Senate Budget and Fiscal Review—Holly Mitchell, Chair

JOINT HEARING SUBCOMMITTEES No. 1 and 3

Subcommittee No. 1
Senator Anthony Portantino, Chair
Senator Hannah-Beth Jackson
Senator John M. W. Moorlach

Subcommittee No. 3
Senator Richard Pan, Chair
Senator William M. Monning
Senator Jeff Stone

Thursday, April 5, 2018
9:30 a.m. or upon adjournment of session
State Capitol - Room 4203

Consultant: Elisa Wynne

Item	**Department**
6100	**Department of Education**
5180	**Department of Social Services**

6100 DEPARTMENT OF EDUCATION
5180 DEPARTMENT OF SOCIAL SERVICES

Child Care and Early Education Background Information

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.

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). In the past, the Legislature has 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 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 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 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 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. Since July 1, 2017, the standard reimbursement rate (SRR) is $45.44 per child per day of enrollment.

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 1 and 2), 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 is now 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 receive General Fund through the General Child Care program to support wrap-around care. In contrast, transitional kindergarten, is funded with Proposition 98 funds through the Local Control Funding Formula (LCFF) based on Average Daily Attendance (ADA). A local district receives the same per ADA funding for a transitional kindergarten student as for a kindergarten student.

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.

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. During this time, the state also froze provider rates, cut license-exempt provider payments, and lowered income eligibility for families. Since 2013, the state has invested a total of $1.2 billion into child care and early education

($600.8 million non-Proposition 98 General Fund and $600 million Proposition 98 General Fund). These increases are a combination of increased provider rates, increased child care and state preschool slots and access, and investments in the quality of programs. The summary of subsidized slots provided in the system is displayed below.

Child Care and Preschool Subsidized Slots

	2016-17 Revised[a]	2017-18 Revised[a]	2018-19 Proposed	Change from 2017-18	
				Amount	Percent
CalWORKs Child Care					
Stage 1	40,949	38,795	38,760	-35	-0.1%
Stage 2[b]	51,083	52,913	53,840	927	1.8%
Stage 3	34,770	33,516	36,089	2,573	7.7%
Subtotals	**(126,802)**	**(125,224)**	**(128,689)**	**(3,465)**	**(2.8%)**
Non-CalWORKs Child Care					
General Child Care[c]	28,737	28,563	28,427	-136	-0.5%
Alternative Payment Program	30,614	29,804	31,997	2,192	7.4%
Migrant Child Care	3,064	3,046	3,037	-9	-0.3%
Care for Children with Severe Disabilities	104	106	103	-3	-3.1%
Subtotals	**(62,519)**	**(61,519)**	**(63,564)**	**(2,045)**	**(3.3%)**
Preschool					
State Preschool–part day	101,598	101,101	102,721	1,620	1.6%
State Preschool–full day	62,005	64,528	66,599	2,071	3.2%
Transitional Kindergarten	82,580	82,596	82,357	-239	-0.3%
Subtotals	**(246,183)**	**(248,226)**	**(251,677)**	**(3,452)**	**(1.4%)**
Totals	**435,504**	**434,968**	**443,930**	**8,961**	**2.1%**

Source: LAO

Note: Generally derived based on budget appropriation and annual average rate per child. Except where noted, 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. For Transitional Kindergarten, reflects preliminary estimates, as enrollment data not yet publicly available for any year of the period. Table does not include slots funded through emergency bridge program for foster children.

[a] Reflects actuals for all stages of CalWORKs in 2016-17 and updated DSS estimates for Stage 1 in 2017-18.

[b] Does not include certain community college child care slots (1,300 to 1,800 slots annually).

[c] State Preschool wraparound slots for non-LEAs (funded by General Child Care) are shown in State Preschool–full day.

DSS = Department of Social Services. DOF = Department of Finance. LEAs = local education agencies.

Issue 1: Governor's Budget Funding Proposals

Panel:
- Sara Cortez, Legislative Analyst's Office
- Brianna Bruns, Department of Finance
- Debra Brown, Department of Education

Background:

The 2016 Budget Act included the first year of a multi-year increase in early childhood education programs, including increased provider reimbursement rates and additional slots for the California State Preschool Program. The agreement includes a total investment of an ongoing $527 million by 2019-20. In addition, $53 million in one-time funding was included to hold-harmless for two years (2016-17 and 2017-18), providers whose payments would otherwise be negatively impacted by the use of an updated 2014 RMR survey in the calculation of rates. These increases were generally designed to keep pace with increases to the state's minimum wage.

In 2016-17 and 2017-18, the following changes were made:

- An increase of the Standard Reimbursement Rate (SRR), paid to center-based care and preschools by 10 percent beginning January 1, 2017 and increase of the rate by an additional six percent, beginning July 1, 2017.

