

AGENDA

JOINT HEARING

ASSEMBLY BUDGET SUBCOMMITTEE NO. 1 ON HEALTH AND HUMAN SERVICES

ASSEMBLYMEMBER SHIRLEY WEBER, CHAIR

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

ASSEMBLYMEMBER AL MURATSUCHI, CHAIR

**TUESDAY, MARCH 11, 2014
9 A.M. - STATE CAPITOL ROOM 4202**

EARLY CHILDHOOD EDUCATION

I. OPENING REMARKS

Assemblymember Al Muratsuchi, Chair

Assemblymember Shirley Weber, Chair

Committee Members

II. THE IMPORTANCE OF EARLY CHILDHOOD EDUCATION

Ross Thompson, Distinguished Professor of Psychology, Center for Poverty Research, UC Davis

Michele Rutherford, Deputy Director, San Francisco Office of Early Care and Education

III. OVERVIEW AND CURRENT ISSUES

Carolyn Chu, Legislative Analyst's Office

Monique Ramos, Acting Director, Government Affairs Division, California Department of Education

Debra McMannis, Director, Early Education and Support Division, California Department of Education

Rowena Quinto, Research Director, California Resource and Referral Network

IV. IDEAS FOR IMPROVEMENT: EARLY EDUCATION

Lucia Garay, Executive Director, Early Education Programs and Services, San Diego County Office of Education

Scott Moore, Chief Policy Advisor, Early Edge California

V. IDEAS FOR IMPROVEMENT: CHILD CARE

Donita Stromgren, Public Affairs Officer, Northern Director's Group

Denyne Micheletti, Chief Executive Officer, California Alternative Payment Program Association

Ted Lempert, Executive Director, Children Now

Michael Olenick, President and Chief Executive Officer, Child Care Resource Center

Efuru Lynch, Parent Voices Oakland

BACKGROUND: EARLY EDUCATION PROGRAMS**Kindergarten**

Kindergarten is currently not a requirement in California. However, if parents choose to enroll their child in kindergarten, schools must admit them if they are of legal age. SB 1381 (Simitian), Chapter 705, Statutes of 2010, changed the cutoff date for admittance to kindergarten. Specifically, the bill changed the required birthday for admission to kindergarten and first grade to November 1 for the 2012–13 school year, October 1 for the 2013–14 school year, and September 1 for the 2014–15 school year and each school year thereafter. The decision to change the age of admittance to kindergarten, requiring kindergarteners to be five years old before they start school, was made for a number of reasons. Due to increased emphasis on test scores, kindergarten classes now place heavier emphasis on academics. Success in kindergarten is measured by academic ability, as well as physical, social, and emotional factors. Delaying the entry of four-year-old children would give them time to prepare and mature.

Transitional Kindergarten

Due to the changes in the kindergarten start date, SB 1381 (Simitian), Chapter 705, Statutes of 2010 also created the "transitional kindergarten" (TK) program, which allowed for those students who would have previously been enrolled in kindergarten, to instead be placed in a TK class. When fully implemented in 2014-15, four year olds whose birthdays fall between September and December will be eligible for transitional kindergarten. This change did not result in increased cost to the state because these four year olds were being served previously in kindergarten.

In 2012, the Governor proposed in his January Budget to eliminate the TK program. Due to budget constraints at the time, the Administration did not support starting a new program. The Governor's proposal to eliminate TK would have resulted in displacing approximately 120,000 students from public school over three years, with relatively minimal cost savings. The Governor's proposal included a slight increase in State Preschool funding to account for those four year olds no longer eligible for kindergarten. The Legislature rejected this proposal and kept TK intact.

The State Preschool Program

The California Department of Education (CDE) administers a state preschool program that provides contracts to schools and preschool centers for both part-day and full-day preschool programs targeting low-income children. Often these program slots are bundled with other programs to allow for extended or full day care. Families participating in the State Preschool program must meet specified income requirements, however up to 10 percent of families can have up to 15 percent above the income eligibility limit. Parents are not required to meet work participation requirements in order to participate in part-day preschool.

In 2013-14, 136,182 children are expected to participate in the State Preschool program. The Governor's 2014-15 Budget proposes to provide the statutory 0.4 percent growth adjustment (\$2 million), which would provide 573 additional part-day slots, which would serve a total of 136,755 children.

