5 billion total funds (\$899 million federal funds; \$657 million Proposition 98 General Fund; and \$941 million non-Proposition 98 General Fund) for child care and early education programs. The budget reflects an overall increase in child care funding of \$101 million, attributed to changes in the cost of care in the CalWORKs programs, increases to the Regional Market Rate (RMR), and the inclusion of statutory growth and a cost-of-living adjustment (COLA) for specified programs. The table below provides the allocation amounts by program.

| Program | Governor's Budget (dollars in millions) |
|------------------------------|--|
| CalWORKs Child Care | |
| Stage 1 | \$362 |
| Stage 2 | \$349 |
| Stage 3 | \$264 |
| Subtotal | \$974 |
| Non-CalWORKs Programs | |
| General Child Care | \$574 |
| Alternative Payment | \$190 |
| Other | \$30 |
| State Preschool | \$657 |
| Totals | \$2,497 |

In addition, the budget includes the following:

- **Full-year funding for 4,000 full-day State Preschool slots.** The budget includes \$16 million in ongoing Proposition 98 to support a full year of additional full-day State Preschool slots²⁹ and \$9.2 million in Proposition 98 to provide COLA for some child care programs. Also, the budget maintains ongoing \$50 million quality grants for State Preschool, which are allocated on a competitive basis to local education agencies.
- **Full-year Regional Market Rate increase.** The 2014 Budget Act provided \$19.1 million to increase the RMR for the Alternative Payment Program and all three CalWORKs stages, starting January 1, 2015. The new RMR sets the maximum reimbursement rate at the 85th percentile of the 2009 regional market survey reduced by 10.11 percent. The budget annualizes the increase in reimbursement rates and provides \$27.7 million.
- **Growth and statutory COLA for the Alternative Payment, General Child Care, State Preschool, Migrant, and Handicapped Programs.** The Governor's budget includes an increase of \$9.2 million Proposition 98 General Fund and \$12.3 non-Proposition 98 General Fund to resume the COLA, which was suspended for programs from 2008-09 through 2014-15. The Governor's budget provides a 0.57 percent growth adjustment and a 1.58 percent COLA. For the Alternative Payment Program, the COLA increase is applied to the program's appropriation, but its use is unspecified (traditionally this increase has supported additional slots). Programs using the Standard

²⁹ SB 852 (Budget and Fiscal Review Committee), Chapter 25, Statutes of 2014; SB 858 (Budget and Fiscal Review Committee), Chapter 32, Statutes of 2014; and SB 876 (Budget and Fiscal Review), Chapter 687, Statutes of 2014, enacted several restoration and reinvestment slots for State Preschool, General Child Care, and Alternative Payment slots. For additional information about the components of the 2014 Budget Act, please see the "Child Care and Development" section in the Senate Budget and Fiscal Review Committee's Overview of the 2015 Budget Bill (Redbook), available here:

http://sbud.senate.ca.gov/sites/sbud.senate.ca.gov/files/overview/2015Overview2015_16Budget.pdf

Reimbursement Rate (General Child Care, State Preschool, Handicapped and some Migrant programs), are increased by the COLA.

- **Adjustments for CalWORKs Stage 2 and Stage 3.** The budget includes an overall year-to-year decrease of \$11.6 million for Stage 2 due to a decrease in caseload (4,988 fewer slots). Stage 3 funding increases \$38.6 million year-to-year due to increases in the average cost of care (independent from the RMR increase) and a slightly higher caseload (1,345 additional slots).
- **\$50 million for quality grants.** The Governor’s proposal maintains the ongoing \$50 million quality grants for State Preschool, which are allocated on a competitive basis to local education agencies.
- **Federal Child Care and Development Funds.** The budget includes a decrease of \$14.9 million federal funds to reflect a reduction in carryover funds.

FEDERAL CONSIDERATIONS

Child Care and Development Block Grant Reauthorization. On November 19, 2014, the President reauthorized the federal Child Care and Development Block Grant (CCDBG), which includes new requirements, such as annualizing licensing inspections; providing health and safety inspections for non-family license-exempt providers, allowing extended income eligibility; providing funding for child care quality activities; and, restructuring professional development for child care providers and staff.