- An increase to the regional market rate (RMR) for voucher-based child care to the 75th percentile of the 2014 survey for that region, or at the RMR for that region as it existed on December 31, 2016, whichever is greater, beginning January 1, 2017. The 2017 budget act updated the RMR to the 75th percentile of the 2016 RMR survey effective July 1, 2017. This includes a temporary hold harmless provision so no provider receives less in 2017-18 than it receives under current rates (through December, 2018).

- License-exempt rates were increased from 65 percent to 70 percent of the Family Child Care Home rate beginning January 1, 2017.

- Expanded preschool by 8,877 full-day preschool slots over three years (2,959 added each year).

The 2017 budget act also amended income eligibility rules to use the most recent calculation of state median income, based on census data and adjusted for family size, for determining initial and ongoing eligibility for subsidized child care services. In addition, the 2017 budget agreement specified that families who meet eligibility and need requirements for subsidized child care services shall receive services for not less than 12 months, and makes related changes.

Governor's Budget Proposal:

The Governor's proposed child care and early education budget includes increases that total approximately $400 million, for a total of $4.4 billion in state and federal funds. This reflects an increase of nine percent from 2017-18. Major changes are described below:

The Governor proposes $60.7 million ($32.3 million non-Proposition 98 General Fund and $28.4 million Proposition 98 General Fund) to fund the full-year costs of rate and slot increases implemented midway in 2017-18 related to the 2016-17 agreement and other policy changes made in 2017-18, such as enactment of the emergency child care bridge program. Finally, the budget proposes $8 million for an additional 2,959 full-day Preschool slots beginning April 1, 2019.

In addition the Governor proposes approximately $14 million in the budget year and $34.2 million in future years to make the RMR hold harmless provision permanent (under current law the provision would expire December 31, 2018).

The Governor also proposes $31.6 million in Proposition 98 General Fund and $16.1 million in non-Proposition 98 General Fund to increase the SRR by approximately 2.8 percent.

The Governor includes $50 million for a 2.51 percent cost-of-living adjustment for non-CalWORKs child care and state preschool programs and decreases slots by $9 million to reflect a decrease in the birth to age four population.

The Governor proposes several adjustments to reflect changes in the CalWORKs child care caseload and cost of care, totaling a $4 million increase in Stage 1, a $16 million decrease in Stage 2, and a $12 million increase in Stage 3.

Finally, the Governor also includes an increase of $41 million (for a total of $779 million Proposition 98 General Fund) for Transitional Kindergarten, reflecting ADA growth and cost-of-living adjustments. This funding is included within LCFF totals as discussed in previous subcommittee hearings.

2018-19 Child Care and Early Education Budget Changes

(in Millions)	General Fund			
Change	**Prop. 98**	**Non-Prop. 98**	**Federal Funds**	**Total**
Reimbursement Rates				
Provide 2.51 percent COLA to certain child care and preschool programs	$28	$22	—	$50
Increase Standard Reiumbursment Rate (SRR) 2.8 percent starting July 1, 2018	$32	$16	—	$48
Annualize Regional Market Rate (RMR) increase initiated January 1, 2018	—	$20	$4	$24
Permanently extend RMR hold harmless provision[a]	—	$13	$1	$14
Subtotals	**($59)**	**($71)**	**($5)**	**($136)**
Caseload and Cost of Care				
Annualize cost of State Preschool slots initiated April 1, 2018	$19	—	—	$19
Provide 2,959 full-day State Preschool slots at LEAs starting April 1, 2019	$8	—	—	$8
Make CalWORKs caseload and average cost of care adjustments	—	$6	-$6	—
Reduce non-CalWORKs slots by 0.48 percent[c]	-$5	-$4		-$9
Subtotals	**($22)**	**($2)**	**-($6)**	**($19)**
Other				
Fund one-time early education expansion grants	$125	—	$42	$167
Adjust Transitional Kindergarten for increases in attendance and LCFF funding rate	$41	—	$0	$41
Provide one-time increase to quailty services	—	—	$9	$9
Annualize funding for bridge program for foster children initiated January 1, 2018	—	$15	$5	$20
Replace federal funds with state funds (accounting adjustment)	—	$59	-$59	—
Make other technical adjustments	$9	-$2	—	$7
Subtotals	**($175)**	**($73)**	**-($4)**	**($244)**
Totals	**$257**	**$146**	**-$4**	**$399**

Source: Legislative Analyst's Office

a Under current law, the RMR hold harmless provision expires December 31, 2018. Preliminary LAO estimate of Stage 1 CalWORKs hold harmless costs.

b Less than $500,000.

c Reflects statutory adjustment based on the projected decrease in the birth-through-four population.

LAO Analysis:

The LAO generally has no concerns with the increases included in the Governor's budget proposal for early care and education that are related to increasing rates and slots and other changes in accordance with the multi-year agreement from 2016-17 and policy changes agreed to in the 2017-18 budget.