The Head Start Program

Head Start is a federal grant program that promotes school readiness for children ages birth to five from low-income families by enhancing their cognitive, social, and emotional development. The Head Start program is designed to serve children age three through five. The Early Head Start program is designed to serve pregnant mothers and newborns through age three.

Nationally, Head Start serves over 900,000 children and families each year, which is less than 45% of those eligible. According to the California Head Start Association, Head Start provided \$958 million in federal funding in the Federal Fiscal Year 2012-13, serving 111,909 children in California. While the State has no role in administering the Head Start program, the California Head Start Association estimates that over 79 percent of Head Start programs also have contracts with CDE for State Preschool.

Comparison of Existing Early Education Programs

As described in this section, existing early education programs include State Preschool, TK and Head Start. The chart below highlights the differences in these programs, including eligibility, teacher qualification requirements, teacher to student ratios, program standards and per pupil funding.

What Are California's Major School Readiness Programs?

	State Preschool	Transitional Kindergarten ^a	Head Start ^b
Eligibility	Three and four year olds whose family's income is below 70 percent of state median income (\$42,216 a year for a family of three).	Four year olds whose fifth birthday falls between September 1 and December 1.	Three to five year olds whose family's income is below the federal poverty line (\$19,530 a year for a family of three).
Availability	Number of available slots based on state budget appropriation. Waiting lists are common across the state.	Available for all eligible children.	Number of available slots based on federal budget appropriation.
Children Served ^c	Approximately 136,000 children.	Approximately 51,000 children.	Approximately 89,000 children.
Provider	Public and private providers that contract with the state.	Public school districts and charter schools.	Public and private providers that contract with the federal government.
Teacher Qualification Requirements	Child Development Teacher Permit (24 units of early childhood education/child development plus 16 general education units).	Bachelor's degree and multi-subject teaching credential.	"Demonstrated competency to perform basic functions that . . . advance the intellectual and physical development of children. . ." ^d
Maximum Student-Teacher Ratios	24:1 teacher-to-child and 8:1 adult-to-child ratios.	31:1 teacher-to-child ratio.	20:1 teacher-to-child and 10:1 adult-to-child ratios.
Programmatic Standards	California's Preschool Learning Foundations.	Locally developed, modified kindergarten curriculum.	The Head Start Child Development and Early Learning Framework.
Duration	Part day, 175 days a year. (Extended care is available for one-third of children enrolled in the program.)	Part day, 175 days a year. (Some school districts opt to offer longer-day programs.)	Part and full-day programs offered.
Per-Child Funding	Approximately \$3,700 per child per year. (Approximately \$6,000 per year including extended care.)	\$5,516 per non-EL/LI child per year and \$6,620 per EL/LI child. ^e	Average of approximately \$7,600 per child per year.
Total Funding ^{c,f}	\$507 million (Proposition 98 funds) and approximately \$100 million (non-Proposition 98 General Fund). ^e	Approximately \$345 million (Proposition 98 funds).	Approximately \$750 million (federal funds).
<p>^a Reflects Transitional Kindergarten under current law. ^b Details are for Head Start's center-based programs. ^c Counts/amounts for State Preschool and Transitional Kindergarten from 2013-14. Counts/amounts for Head Start from 2012-13. ^d <i>Improving Head Start for School Readiness Act of 2007</i>. ^e Reflects 2013-14 rates under Local Control Funding Formula not including concentration funding. ^f Some First 5 programs provide additional funding to support additional preschool slots in those counties. EL/LI = English learner/low-income.</p>			

Source: Legislative Analyst's Office

PROPOSAL**Proposal to Expand TK**

One approach to investing in quality early childhood education would be to expand transitional kindergarten to serve all 4 year olds. Under the current TK structure, only one-quarter of four year-olds will be eligible for TK at full implementation. Expanding TK eligibility would provide all four year olds access to high quality TK.

A proposal unveiled by Early Edge California, and incorporated in SB 837 (Steinberg), proposes to expand eligibility for TK to all four year olds, phased in over a five-year period, beginning in 2015-16.