Although the state may have several years to implement these changes, some policies and practices must be in place by October 2015. For example, CDE’s State Plan³⁰ for 2016-18 must be submitted to the Legislature for review by April 1, 2015 and implemented by October 2015. Pursuant to the reauthorization of CCDBG, the state must also document its level of compliance, and plans for compliance, with new federal requirements. There is question whether the federal block grant funds will be sufficient to meet new requirements and to maintain current service levels. The specific components and statutory changes that may need to occur to comply with the federal CCDBG will be discussed at a later hearing.

President’s Early Learning Initiative. On February 13, 2015, the President unveiled his Early Learning Initiative, which seeks to establish a continuum of high-quality early learning for a child, birth to age 5. The initiative includes the following components³¹:

- Provide high-quality preschool for low- and moderate-income four-year old children with high-quality preschool, while providing incentives for full-day kindergarten policies, as phased in over 10 years.

³⁰ Every three years, California must prepare and submit a plan detailing how Child Care and Development Fund funds will be allocated and expended.

³¹“ Fact Sheet President Obama’s Plan for Early Education for all Americans,” <http://www.whitehouse.gov/the-press-office/2013/02/13/fact-sheet-president-obama-s-plan-early-education-all-americans>; https://www.acf.hhs.gov/sites/default/files/occ/fact_sheet_president_obama_508.pdf?nocache=1365545777

- Invest in Early Head Start-Child Care partnership for infants and toddlers.
- Extend and expand in voluntary home visiting programs, which enable nurses, social workers, and other professionals to connect families to services and educational support that will improve a child’s health, development, and ability to learn.

In addition, his budget proposal includes an expansion of the Child and Dependent Care Tax Credit (CDCTC) for families with children under age five. The federal budget proposal triples the maximum credit available for families to \$3,000 per child and makes the full CDCTC available to families with incomes of up to \$120,000.³²

ON THE GROUND: INNOVATIONS, CHALLENGES. AND OPPORTUNITIES

Educare of California at Silicon Valley, Santa Clara County. Educare of California at Silicon Valley (ECSV) is a 501(c)3 organization that layers funding from, and partners with various entities, including but not limited to, the Santa Clara County Office of Education, David and Lucile Packard Foundation, FIRST 5 Santa Clara County, Franklin-McKinley School District, East Side Union High School District, Health Trust, Silicon Valley Leadership Group and the national Educare Learning Network. Under this model, a newly constructed \$13.1 million facility will open August 2015, to enroll 168 low-income children and families. The facility, which will operate on an annual \$4 million budget, includes a teacher professional development institute; 12 classrooms; indoor and outdoor learning spaces; a family resource center to provide training and resources for families and the greater community; and its Early Childhood Education Career Academy, in partnership with the East Side Union High School District, and De Anza College, to provide hands-on learning to high school students interested in a career in early childhood education with an opportunity to earn credits towards both high school graduation and a post-secondary credential. The facility will also include a Children’s Discovery Museum of San Jose (CDM) “satellite” at the new Educare preschool in the Franklin-McKinley School District.

Placer County Office of Education. The Early Childhood Education Department in Placer County Office of Education provides multiple programs targeted for early care and education for young children, families, and child care providers. Programs include: Alternative Payment Programs, CalWORKs child care, stipends for child care providers who attend college and ECE training, licensing orientation and recruitment and training; toy and resource lending library; training teachers in collaboration with Sierra College; and the Family Child Care Mentor Project, which provides mentoring and accreditation assistance. The Placer County Office of Education (COE), Early Childhood Education (ECE) Department achieves much of its work through public-private partnership, such as providing administrative, fiscal, and educational support to over 600 private child care providers. According to Placer COE, ECE Department, they serve around 2,000 children birth to eight years in Placer COE Early Learning Programs; serve 650 State Preschool and Head Start children; provide 43,424 USDA Child Care Food Program meals and snacks; hold 105 professional development workshops for teachers, parents, families, and providers; and hold around 500 contracts with child care providers and small business owners.³³

³² The Budget of the United State Government, FY 2016. *Office of Management and Budget*, February 2016. <http://www.whitehouse.gov/omb/budget/Overview>

³³ Placer County Office of Education: Early Childhood Education 2013-14 Annual Report.