The LAO notes that LEAs provide about two-thirds of all State Preschool slots and non-LEAs, typically nonprofit agencies, provide the other one-third. Because of the differences in funding (LEAs receive Proposition 98 funds for State Preschool and wrap care to provide a full day of care, whereas non-LEAs receive General Fund for the wrap portion of the care), slots are not offered or taken up at the same rate by LEAs and non-LEAs. With the addition of slots over the past few years, the CDE has had to run multiple rounds of applications, offering full-day slots first to LEAs and only to non-LEAs in the second or third rounds. As a result, the LAO recommends the Legislature shift all of the non-LEA wrap care into Proposition 98 to fund all State Preschool programs similarly and offer slots to all interested providers, both LEAs and non-LEAs.

The LAO also notes that the Governor's proposal to make the hold harmless for RMR providers permanent perpetuates inequities in access and reimbursement rates across the state, by allowing families in some areas of the state to access a greater percentage of providers in their area than families in other areas of the state. As a result, the LAO recommends rejecting the Governor's proposal and allowing the hold harmless provisions to expire at the end of 2018. The LAO also notes that the $14 million saved by rejecting the proposal could be used to provide 1,500 additional Alternative Payment slots.

The LAO's analysis of the Inclusive Early Education Planning Grant proposal is discussed in Issue 3 later in this agenda.

Staff Comments:

Staff notes that as mentioned in the background piece included in the agenda, the recently passed federal appropriations bill (March 2018) included an increase of almost $2.37 billion in total for the Child Care and Development Block Grant. According to the CDE, California generally can expect to receive around ten percent of this increase or approximately $237 million. Authorization for expenditure of new federal funds is not included in the Governor's budget due to timing. In Issue 5, CDE will update the subcommittee on the new funding, the timing for receiving funds, and the determination of the use of funds.

Suggested Questions:

- Can the CDE provide an update on the utilization of state preschool slots? How does the CDE plan to release the additional slots? Has there been feedback from the field, particularly LEAs on whether they will be able to take these slots?

Staff Recommendation. Hold Open.

Issue 2: Licensing Flexibility

Panel:
- Edgar Cabral, Legislative Analyst's Office
- Brianna Bruns, Department of Finance
- Debra Brown, Department of Education

Background:

State Preschool programs must be licensed and follow the Community Care Licensing (CCL) health and safety standards under the Department of Social Services (DSS), known as Title 22 regulations. Some of these licensing requirements include that classrooms are clean and sanitary, children are constantly supervised, teachers are vaccinated and trained in first aid and medication, and cleaning supplies are stored out of reach. The CCL division visit sites every three years to monitor compliance. Any complaints of violation are filed with the CCL, and the CCL must visit the facility within 10 days. State Preschool programs are also required to complete an environmental rating scale every three years, known as the Early Childhood Environment Rating Scale (ECERS), and are required to achieve a minimum score of "good" in each area.

State Preschool providers must also meet developmental standards, often referred to as Title 5, that include health, safety, and programmatic requirements. Title 5 requirements are monitored by the Department of Education (CDE). Under this monitoring, providers conduct annual self-evaluations, and the CDE conducts monitoring visits every three years. In addition, State Preschool providers are subject to the K-12 Uniform Complaint Procedure (UCP) process for Title 5 requirements. Under UCP, an LEA must investigate a complaint and issue a decision within 60 days.

In the 2017-18 Governor's budget, the Administration proposed to exempt state preschool programs from Title 22 licensing requirements if they operate in K-12 buildings that meet K-12 building standards. Programs would still be subject to Title 5 requirements. The 2017 Budget act ultimately included language that adopted this proposal beginning in July 2019. However, trailer bill language also required the Legislative Analyst's Office (LAO) to convene a stakeholder working group to discuss whether additional statute or regulations are necessary to ensure that state preschool programs would still meet basic health and safety standards under the exemption. Specifically the group was asked to address, but not limited to: 1) outdoor shade structures, 2) access to age-appropriate bathroom and drinking water facilities, and 3) processes for parent notifications and resolution of violations. The LAO was required to report back to the Legislature on the group's findings by March 15, 2018.

LAO Report and Analysis:

In their recent publication, *The 2018-19 Budget: Proposition 98 Education Analysis*, the LAO reported back on the stakeholder group's recommendations. The group recommended that the following new requirements are added to Title 5 standards:

- Providers must have outdoor shade that is safe and in good repair.
- Drinking water must be accessible and readily available throughout the day.

- Facilities must have one toilet and handwashing fixture for every 15 children. Facilities must be safe and sanitary.
- Restrooms must only be available for preschoolers and kindergartners.
- Staff must maintain visual supervision of children.
- Indoor and outdoor space must be properly contained or fenced and provide sufficient space for the number of children using the space at any given time. Playground equipment must be safe, in good repair, and age appropriate.

The stakeholder group also recommended that the existing UCP process be used to address complaints involving preschool health and safety issues with timelines similar to those of *Williams* complaints. This would allow members of the public to submit complaints anonymously, require complaints to be resolved within 30 days, and require complainants to be notified of a decision within 45 days. The group also recommended requiring LEAs to begin investigating complaints within 10 days of submittal. In addition, the stakeholder group recommended requiring LEAs to post in each State Preschool classroom information regarding health and safety standards and the process for filing a complaint.