The proposal includes the following components:

- Creates a part-day TK class taught by at least one teacher and one associate teacher.
- Establishes a maximum class size for TK to be no more than 20 students.
- Requires all TK classes to be taught by a credentialed teacher with at least 24 units in early childhood education beginning July 1, 2019. During the transition period, teachers holding an associate degree would be allowed to teach TK as long as they have a plan to obtain the additional requirements by July 1, 2019.
- Requires associate teachers to have an associate degree and a minimum of 24 units in early childhood education by July 1, 2019. During the transition period, allows for associate teachers to have a minimum of 24 units in early childhood education and a plan to obtain an associate degree by July 1, 2019.
- Allows for a mixed delivery model for providing TK, meaning that school districts could choose to contract with private centers for TK services. Under this model, instructors would be subject to the same educational requirements outlined above.
- Funds TK using Proposition 98 funding based on average daily attendance (ADA). Beginning in 2015-16, the TK funding rate would be two-thirds of the base grant and supplemental grant provided for grades K-3 under the Local Control Funding Formula (LCFF).
- Requires the Superintendent to develop, and the State Board of Education (SBE) to adopt, regulations for TK implementation by July 1, 2015.
- Requires the Superintendent to develop, and the SBE to adopt, TK standards, curriculum frameworks, and instructional materials by July 1, 2016.
- Requires the SBE to also revise the Local Control Accountability Plan (LCAP) template to include TK by January 31, 2017.

Cost to Expand TK. According to the California Department of Education (CDE), the cost to expand TK for all four year-olds under this proposal would be approximately \$72.2 million in 2015-16, and would grow to \$1.46 billion at full implementation in 2019-20. This cost estimate assumes a 70 percent participation rate and does not include additional costs required of the CDE, such as developing TK standards, curriculum frameworks and instructional materials. This cost estimate also assumes that TK would be funded at two-thirds of the base grant and supplemental grant provided under the LCFF. In order to fully fund the base and supplemental grants for universal TK, the cost would increase to approximately \$2.37 billion at full implementation.

Impact on Proposition 98. TK would be funded through average daily attendance (ADA) within the Proposition 98 minimum guarantee. As a result, the Proposition 98 guarantee would likely grow to be a larger percentage of the state budget, potentially impacting the non-Proposition 98 side of the budget. However, due to the fact that school attendance is projected to decline over the next few years, adding more students to public school may not have a significant impact on the minimum guarantee at this time.

The number of four year olds expected to enroll in TK in 2014-15 is approximately 86,415. By expanding TK to all four year olds, the CDE anticipates enrollment to grow to 372,166 (70 percent participation) at full implementation.

Impact on Other Programs. Expanding TK would not be possible without coordination with other early childhood education programs. Current State Preschool and General Child Care programs would be significantly impacted if TK were expanded. Many child care providers currently serve four year olds, in addition to infants and toddlers. Due to higher staff-to-child ratios for four year olds, child care providers could struggle to make ends meet by only serving infants and toddlers.

In addition to the disruption in services for those providers currently serving four year olds, additional wrap-around services would be needed for part-day TK programs. Having wrap-around services at another location would present difficulties in transportation, potentially impacting whether low-income students would be able to access TK.

Proposal to Boost Care for Infants and Toddlers

In addition to expanding access to TK to all four year-olds, Early Edge California also proposes restructuring the current system for serving birth through three year-olds. Specifically, the proposal would eliminate the current state preschool program and expand programs for zero through three year-olds based on the comprehensive Head Start program. The proposal envisions using the \$400 million currently supporting state preschool to provide both wrap-around services for TK students (\$200 million) and to expand child care options for zero through three year-olds (\$200 million).

Senator Liu has introduced SB 1123 as a companion bill to SB 837 (Steinberg). This bill expresses that it is the intent of the Legislature create the California Strong Start program by redesigning the General Child Care Program for infants and toddlers. Details surrounding the California Strong Start program are still being developed.

STAFF COMMENTS

Dr. Robert Wassmer, a professor at the Center for California Studies at California State University, Sacramento, prepared a paper for the California State Assembly on the factors that influence a child's participation in preschool. This paper provides a review of previous regression research and found that preschool attendance varies dramatically by income. According to the National Household Education Survey, 55 percent of four year-olds attend preschool in households making less than \$10,000 per year. This number grew to 84 percent for household incomes between \$75,000 and \$100,000 and 89 percent for families making over \$100,000. This paper also highlights that among other factors, parents possessing less than a bachelor's degree and non-English speaking parents are less likely to send their child to preschool. Furthermore, this paper examines supply and demand factors impacting preschool attendance. Research shows that the supply of available slots in close proximity to a family's residence makes a significant difference in whether a family sends their child to preschool. This paper suggests that in order to increase preschool attendance, policymakers may want to consider public interventions designed to increase the availability of providers and slots in places that lack sufficient supply.