March 4, 2015

Overview of California's Child Care and Development System

LEGISLATIVE ANALYST'S OFFICE

Presented to:
Senate Budget and Fiscal Review Committee
Hon. Mark Leno, Chair





Eligibility and Access

Subsidized Child Care Generally Designed for Low-Income, Working Families

- Families' incomes must be below 70 percent of state median income—\$42,000 for a family of three.
- Parents must be working or participating in an education or training program.
- Children must be under the age of 13.

Some Families Are Guaranteed Access to Subsidized Child Care

- All families currently participating in California Work Opportunity and Responsibility to Kids (CalWORKs) activities are guaranteed access to subsidized child care services if they meet the above requirements.
- Families that formerly participated in CalWORKs typically also are guaranteed subsidized child care services, as long as they continue to meet the above requirements.
- Only a portion of non-CalWORKs families receive subsidized child care. Waiting lists for these services are common.



Programs

State Provides Subsidized Child Care and Preschool Through a Variety of Programs

| Overview of State's Child Care and Preschool Programs | | |
|--|---|----------------------------------|
| <i>2014-15</i> | | |
| Program | Description | Estimated Number of Slots |
| CalWORKs Child Care | | |
| Stage 1 | Begins when a participant enters the CalWORKs program. | 38,000 |
| Stage 2 | Families are transitioned to Stage 2 when the county welfare department deems them stable. | 52,000 |
| Stage 3 | Families are transitioned to Stage 3 two years after they stop receiving cash aid. Families remain in Stage 3 for as long as they remain otherwise eligible for child care. | 35,000 |
| Subtotal | | (125,000) |
| Non-CalWORKs Child Care | | |
| General Child Care | Program for low-income, working families not affiliated with CalWORKs. (Includes "wrap-around" care for some part-day State Preschool participants.) | 51,000 |
| Alternative Payment | Another program for low-income, working families not affiliated with CalWORKs. | 27,000 |
| Migrant and Severely Handicapped | Programs targeted for specific populations of children. | 3,000 |
| Subtotal | | (81,000) |
| Preschool | | |
| State Preschool | Part-day, part-year preschool program for low-income families. | (149,000) |
| Total | | 355,000 |



Settings and Standards

Child Care Provided in One of Three Settings

- Centers
- Family child care homes (FCCH)
- License-exempt providers

Each Child Care Program Must Meet Certain Requirements

| Child Care Settings and Standards Vary by Program | | |
|--|---|---|
| Program | Settings | Standards |
| CalWORKs (all stages) | Centers, FCCH, license-exempt providers | <ul style="list-style-type: none"> • Centers and FCCH must meet health and safety requirements monitored by the state. License-exempt providers must self-certify that they meet modified health and safety standards. • Teachers in centers must hold Child Development Associate Credentials (or 12 units in ECE/CD). License-exempt and FCCH providers are not subject to credential requirements. |
| Alternative Payment | Centers, FCCH, license-exempt providers | <ul style="list-style-type: none"> • Same as for CalWORKs programs. |
| General Child Care | Centers and FCCH | <ul style="list-style-type: none"> • Must meet health and safety requirements monitored by the state. • Teachers must hold Child Development Permits. • Program must include developmentally appropriate activities (as defined in Title 5 regulations). |
| State Preschool | Centers and FCCH | <ul style="list-style-type: none"> • Same as for General Child Care programs. |
| Migrant and Severely Handicapped | Centers and FCCH | <ul style="list-style-type: none"> • Generally same as for General Child Care programs, with certain additional programmatic components specific to special populations of children served.^a |

^a A small portion of the Migrant child care program is subject to the same requirements as the Alternative Payment Program instead of the General Child Care program.
 FCCH = family child care home and ECE/CD = early childhood education/child development.