The LAO notes that the stakeholder group recommendations are reasonable, and that adding a small fraction of existing Title 22 requirements to Title 5 would still meet the intent of providing significant flexibility to LEAs. The LAO also believes that the use of the UCP process, with similar requirements as the *Williams* UCP process is a reasonable approach. The LAO does note that the CDE may face some additional one-time workload increases related to developing new regulations and guidance if the stakeholder recommendations are adopted. In addition, the CCL division at DSS may experience some workload decreases and the LAO recommends staffing levels are monitored over the next few years.

One additional issue that was raised during the workgroup discussions is that there is a lack of clarity under the flexibility provisions in law in regards to which LEAs would be exempt from licensing requirements. Specifically, state law is not clear on whether preschool classrooms, funded through a combination of State Preschool and other sources (for example, federal Head Start or fees from private-pay families) are exempt from licensing. The LAO did not provide a recommendation, but notes that Legislature could clarify that flexibility is provided for a mixed funding classroom that serves at least one State Preschool student, or limit the exemption to only classes fully supported by State Preschool funds.

Suggested Questions:

- What is the process for the CDE to move forward with regulations related to this issue?

- Does CDE or DOF have a recommendation on clarifying the law in regards to mixed funding classrooms?

Staff Recommendation: Hold Open.

Issue 3: Inclusive Early Education Grant

Panel:

- Sara Cortez, Legislative Analyst's Office
- Brianna Bruns, Department of Finance
- Debra Brown, Department of Education

Background:

Subsidized child care and preschool are available for families who meet income qualifications, and transitional kindergarten is available for families regardless of income level. While there may be multiple options for children between the ages of three and five between the various programs, care for infants and toddlers in particular may be more difficult to find given the additional staffing and facilities requirements.

Children with disabilities may be served through the state's subsidized child care or State Preschool programs. From birth through age two, children with exceptional needs generally receive support through regional developmental centers or sometimes through local educational agencies (LEAs). This support may be a full-day program or a targeted intervention that a child would be provided on a regular basis with families potentially also utilizing mainstream options for child care. When children with disabilities turn three years of age, they are able to participate in programs provided by their LEA either through special day programs, generally for more intensive support, or with targeted support such as speech therapy. For children ages three through five with identified special needs, 39 percent are served in mainstream programs, 34 percent are served in special day classes, 13 percent split their time between mainstream and special day classes, and 14 percent receive targeted therapy or home visits. Providers who serve children with special needs do so at a higher reimbursement rate, an adjustment factor to the rate of 1.2 for children with exceptional needs, and 1.5 for severely disabled children.

Child Care Facilities Revolving Fund (CCFRF). The CCFRF is an existing program that provides interest-free loans to child care providers to be repaid over an up to ten-year period. Loans are available for the purchase of new facilities or the upgrading of additional facilities. While the fund balance can fluctuate as a result of loans being paid back at any one time, according to the CDE, the CCFRF began 2016–17 with an initial available fund balance of $26.6 million. In 2016–17 the CDE received zero new applications for funding under the CCFRF. In reaching out to providers, the CDE identified the following factors that contribute to a lack of applicants: the SRR is too low such that contractors cannot afford to pay back a loan; land is unavailable, even on LEA campuses; and the Maximum Funding Allowance (MFA) is too low ($210,000). In 2016–17, the CDE increased the MFA from $210,000 to $420,000.

Governor's Budget Proposal:

The Governor proposes to provide a total of $167 million in one-time funding ($125 million Proposition 98 funding and $42 million federal TANF funding). These funds would be available for competitive grants to LEAs and non-LEAs to increase the availability of inclusive early care and education settings for children from birth to five years old in low-income and high-need communities. Grantees must provide a one dollar match, which may include in-kind contributions, for every two dollars received from the grant. Grants may be used for one-time infrastructure costs, including, but not limited to adaptive facility renovations, adaptive equipment, and professional development. Grantees must quantify the number of additional subsidized children to be served, include a plan to sustain spaces or programs past the grant period, and include a set-aside of resources to invest in professional development in effective inclusive practices and fiscal sustainability. Proposition 98 funds would be available for LEAs, although LEAs are permitted to apply on behalf of a consortium of providers within the LEA's program area, including those providers who serve this population on behalf of the LEA.

LAO Analysis:

The LAO's recent publication, *The 2018-19 Budget: Proposition 98 Education Analysis,* notes that the Governor's proposal may not address the ongoing issues of improving outcomes for students with exceptional needs. They do comment that to the extent child care and preschool providers do not feel able to address the needs of children with exceptional needs, professional development may help, however with high staff turnover in the field in general, one-time funding may not address the need. The LAO therefore recommends rejecting the Governor's proposal.