Research also shows that investing in quality early childhood education will provide increased tax revenue and budget savings later on. A University of Chicago Nobel Laureate economist James Heckman found that investment in quality preschool will result in 7 to 10 percent per year return on investment. This return on investment could potentially cover the cost to further invest in early childhood education.

This section outlines the various early education programs that currently exist, as well as the proposal to expand TK and restructure the current system for infants and toddlers. The Assembly has a number of options for investing in early childhood education. The Assembly could consider expanding TK for all four year olds, while boosting care for infants and toddlers. Alternatively, the Assembly could chose to build on and invest in the current preschool and child care system through increasing quality standards, increasing provider rates and providing more availability of preschool and child care slots.

Staff recommends a holistic approach when considering investment in early childhood education. In order to better prepare children to enter kindergarten and ensuring that they do not fall behind once they enter school, additional support is needed for not just four year-olds, but for all ages starting at birth.

Suggested Questions:

- Given the conversation around expanding TK, shouldn't the state first require all five year-olds to attend kindergarten? What would be the impact of mandatory kindergarten?
- What has been the experience of parents, teachers and students in implementing TK thus far? How does this differ from other programs serving four year-olds?
- Would universal TK be accessible for low-income families? Are low-income families able to access TK and part-day preschool currently?

- It is estimated that universal TK would create 8,000 new teaching positions and 12,000 associate teaching positions. Will the state have enough teachers to fill this need? What would be the impact on preschool and child care providers?
- Many K-12 campuses are currently at full capacity and would not be able to accommodate another grade level. How would schools address this need under the TK proposal?
- How much time is necessary to implement adding another grade to our K-12 education system?
- What are the benefits of the current Head Start and State Preschool programs? How can we build on these programs to increase the availability and quality?

BACKGROUND: CHILD CARE

Under current law, the State makes subsidized child care services available to: 1) families on public assistance and participating in work or job readiness programs; 2) families transitioning off public assistance programs; and, 3) other families with exceptional financial need.

Child care services provided within the California Work Opportunity and Responsibility to Kids (CalWORKs) program are administered by both the California Department of Social Services (DSS) and the California Department of Education (CDE); depending upon the family's "stage" of public assistance or transition.

CalWORKs Stage 1 child care services are administered by the DSS for families currently receiving public assistance, while Stages 2 and 3 are administered by the CDE. Families receiving **CalWORKs Stage 2** child care services are either receiving a cash public assistance payment (and are deemed "stabilized"), or in a two-year transitional period after leaving cash assistance. Child care for this population is an entitlement for twenty-four months under current law. The state allows counties flexibility in determining whether a CalWORKs family has been "stabilized" for purposes of assigning the family to either Stage 1 or Stage 2 child care. Depending on the county, some families may be transitioned to Stage 2 within the first six months of their time on aid, while in other counties a family may stay in Stage 1 until they leave aid entirely. If a family is receiving **CalWORKs Stage 3** child care services, they have exhausted their two-year Stage 2 entitlement.

Non-CalWORKs Programs. In addition to CalWORKs Stage 2 and 3, CDE administers general and targeted child care programs to serve non-CalWORKs, low-income children at little or no cost to the family. The base eligibility criterion for these programs is family income at or below 70 percent of State Median Income (SMI) relative to family size. The California State Preschool Program provides full- and part-day preschool for eligible three- and four-year-olds. Because the number of eligible low-income families exceeds available child care and preschool slots, there are long waiting lists for care.

Child care providers are paid through either (1) direct contracts with CDE, or (2) vouchers through the Alternative Payment Program.