Administration and Funding

- Two State Agencies Administer Child Care Programs**
 - Department of Social Services administers CalWORKs Stage 1.
 - California Department of Education (CDE) administers all other programs.

- Programs Funded by a Combination of State and Federal Funds**

| Child Care and Preschool Budget | | | | | |
|--|-------------------|-----------------------|---------------------|---------------------|-----------|
| <i>(Dollars in Millions)</i> | | | | | |
| | 2013-14 Actual | 2014-15 Budget Act | 2015-16 Proposed | Change From 2014-15 | |
| | | | | Amount | Percent |
| Expenditures | | | | | |
| CalWORKs Child Care | | | | | |
| Stage 1 | \$337 | \$330 ^a | \$362 | \$32 | 10% |
| Stage 2 ^b | 367 | 355 | 349 | -6 | -2 |
| Stage 3 | 202 | 220 | 264 | 44 | 20 |
| Subtotals | (\$906) | (\$904) | (\$974) | (\$69) | (8%) |
| Non-CalWORKs Programs | | | | | |
| State Preschool | \$507 | \$664 | \$657 | -\$8 | -1% |
| General Child Care | 464 | 544 | 574 | 31 | 6 |
| Alternative Payment | 177 | 182 | 190 | 7 | 4 |
| Other child care | 28 | 29 | 30 | 1 | 2 |
| Subtotals | (\$1,176) | (\$1,420) | (\$1,450) | (\$31) | (2%) |
| Support Programs | \$74 | \$73 | \$73 | — | — |
| Totals | \$2,157 | \$2,397 | \$2,497 | \$101 | 4% |
| Funding | | | | | |
| Non-Proposition 98 General Fund | \$763 | \$809 | \$941 | \$133 | 16% |
| Proposition 98 General Fund | 507 | 664 | 657 | -8 | -1 |
| Federal CCDF | 556 | 570 | 555 | -15 | -3 |
| Federal TANF | 330 | 353 | 344 | -10 | -3 |

^a Reflects Department of Social Services' revised Stage 1 estimates for cost of care and caseload.
^b Does not include \$9.2 million provided to community colleges for Stage 2 child care.
 CCDF = Child Care and Development Fund and TANF = Temporary Assistance for Needy Families.



Payments to Providers

State Pays for Services Through Vouchers and Contracts

Vouchers

- Care provided through the three stages of CalWORKs child care and the Alternative Payment Program is reimbursed through vouchers.
- Reimbursement rates vary by county based on a Regional Market Rate (RMR) survey of licensed providers. Currently, the RMR is set at the 85th percentile of the 2009 RMR survey of provider rates deflated by 10 percent.
- The RMR represents the maximum amount the state will pay for care. If families choose providers that charge at or below the RMR, the state will pay the actual cost of care. If families choose providers that charge above the RMR, the families must pay the difference.
- The maximum monthly RMR for full-day care for a four year-old child ranges from \$710 in Kings County to \$1,124 in Marin County.

Contracts

- Care provided through General Child Care, Migrant and Handicapped child care, and State Preschool is reimbursed through contracts with CDE. Providers are reimbursed based on the number of children they serve.
- Providers are reimbursed based on a Standard Reimbursement Rate (SRR). The SRR is the same across the state.
- The monthly SRR for full-day care for a four year-old child is \$752.



Notable Reductions During Recession



Between 2008-09 and 2012-13, Child Care and Preschool Programs Experienced Notable Reductions

- Overall funding for child care and preschool programs decreased by \$984 million (31 percent).
- About one-quarter of slots were eliminated (approximately 110,000 slots across all programs).