The LAO also notes that to the extent that the Legislature would like to increase professional development, existing quality improvement funds could be reallocated to prioritize special education-related training (either for providers already serving children with exceptional needs in mainstream settings or those who agree to increase the number served in these settings). In addition, the Legislature could provide more ongoing funding for this type of professional development.

Finally, the LAO notes that the Legislature could use the existing CCFRF program to expand access to loans and or grants to include renovations that would make spaces more accessible to children with exceptional needs.

Staff Comments:

Focusing on ensuring that children from zero to five with exceptional needs have access to inclusive early care and education settings is a worthy goal. However there are many dimensions to this issue. Stakeholders note that there are not enough infant and toddler slots in general across the state, and providers may be reluctant to add more slot for this population based on the rates (cost of care for infants and toddlers is high) and need for special facilities. There may also be additional barriers to making sure children with exceptional needs can access care. This proposal appears to try to address a variety of issues, without focusing on solving any particular one. If the goal is to increase access for all children age zero to five, the state could add additional slots (particularly in the child care area as preschool slots have increased over the last few years), increase rates for infants and toddlers and children with exceptional needs, and develop or increases sources of funding for facility and professional development needs. If the goal is to focus on increasing the numbers of children with exceptional needs in mainstream settings, the grants could be more specific such that they require an increase in serving children with exceptional needs. These are one-time funds and staff appreciates the proposal to use one-time funds for one-time purposes, but this would be better paired with some ongoing investments to address some of the issues this proposal raises that would help to sustain the benefits of the one-time investments.

Staff also notes that there have been some questions over the ability to use TANF funds for facilities. The DOF notes they are looking at TANF regulations and guidance to ensure the proposal meets the allowable use of these funds.

Suggested Questions:

- How does the DOF proposal ensure that additional children with exceptional needs are served under this proposal?

- What is the target provider population? With most of the funding being Proposition 98, do we anticipate LEAs will apply mostly on behalf of State Preschool Programs?

- Has the DOF considered changes to the CCFRF program to supplement their proposal? Does the CDE have a suggestion on how to increase the uptake of the CCFRF program moving forward?

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Staff Recommendation: Hold Open.

Issue 4: CalWORKs Participation Update

Panel:

- Kim Johnson, Branch Chief, Child Care and Refugee Program, Department of Social Services

Background:

CalWORKs child care seeks to help a family transition smoothly from the immediate, short-term child care needed as the parent starts work or work activities, to stable, long-term child care. CalWORKs Stage 1 is administered by the county welfare departments; Stages 2 and 3 are administered by Alternative Payment (AP) Program agencies under contract with CDE. The three stages of CalWORKs child care are defined as follows:

- Stage 1 begins with a family's entry into the CalWORKs program. Clients leave Stage 1 after six months or when their situation is “stable,” and when there is a slot available in Stage 2 or 3.

- Stage 2 begins after six months or after a recipient's work or work activity has stabilized, or when the family is transitioning off of aid. Clients may continue to receive child care in Stage 2 up to two years after they are no longer eligible for aid.

- Stage 3 begins when a funded space is available and when the client has acquired the 24 months of child care after transitioning off of aid (for former CalWORKs recipients).

Historically, caseload projections have generally been funded for Stages 1, 2, and 3 in their entirety – although Stage 3 is not technically an entitlement or caseload-driven program.

CalWORKs Stage 1 Participation

Child care in Stage 1 is provided both to families working and those who are participating in Welfare-to-Work (WTW) activities. Participation in these programs decreased significantly during the recession as program policies shifted, and since this time enrollment has slowly increased, but is not back to pre-recession levels. See the below table for the most recent summary of the participation of families in Stage 1 child care. The increase in 2015-16 is partially due to a change in the way data is collected.

CalWORKs Stage 1 Child Care Participation Rates

Year	Cases Participating in a WTW Activity with an Age Eligible Child (under 13 years old)[1]	Stage One Families[2]	Stage One Participation Rate [3]	CDE TANF Families[4]	Child Care Participation Rate[5] (CDSS and CDE TANF Families)
FY 2013-14	78,711	17,303	22%	18,071	45%
FY 2014-15	80,865	17,555	22%	19,371	46%
FY 2015-16	75,310	20,526	27%	18,566	52%
FY 2016-17	62,751	18,041	29%	17,927	57%

1 Based on the Unduplicated Count from the WTW 25 report. Excludes cases exempt from WTW participation. These cases are participating in a WTW activity and have a need for Child Care (WTW 25A data not included). The number of adults participating in a WTW activity that have an age eligible child is calculated using the total number of cases participating in a WTW activity multiplied by the percentage of families with age eligible children based on FY 2016-17 MEDS data. This is adjusted to deduct cases of Two-Parent families in which the one parent is participating while the second parent is expected to provide care.

2 Stage One families: excludes Safety Net or No Longer Aided families and Two-Parent families (CW 115A data not included)

3 Participation Rate was calculated by taking total number of Stage One families divided by the number of adults participating in a WTW activity with an age eligible child. This is not adjusted for cases who do not need care, for example, school-aged children who do not need care due to school schedule. This is adjusted to deduct cases of Two-Parent families in which the one parent is participating while the second parent is expected to provide care. This methodology does not account for families participating across multiple child care programs.