- Direct Contractors receive funding from the State at a Standard Reimbursement Rate, which pays for a fixed number of child care "slots." These are mostly licensed child care centers but also include some licensed family child care homes (FCCH). These caretakers provide an educational component that is developmentally, culturally, and linguistically appropriate for the children served. These centers and FCCH also provide nutrition education, parent education, staff development, and referrals for health and social services programs.
- Alternative Payment Programs (APs) act as an intermediary between CDE, the child care provider, and the family, to provide care through vouchers. Vouchers provide funding for a specific child to obtain care in a licensed child care center, licensed family day care home, or license-exempt care (kith and kin). With a voucher, the family has the choice of which type of care to utilize. Vouchers reimburse care providers based on the market rates charged by private providers in their region.

The charts on the following page, created by the Legislative Analyst's Office, shows the state's child care and preschool budget and number of slots per program, including the proposal by the Governor for 2014-15. The Governor proposes \$1.7 billion for child care programs in 2014-15, and \$509 million for preschool.

Figure 1
Child Care and Preschool Budget

(Dollars in Millions)

	2012-13	2013-14 Revised	2014-15 Proposed	Change From 2013-14	
				Amount	Percent
Child Care Expenditures					
CalWORKs Child Care					
Stage 1	\$289	\$337 ^a	\$385	\$48	14%
Stage 2 ^b	419	358 ^c	364	6	2
Stage 3	162	183 ^c	186	3	2
Subtotals	(\$870)	(\$878)	(\$935)	(\$57)	(6%)
Non-CalWORKs Child Care					
General Child Care	\$465	\$473 ^d	\$479	\$6	1%
Alternative Payment	174	177 ^d	179	2	1
Other child care	28	28 ^d	28	—	1
Subtotals	(\$666)	(\$678)	(\$687)	(\$9)	(1%)
Support Programs	\$76	\$74	\$73	-\$2	-2%
Totals	\$1,612	\$1,630	\$1,694	\$64	4%
Child Care Funding					
State Non-Proposition 98 General Fund	\$779	\$776	\$783	\$7	1%
Other state funds	14	—	—	—	—
Federal CCDF	549	541 ^d	556	15	3
Federal TANF	372	313 ^a	355	42	13
State Preschool(Proposition 98)	\$481	\$507	\$509	\$2	—

^a Reflects LAO funding estimate based on administration's adjusted Stage 1 caseload estimate.

^b Does not include \$9.2 million provided to California Community Colleges (CCC) for Stage 2 child care. Governor's budget documents display this cost in CCC's budget.

^c Does not reflect midyear augmentation of \$9.4 million for Stage 2 and \$12.1 million for Stage 3.

^d Differs from administration's estimate due to reflecting both the assumed federal sequestration cut and the associated General Fund backfill.

CCDF – Child Care and Development Fund and TANF – Temporary Assistance for Needy Families.

Figure 2
Child Care and Preschool Slots^a

	2012-13	2013-14 Revised	2014-15 Proposed	Change From 2013-14	
				Amount	Percent
Child Care					
CalWORKs Stage 1	34,849	37,774	42,719	4,945	13%
CalWORKs Stage 2 ^b	63,379	56,593	55,943	-650	-1
CalWORKs Stage 3	25,448	32,784	30,830	-1,954	-6
Subtotals	(123,676)	(127,151)	(129,492)	(2,341)	(2%)
General Child Care	46,036	46,835	47,429	594	1%
Alternative Payment	24,854	26,218	26,515	296	1
Migrant	2,491	2,534	2,567	33	1
Handicapped	143	144	145	1	1
Subtotals	(73,524)	(75,731)	(76,656)	(952)	(1%)
Total Child Care	197,200	202,882	206,148	3,266	2%
State Preschool	129,511	136,182	136,755	573	—^c

^a Reflects average monthly slots. For 2012-13, reflects actual caseloads. For 2013-14 and 2014-15, reflects administration's caseload estimates for the three stages of CalWORKs child care. All other caseloads reflect LAO estimates.

^b Does not include 1,781 Stage 2 community college child care slots, consistent with the display in Figure 1.

^c Less than 1 percent.

Child care programs have been dramatically reduced during the Great Recession. Overall spending on child care and preschool was \$3.5 billion in 2007-08, according to data from the California Budget Project, compared to an estimated \$2.1 billion in the current year. The number of child care slots shrank considerably during this period, as the chart below indicates. This chart was created by the California Child Care Resource and Referral Network.