In Addition to Eliminating Slots, the State Implemented Certain Policies to Achieve Budgetary Savings, Including:

- Instituting work exemptions for CalWORKs participants with very young children.
- Reducing the RMR for license-exempt providers from 90 percent to 60 percent of licensed rates.
- Maintaining the RMR and SRR at 2005 and 2007 levels, respectively.
- Lowering income eligibility thresholds from 75 percent to 70 percent of state median income.
- Reducing payments to administrative agencies from 19 percent to 17.5 percent of total contract amounts.
- Implementing parent fees for part-day State Preschool services.



Recent Augmentations

2014-15 Budget Act Included Augmentations for Child Care and Preschool Programs.

- \$128 million for additional slots.
- \$85 million for quality improvement activities and facilities.
- \$68 million for increasing provider rates.

| Major 2014-15 Child Care and Preschool Spending Changes | |
|---|---------------|
| <i>(In Millions)</i> | |
| Change | Amount |
| Provide 7,500 additional full-year, full-day State Preschool slots ^a | \$70 |
| Provide quality improvement grants for State Preschool | 50 |
| Increase the SRR by 5 percent | 49 |
| Caseload adjustments ^b | 26 |
| Fund quality improvement activities (one time) | 25 |
| Increase the RMR by 9 percent ^c | 19 |
| Repeal part-day State Preschool fees and backfill foregone revenue | 15 |
| Provide 1,000 additional General Child Care slots | 13 |
| Provide additional facilities loans for State Preschool (one time) | 10 |
| Provide 500 additional Alternative Payment Program slots | 4 |
| Totals | \$281 |

^a Includes funding for an additional 4,000 full-day slots beginning June 15, 2015.
^b Includes CalWORKs caseload changes and higher per-child costs as well as 0.5 percent statutory growth for State Preschool, General Child Care, and Alternative Payment Program.
^c The weighted average increase in the RMR is 9 percent. Actual increases vary by county and provider type. Rate increase began January 1, 2015.
 SRR = standard reimbursement rate and RMR = regional market rate.



Assessment of Current System



Strengths

- Some families have choice among child care providers.
- Some programs include developmentally appropriate activities.



Weaknesses

- Families have differing levels of access to subsidized child care.
- Families have differing levels of choice among child care providers.
- Families receive care with different developmental standards.
- State reimburses some child care providers subject to lower standards at higher rates.



EARLY EDUCATION & SUPPORT DIVISION FUNDING FACT SHEET

Timelines for release of funding for initiatives authorized through the Budget Act of 2014–15.

1. Restoration of 7,500 full-day/full-year slots in existing California State Preschool Programs (CSPP).

- All requests were funded
 - 6,185 Full Day Slots + 4,112 Part Day Slots = 10,297 Total Slots
 - Children and families began receiving services on or before October 1, 2014
-

2. Restoration of 1,000 Slots in existing General Child Care Programs (CCTR).

- Priority for Infants and Toddlers¹
 - 49 percent of requests were funded.
 - Eight of the 53 agencies awarded CCTR restoration funds operate Family Child Care Home Education Networks (FCCHEN).
 - A total of 1,346 additional infant/toddler slots were made available.
 - 1,409 slots requested were not funded because available funding was exhausted.
 - Children and families began receiving services as early as December 1, 2014.
-

3. Increase capacity of the CSPP by providing 4,000 additional slots in new or existing programs.

- 137 applications have been read and scored.
- Score notifications with appeal instructions have been sent to all applicants.
- Appeals due to the CDE no later than March 20, 2015.
- Funding awards to be announced in April 2015.

¹ An additional \$4.9 million in available funding was leveraged to support an extra 346 slots.

- Children and families will begin receiving services in July 2015.

4. Facilities and Renovation/Repair loans will be made available on an ongoing basis.

- Funding opportunity for Facilities Loans was posted in December 2014.
 - As of January 10, 2015, the total loan requested is \$630,000.
 - The RFA for the Renovation and Repair Loan program will be released in February 2015.
-

5. \$50 Million Quality Rating Improvement System Grants provided to support CSPP.

- Priority 1 grants awarded. All 16 applicants were funded.
- Award of funding announcements for Priority 2 Spring 2015.