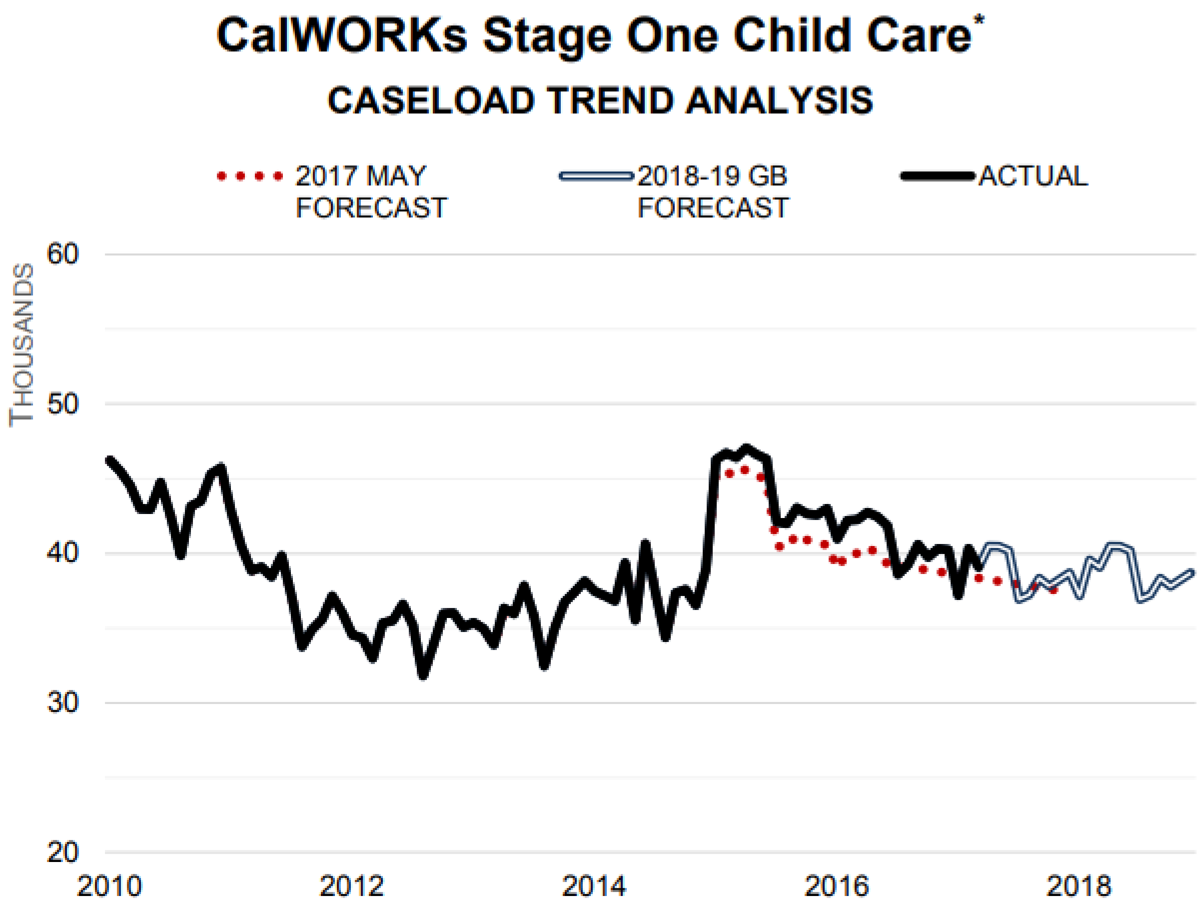
4 The specified monthly average of CDE Child Care program cases that are receiving TANF. This includes CalWORKs Stage 2, CalWORKs Stage 3, California Alternative Payment Program, California Resource and Referral Program, California Migrant Alternative Payment, California General Migrant Child Care, California Family Child Care Homes, California Severely Handicapped, California Center-Based Child Care, and California State Preschool Program. The percentage of TANF Two-Parent families is assumed to mirror the percentage of Stage One Two-Parent cases as the Two-Parent family breakdown is unavailable from CDE. The percentage calculated was deducted from the total TANF Child Care Families population to calculate the cases of TANF All Families cases.

5 Participation Rate was calculated by taking total number of Stage One families and CDE Child Care TANF families, divided by the number of adults participating in a WTW activity with an age eligible child. This is not adjusted for cases who do not need care, for example, school-aged children who do not need care due to school schedule. This is adjusted to deduct cases of Two-Parent families in which the one parent is participating while the second parent is expected to provide care. This methodology does not account for families participating across multiple child care programs.