Among the budget and policy changes made during the past seven years:

- **Cuts and Changes to the CalWORKS program.** CalWORKS parents with very young children received an exemption from work requirements in the 2009-10 budget, which reduced costs for CalWORKS Stage 1 child care by \$215. The 2012-13 budget phased out the work exemptions for most parents and shortened the time available for CalWORKS parents to participate in the full array of state-allowed activities from 48 months to 24 months. In addition, then-Gov. Arnold Schwarzenegger vetoed out all funding for CalWORKS Stage 3 child care in the 2010-11 budget. While the funding has been restored, the abrupt disruption in services led to plummeting enrollment in the program that continues today. Language in the 2013-14 Budget Act allows the Department of Finance to adjust funding the Stage 3 program if caseload exceeds planned expenditures. This language is included in the 2014-15 budget proposal as well.
- **Reduction of the maximum reimbursement rate for license-exempt providers from 90 percent to 60 percent of licensed rates.** License-exempt providers are typically friends or relatives who provide child care during nontraditional work hours when other types of child care are not available. About 37 percent of child care vouchers in the state go to license-exempt care. This rate reduction, enacted in the 2011-12 budget, has significant impacts: data discussed in a 2013 joint hearing of Assembly Budget Subcommittees No. 1 and No. 2 showed that the hourly wage of license-exempt child care providers in Los Angeles County, for example, amounts to \$2.02 per hour.
- **Lowering of income eligibility thresholds from 75 percent to 70 percent of the state median income.** The income eligibility limit is the highest income at which a family qualifies for assistance with child care and state preschool expenses. This limit was lowered in the 2011-12 budget, disqualifying some children from subsidized child care. The income eligibility limit for a family of four is \$46,896 annually. If a family were to earn \$1 more than that amount, they would lose eligibility for subsidized child care.
- **Reduction of administrative and support allowances for Alternative Payment agencies from 19 percent to 17.5 percent of total contract amounts.** Most counties contract with Alternative Payment Programs to provide eligibility determinations, counseling and other administrative services for families seeking subsidized child care. Funding goes to support fixed costs such as rent, insurance and utilities, and salaries for child care case managers.
- **Elimination of funding for the state's Centralized Eligibility List.** The Centralized Eligibility List (CEL) was a state-funded program designed to consolidate child care waiting lists previously maintained by individual agencies. The list allowed policymakers and others to determine the need for subsidized child care. The 2010-11 budget eliminated state funding for the CEL. Currently, some counties maintain eligibility lists, but it is difficult to get a statewide picture of how many child care slots are needed.

- **Implementation of parent fees for part-day, part-year State Preschool program.** The 2012-13 budget imposed an income-based family fee on families participating in the State Preschool program. For example, a family of three with an adjusted monthly income of \$2,100 is assessed a part-time daily fee of \$1.25; a family of four with adjusted monthly income of \$2,400 is assessed a part-time daily fee of \$1.50. The Department of Finance estimates that the family fee generates about \$3.3 million, which is redirected back to the program to fund preschool slots.
- **Elimination of state nutrition funding for early childhood education providers.** In 2012, the Governor vetoed out of the budget bill \$10.1 million from the child nutrition supplemental program, which provided a small state subsidy to child care providers who participated in the federal Child and Adult Care Food Program. The state had provided about 22 cents per meal to providers who participated in the federal program, which provides federal funding to encourage nutritional meals. The state continues to provide this supplemental funding for K-12 schools, but child care providers no longer receive the funding, which has strained child providers ability to provide healthy meals.

The chart on the following page, created by the LAO, summarizes these and other changes.

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.

STAFF COMMENTS

Data indicating the importance of early childhood education programs in improving later student outcomes is overwhelming:

- A 2011 review of research found more than 100 studies nationally showing that high-quality preschool significantly improves low-income children's school-readiness and performance;
- In California, low-income English learner students in San Jose Unified School District who attended high-quality preschool with a strong focus on language and literacy development moved from testing on par with their peers at the beginning of preschool to testing on par with 1st graders by kindergarten entry;
- Studies show that parents with access to child care are more likely to be employed and to have higher earnings than parents who lack this assistance.