NOTE: This table displays one methodology for determining the child care participation rate based on WTW cases with age eligible children, excluding Two Parent cases. The participation rates in the table may represent a different rate than what the counties are tracking. Additional child care programs, such as; Early Head Start & Head Start Programs, after school programs, locally funded subsidies, transitional kindergarten, are not included in the above chart.

Source: DSS

In response to ongoing concerns, DSS has been working to increase understanding of CalWORKs Stage 1 caseload and the processes of counties as they qualify families for Stage 1 child care and transition eligible families to Stage 2 child care. DSS updated their data system as of July 1, 2015, to collect information on the actual number of children receiving care, whereas the prior system collected payment information quarterly, which limited the ability of the department to track care provided accurately across the year.



Source: Department of Social Services
*Note: The spike in 2015 reflects a shift in data collection rather than an actual increase in caseload.

DSS is also analyzing data in greater depth for CalWORKs Stage 1 and notes that approximately 82 percent of children in CalWORKs are older than age two, meaning they are eligible for a variety of other state and federal child care and education programs. DSS staff has continued to conduct a series of site visits to counties to observe processes and practices in providing CalWORKs child care. DSS notes that 22 site visits or phone conferences have been conducted at the following counties: Alameda, Contra Costa, El Dorado, Fresno, Kings, Lake, Los Angeles, Marin, Mendocino, Orange, Placer, Sacramento, San Benito, San Bernardino, San Diego, San Francisco, San Joaquin, San Mateo, Siskiyou, Stanislaus, Yolo, and Tuolumne. DSS continues to do this type of outreach to follow-up and provide training related to a DSS All County Notice released last year that addressed best practices around access, enrollment, funding, and transferring of care.

Suggested Questions:

- What information did DSS gather from site visits with counties? Are best practices wide-spread? What are the most common areas of growth for counties?

- What data is available on where families with Stage 1 child care eligible children are being served, if not through CalWORKs child care?

Staff Recommendation: Information Only.

Issue 5: Child Care and Development Block Grant and Quality Investments

Panel:

- Debra Brown, Department of Education

Background:

The federal Child Care and Development Block Grant (CCDBG) supports subsidized child care programs, direct service, and alternative payment contract types, including CalWORKs Stage 3 and General Child Care. In 2017-18, California received $617.4 million in CCDBG funding. On November 19, 2014, President Obama reauthorized the CCDBG. Some of the provisions of the reauthorized CCDBG include: annual monitoring inspections of both licensed and license-exempt providers; implementing 12-month eligibility for children in subsidized child care; increasing the Regional Market Rate to the reimbursement ceilings identified in the most recent market rate survey; increasing opportunities for professional development; adding topics to health and safety trainings; and creating a disaster preparedness plan.

The recently passed federal appropriations bill (March 2018) included an increase of almost $2.37 billion in total for the CCDBG. According to the CDE, California generally can expect to receive around ten percent of this increase or approximately $237 million. Authorization for expenditure of new federal funds is not included in the Governor's Budget due to timing.

State Plan. Each state must complete a triennial Child Care Development Fund (CCDF) State Plan, which describes how requirements are met, or the process by which states plan to meet the requirements. The submission deadline for the final CCDF State Plan Fiscal Year (FY) 2019–21 is June 30, 2018 to the federal government. Currently CDE is engaging in a stakeholder process to collect input for this next version of the state plan. CCDBG required state plans to document the level of compliance with, and plans for compliance with, new federal requirements. California's 2016-18 CCDF plan noted many areas that had not been fully implemented in California.

Examples of policy changes. Numerous policy changes included in the reauthorization pose significant potential policy shifts and budgetary action, including:

- Regional Market Rate (RMR) Survey. All states must conduct a statistically valid and reliable survey of the market rates for child care services every two years that reflects variations in the cost of child care services by geographic area, type of provider, and age of child. States must demonstrate how they will set payment rates for child care services in accordance with the results of the market rate survey. As of the 2018 budget act, the RMR is set to the 75th percentile of the 2016 RMR survey.

- Annual Monitoring Inspections. In California, the Department of Social Services Community Care Licensing (CCL) issues licenses for child care facilities. Many providers are license-exempt, such as neighbors, kith, or kin. The CCDBG reauthorization requires that licensed providers and facilities paid for with CCDF funds must receive at least one pre-licensure inspection for compliance with health, safety, and fire standards, as well as annual unannounced inspections of each child care provider and facility in the state for compliance with all child care licensing standards. Non-relative license-exempt providers and facilities must have at least one annual inspection (Section 658E(c)(2)(K)(i)). Currently, CCL must visit a facility at least once every three years – a frequency that does not meet the new federal requirement. Currently, there is not a state agency charged with conducting inspections of homes of the approximately 3,500 non-relative license-exempt providers in the state.

- 12-Month Eligibility. The reauthorization of CCDBG includes a new provision, Protection for Working Parents, in which a minimum period of 12-month eligibility will be available for each child that receives assistance. States must also establish a process for initial determination and redetermination of eligibility to take into account irregular fluctuations in earnings; not unduly disrupt parents' employment in order to comply with state requirements for redetermination; and develop policies and procedures to allow for continued assistance for children of parents who are working or attending a job training or education program and whose family income exceeds the state's income limit to initially qualify for assistance if the family income does not exceed 85 percent of the State median income. As of the 2018 budget act, the state has established 12 month eligibility and updated the eligibility ceiling to the 85 percentile of the State median income.

Many of the changes required to meet federal standards would require legislative action, and CDE is currently working with federal officials on how to proceed with the state plan. Finally, CCDBG statute allows for states to request waivers if they are unable to comply with federal requirements under specified circumstances. CDE has received a waiver in regards to statewide child care disaster plan (state coordination), developmental screenings, group size requirement, annual provider inspections, criminal background checks, defined career pathways, and payment practices and timeliness of payments to providers through September of 2018.

Supporting Quality in Early Education and Child Care

California is required to spend a certain percentage of federal and state matching funds on quality improvement activities. In 2016-17, the state was required to spend 10 percent of the total federal and state matching funds, or approximately $78 million, on quality activities. Of this, three percent (out of the 10 percent set-aside) is required to be expended on programs for infants and toddlers.) The required set-aside for quality activities is set to increase over the next few years, reaching 12 percent by 2020-21. Allowable expenditures include activities such as training for child care and preschool providers, developing materials for providers, enforcing licensing requirements and providing support for parents about child care options. The state currently provides funding for about 30 different quality improvement programs, covering both state-level activities and county-level activities, each with their own set of requirements. The budget provides CDE with some discretion on how these funds are allocated, the CDE reports these expenditures through a Quality Improvement Expenditure Plan,

The Governor's budget includes $9 million in one-time federal funds for quality improvement. The CDE reports that they are working on the 2018-19 Quality Improvement Expenditure plan. A summary of the programs included in the 2017-18 plan is listed below.

2017-18 Quality Improvement Expenditure Plan

CCDF Leadership and Coordination with Relevant Systems	
Local Child Care and Development Planning Councils	$3,400,000
Consumer and Provider Education	
800-KIDS-793 Phone Line for Parents	$91,000
Resource and Referral Programs	$22,574,266
Ensuring the Health and Safety of Children in Child Care	
Health and Safety Training Grants and Regional Trainers	$2,655,000
License Enforcement for Child Care Programs	$8,000,000
Training and Professional Development	
Subsidized TrustLine Applicant Reimbursement	$460,647
Early Learning And Development Guidelines	
Development of Infant/Toddler Resources	$180,000
Development of Early Learning Resources	$500,005
Faculty Initiative Project	$400,000
Quality Rating and Improvement (QRIS)	
Core I - Child Development and School Readiness	
Desired Results System for Children and Facmilies	$1,024,800
Desired Results Field Training	$666,845
Program for Infant/Toddler Care Institutes (PITC)	$970,000
PITC Inclusion of Infants and Toddlers with Disabilities	$839,500
PITC Partners for Quality Regional Support Network	$4,441,674
California Preschool Instructional Network	$4,000,000
Inclusion and Behavior Consultation Network	$920,000
Map to Inclusive Child Care and CSEFEL	$750,000
Developmental Screening Network	$175,500
Core II - Teachers and Training	
California Early Childhood Mentor Program	$2,866,295
California Early Childhood Online	$290,000
Child Care Initiative Project	$3,027,444
Child Development Training Consultation	$2,891,920
Family Child Care at Its Best Project	$766,704
Child Care Retention Program	$10,750,000
Child Development Teacher and Supervisor Grant Program	$226,000
Stipend for Permit	$435,000
Infant and Toddler QRIS Block Grants	$10,385,200
California Migrant QRIS Block Grant	$800,000
CA-QRIS Certification Grants	$1,500,000
Core III - Program and Environment	
California Strengthening Families Trainer Coordinator	$40,000
Community College PITC Demonstration Sites	$594,200

Other	
Evaluation of Quality Improvement Activities	$570,000
Total:	**$87,252,000**

Quality Rating Improvement System. In 2012-13, California received a $75 million federal grant to develop and fund a Quality Rating Improvement System (QRIS). Some of these funds were used to develop a matrix for rating child care and preschool providers based on indicators, including staff qualifications, ratios and environment. The remaining funding went to local QRIS consortia to rate programs and provide additional support services to improve program quality. These services vary by consortium, but could include stipends for teachers to take early education classes, coaching or grants to improve classroom environment.

The state provides $50 million in ongoing Proposition 98 funding for QRIS for State Preschool. In 2015-16, the state provided $24 million in one-time General Fund for QRIS for infants and toddlers (to be used over three years). Additionally, First 5 California has made QRIS a priority in recent years and dedicated $25 million in 2016-17 for QRIS for all types of programs. Because much of the funding has been dedicated to QRIS for State Preschool, the majority of programs participating in QRIS are preschool programs. This funding for QRIS is not counted towards meeting the federal quality improvement expenditure requirements.

Staff Recommendation: Information Only.