As state revenues increase, the Assembly has the opportunity to expand child care and education programs for 0- to 5-year-olds. Among the issues for the Subcommittees to consider as it moves forward in this program area are:

- ***Access to child care remains far below pre-recession levels.*** The number of state-subsidized child care slots remains about 110,000 less than it was in 2007-08, as the state has reduced spending in this area by more than \$1 billion. The lack of state support has impacted the entire child care field and can be measured in different ways:
 - Between 2008 and 2012, 58 percent of counties saw a decrease in the number of child care centers, while 77 percent of counties saw a decrease in family child care homes. Los Angeles County alone now has 1,715 less providers than it did in 2008.
 - In Los Angeles County, agencies served 40,745 children in the CalWORKS Stages 1, 2, 3 and Alternative Payment programs in January 2013. This is a 32 percent decrease from the number of children served in 2008.
 - There are more than 24,000 children on waiting lists for subsidized child care in 15 Northern California counties, including Sacramento, San Joaquin, Marin and San Francisco.
- ***The low rates paid to providers hinder families' access to child care, limit quality, increase staff turnover and threaten many providers' long-term viability.*** There are two main categories of rate reimbursement for providers: The Standard Reimbursement Rate (SRR), and the Regional Market Rate (RMR). The SRR is paid to agencies, such as child care centers and preschools, that contract directly with the Department of Education. The RMR is used for programs paid through vouchers. RMRs are based on surveys of county child care markets, and differ by county, by type or center, by age of child and by full-time or part-time care. The surveys are used to set RMR ceilings, and licensed providers can then be reimbursed up to 85 percent of rates charged by private providers in the county. The intent is to ensure that parents using subsidized vouchers should be able to access 85 percent of their county's providers, which ensures the state meets federal regulations that required equal access to child care for families receiving child care subsidies.

Both rates have been stagnant or even reduced in recent years. The last cost-of-living adjustment to the SRR occurred in 2007, and the current rate is set at \$34.38 per child per day of enrollment. RMRs remain based on the 2005 RMR Survey. Thus, current subsidized rates paid to providers, in most cases, have not kept up with current costs of child care. For example, the 2012 market survey indicates that the rates the state pays are less than 50 percent of rates charged by private providers in seven counties, and between 50 and 70 percent of private rates in 22 other counties. Families using vouchers have far fewer options for child care because of these stagnant rates.

Additionally, providers note that current rates are not enough to cover costs, particularly for high-quality child care. New state minimum wage requirements, which raise the minimum wage to \$9 per hour this year and \$10 per hour in 2016, will further squeeze providers if they do not receive increased funding from the state.

- **Family fees and eligibility limits continue to threaten access.** The state began charging a fee for part-day preschool in 2012-13. Only 11 percent of the families with children in preschool had high enough incomes to be impacted when the program was initiated. However, in the first six months of the program's implementation, about 5 percent of the total enrollment withdrew from preschool and an additional 2,757 children did not enroll in the program after their parents were informed of the fee. Family fees also are charged for other non-CalWORKS programs.

The State Median Income (SMI) is used to decide whether a family is eligible for subsidized child care. Current policy allows families earning up to 70 percent of the SMI to qualify for child care. The SMI has not been adjusted since 2007; budget language has frozen the SMI each year since then. Freezing the SMI prevents more families from being eligible for child care. Currently a family of three loses eligibility for child care if they earn more than \$42,216 annually; a family of four must earn under \$46,896 annually to qualify.

- **Administrative agencies complain that funding is not adequate to cover their costs and provide quality services to families.** The California Department of Education allocates funding to Alternative Payment programs to distribute vouchers to families in CalWORKS Stage 2 and 3 programs, as well as to families in Alternative Payment programs. About half of the county welfare departments in the state also contract with these programs to administer CalWORKS Stage 1 child care services.

These programs determine eligibility for families and work with families to help them find appropriate child care services. Currently, AP programs are paid a flat 17.5 percent based on the amount voucher funding paid to families. These programs complain that this percentage, which was reduced in the 2010-11 budget, has not allowed them to cover fixed costs and enough caseworkers to adequately serve families. The California Alternative Payment Program notes that since 2010, caseloads per child care case manager for their programs have increased from 1 caseworker to 40 families to 1 caseworker to 250 families.

Suggested Questions:

- What impact do stagnant reimbursement rates have on families seeking subsidized child care? What is the impact on providers, in terms of financial stability and the ability of providers to offer high-quality programs?
- Given the lack of a centralized database for county child care wait lists, what do we know about the statewide need for subsidized child care services?
- How does the subsidized child care program impact the privately-funded child care system in California?